Post-Ricardian British Economics, 1830-1870[1]

Sandra J. Peart

Economics Department

Baldwin-Wallace College

Berea OH 44017

speart@bw.edu

David M. Levy

James Buchanan Center

George Mason University

Fairfax VA 22030

DavidMLevy@aol.com

March 12, 2002

[11] We thank the editors of the volume for comments that led to significant improvements.

Introduction

Ours is a story that begins with hegemony, and continues with attack, defense, and defeat. The intellectual composition of Classical economics by 1830 is complex, and it is not our intention to minimize substantive differences among Adam Smith, Thomas Robert Malthus, David Ricardo, Nassau William Senior, John Stuart Mill, or less well-known but nonetheless important contributors. Some of these will become apparent in what follows. Yet, differences notwithstanding, by 1830 the analytics of Classical growth, distribution and value theories were well-developed, reflecting a preoccupation with land scarcity and diminishing returns, and formulated with the problem of population growth in mind. We choose to focus on what unites the economists of the time to help clarify what separated them from their critics. Between 1830 and 1870, Classical analytical machinery, its methodological underpinning (abstraction), and the policy recommendations that flowed from the analytics, came under fire from many directions: the literary community; the anthropological and biological sciences that produced Eugenics; and within the economics community itself.

To a large extent, the controversy surrounding post-Ricardian economics occurred over the presumption of equal competence, or homogeneity. On the side of homogeneity, we locate the great Classical economists, who presumed that economic agents are all equipped with a capacity for language and trade, and observed outcomes are explained by incentives, luck and history. In opposition, we find many "progressives" (Thomas Carlyle, John Ruskin, Charles Dickens, and Charles Kingsley) whose explanation for the observed heterogeneity of custom and behavior was race. In our period, the notion of "race" is rather ill-defined, but the argument played out both in terms of the Irish and the former slaves in Jamaica (Curtis 1997). In addition, the "labouring classes" were sometimes included in discussions of incompetence.

The economists' explanation for observed heterogeneity was to appeal to the incentives associated with different institutions. Classical economists such as John Stuart Mill struggled with the problem of transition from one set of institutions to another: how are new habits formed as institutions change? Economists who have become accustomed to institution-free analysis, may fail to appreciate how much of Classical economics is designed to deal precisely with this problem of self-motivated human development in the context of institutional change. Examples in what follows include the Irish land question, slavery, Mill's higher and lower pleasures, his analysis of economic growth, and Thornton's famous challenge to Classical economics at the end of our period.

In the period we study economic analysis also supposed, as Mill put it in his essay *On the Definition of Method; and on the Method of Investigation Proper to It* (1836; hereafter, *Essay*), that it treats "man's nature as modified by the social state" (Mill 1967a, p. 321). This supposition enabled Classical economists such as Richard Whately and his student, Senior, to develop and improve the science of exchange, "catallactics". The catallactic tradition retained a key role for non-material concerns, what Smith had called "sympathy" as well as the desire for approbation. As the period comes to a close, social sentiments disappear from economics and material concerns become singularly important.

It is widely accepted that the boundary of economic science was narrowed throughout the nineteenth century (Winch 1972). This narrowing occurred with the removal of sympathy and rise in materialism from 1830 to 1870, as well as the removal of institutional concerns from economic analysis, and the presumption of reversibility that underscores early neoclassical analysis by Fleeming Jenkin. Jenkin's argument was a critical blow against the Classical supposition of the importance of the status quo.

Homogeneity was not simply an analytical tool. The methodological position in Mill's *Essay* was that the economist must abstract from differences to focus on the common. The method of abstraction was denounced throughout the period, and early critiques of abstract economic man were made in the context of the Irish question. The political economist and co-founder (with Francis Galton) of the Eugenics movement, W. R. Greg, attacked Classical political economy for its assumption that the Irishman is an "average human being," rather than one prone to "idleness," "ignorance," "jollity" and "drink".

Hegemony: Growth, Distribution, Value

By 1830, Classical analytical machinery consisted of well developed theories of growth, distribution, and value – all formulated with the population mechanism and land scarcity yielding diminishing returns in mind. Importantly for our argument that follows, these theories abstract from race or any other marking feature.

Classical growth theory presupposes a functional relationship between the average real wage and population growth. Land scarcity (and the absence of prudential population control) are said to create secular downward pressure on the wage (and profit, or interest) rates. Presuming single-use land, rent is a differential surplus. Increasing land scarcity reduces the growth rate of capital accumulation, and, consequently, the growth of labor demand. As what would later be known as the marginal product of the composite labor and capital input falls, this drives the returns to the variable factors, labor and capital, down. The secular fall in the real wage is smaller than the fall in the marginal product, so the wage share rises and profits fall, a result widely known today as the fundamental theorem on distribution. The incidence of diminishing returns is thus shared by capital (as lower profit rates) and labor (as lower wage rates or increased prudential control). In a stationary state setting with zero net accumulation and zero population growth, the subsistence wage pertains, along with a corresponding subsistence rate of profit. In this, and other, details our summary of Classical analytics follows the "New View" developed by Hollander, Levy (Hollander 2001, Levy 1976), and others. For a re-statement by Hollander, and for extensions and criticisms, see Forget and Peart, 2001.

In the simplest case when money and corn are produced with equal capital-labor ratios, a labor theory of exchange value holds and any change in wages leaves relative prices unaffected. If the labor embodied in gold remains constant while diminishing returns pertains in corn production, then the (gold) value of corn rises as a result of the reduction in labor's productivity in the corn sector. The (gold) value of the output of a unit of labor, is invariable.

Using the gold measure of value, Classical growth analysis also yields the inverse wage-profit relationship: the profit rate is inversely related to the proportion of output devoted to laborers as a whole. Thus, the inverse wage-profit relationship holds both in value and physical terms. In these terms, growth again implies the profit rate tends downwards. Laborers receive a higher money wage rate. But since the money value of the marginal output is constant, profits must also fall.

In Classical analysis, "natural" – or cost – prices include both "ordinary" or average wages and profits; natural price is achieved through an allocative process by which capital flows from low to high return industries until a uniform rate of profit is achieved. In the event that factor proportions are fixed and uniform, long run equilibrium prices are proportionate to relative labor inputs. When factor proportions differ, prices are no longer proportionate to relative labor inputs but instead reflect all costs. But the mechanism that ensures cost prices will emerge remains the same: profit rate differentials cause flows from low to high profit sectors until equality is restored and a new set of relative prices emerges.

In large measure, the hegemony of Classical analytics was due to the influence of John Stuart Mill, whose refinements and restatements proved definitive throughout the period. At the end of our period, William Stanley Jevons railed at the “noxious influence” of Ricardo’s “equally able but wrong-headed admirer” (1871, pp. 275, li). But Mill’s influence, as shall become clear below, extended beyond pure analytics to the defence of the Classical presumption of homogeneity against its racist critics, and to methodology and the hard problem of the “improvement of mankind” (Robson 1968).

Much of the coherence in the period was also the result of Nassau Senior’s wide-ranging contributions, a fact which is appreciated by considering which “Ricardians” Frank Knight selects as targets. (Knight 1935). Famously, Senior’s abstinence theory of interest brought the real cost doctrine to savings, but his contributions also tied together many loose threads of Classical analysis. His controversy with T. R. Malthus over the “tendency” for population to outrun subsistence made it clear that a “tendency” became “forecast” only when the cost of a family vanished as it would under a system of equality. (Senior 1829, pp. 87-9).

Senior’s contribution to the analysis of aggregate economic activity was equally important to the Classical system. Smith and Ricardo supposed a metallic money provided by a competitive market (Smith 1976, p. 435). But they failed to explain how this works in a Britain without mines. Senior answered:

> The mine worked by England is the general market of the world: the miners are those who produce those commodities by the exportation of which the precious metals are obtained (Senior 1830, p. 15).

Smith had supposed that the market for money clearly quickly (Smith 1976, pp. 435-36).

If we start with the supposition that the excess demand for money equals the aggregate excess supply of goods (known today as Walras' Law), then Smith's adjustment principle suffices to obtain Say's Law – the aggregate excess supply of goods is zero. Senior worked an example of how equilibrium in the Classical system is affected when a sudden contraction of the money supply resulted from a bank panic.

> A great portion ...of what acted as the circulating medium of exchange throughout the country becomes valueless; and the effects are precisely the same as if an equal portion of the metallic currency of the country had been suddenly annihilated or exported.

Then the Classical price adjustment mechanism is called into play:

> Prices fall, the importation of commodities is checked, and their exportation is encouraged. The foreign exchanges become universally favourable, and the precious metals flow in until the void, occasioned by the destruction of the paper currency, has been filled. (Senior 1828, p. 27)

How Economics Became the "Dismal Science"

Perhaps the hegemony of Classical thought on population growth and the stationary state is in part responsible for today's misconceptions on the origins of the "dismal science" phrase. Certainly, critics of the Classical system would have us believe so. And almost everyone believes that Carlyle called Classical political economy the “dismal science” as a response to T. R. Malthus's prediction that population would always grow faster than food, dooming mankind to unending poverty.

In fact, Carlyle's target was not Malthus, but economists such as John Stuart Mill, who argued that it was institutions, not race, that explained why some nations were rich and others poor. It was the fact that economics assumed that people were all the same, and were all entitled to liberty, that led Carlyle to label economics the “dismal science.” It is too rarely appreciated (Persky 1990, Levy 2001, Levy-Peart 2001) that economics became the “dismal science” in this period because of a view of human nature which abstracted away from the possibility of racial difference. Classical economists were committed to the hardest possible doctrine of analytical homogeneity. As a consequence, they opposed racial slavery and paternalism, and they favored markets instead.

Here is the paragraph in which Carlyle first uses the “dismal science” phrase as part of his attack on the anti-slavery stance of political economy:

> Truly, my philanthropic friends, Exeter Hall Philanthropy is wonderful; and the Social Science–not a “gay science,” but a rueful–which finds the secret of this universe in “supply-and-demand,” and reduces the duty of human governors to that of letting men alone, is also wonderful. Not a “gay science,” I should say, like some we have heard of; no, a dreary, desolate, and indeed quite abject and distressing one; what we might call, by way of eminence, the *dismal science*. These two, Exeter Hall Philanthropy and the Dismal Science, led by any sacred cause of Black

> Emancipation, or the like, to fall in love and make a wedding of it,–will give birth to progenies and prodigies; dark extensive moon-calves, unnameable abortions, wide-coiled monstrosities, such as the world has not seen hitherto! (1849, 672-73).

Carlyle was the greatest enemy of the anti-slave coalition of political economists and Christian evangelicals centered at Exeter Hall. His “Negro Question” revived the pro-slavery movement in mid-century Britain (Denman 1853, p. 12).

Mill’s response comes into print a month after Carlyle’s “Negro question.” In it, he condemned what he called “the vulgar error of imputing every difference which he finds among human beings to an original difference of nature.” (Mill 1850, p. 29). He supposes that black people in Jamaica, being competent to make economics decisions, respond to incentives just as any other people would.

The real meaning of the Carlyle-Mill debate became clear during the "Governor Eyre Controversy" of 1865. The controversy was triggered by a seemingly trivial event in the British colony of Jamaica. After minor skirmishes, the island's Governor, Edward James Eyre, took command, imposing martial law and calling in the army. Over 400 Jamaicans were massacred, wire whips were used as instruments of terror, and thousands were left homeless. In England, the Jamaica Committee was formed to demand an investigation. Its members included every Classical political economist of note living at the time – J. S. Mill (its head), John Bright, Henry Fawcett, J.E. Cairnes, Thorold Rodgers and Herbert Spencer – as well as Charles Darwin and T. H. Huxley. On the other side, the Eyre Defense Fund was led by Carlyle, assisted by Ruskin. Additional literary figures on the Eyre defense included Dickens, Kingsley and Alfred Lord Tennyson. (Semmel 1962) As the Jamaica Committee failed to obtain an indictment of Eyre and Mill lost his seat in Parliament, the controversy was a great defeat for Classical political economy.

Catallactic Theory and Policy: Starting with Two Exchanging

When Whately opened his Oxford lectures on political economy he began with Adam Smith's teaching that exchange is a uniquely human activity. He also explained in this context that political economy "takes no cognizance" of isolated individuals, such as "Robinson Crusoe." (Whately 1831, 7) Catallactics carries with it the connotation of reciprocity. For Whately, as for Smith, dogs do not exchange because they lack language and the concept of "fair." Catallactics comes with desires, including the desire for reciprocity.

Whately took the next step in the argument, when he generalized from purely voluntary exchanges to such involuntary exchanges as the provision of tax-financed government services:

> And it is worth remarking, that it is just so far forth as it is an exchange,–so far forth as protection, whether adequate or not, is afforded in exchange for this payment,–that the payment itself comes under the cognizance of this science. There is nothing else that distinguishes taxation from avowed robbery. (Whately 1832, 10-11).

The government service he considered in detail was protection (Whately 1833). The question for catallactic theorists is not whether exchange is voluntary, but whether it is mutually beneficial. Viewing government as an exchange has a dramatic consequence: hierarchy vanishes and the consumer becomes sovereign. Carlyle appreciated this consequence (Carlyle 1987, p. 31), and he objected to the analytical egalitarianism in catallactics; he realized that Classical political economy – the economics of exchange with reciprocity – provided a key weapon in the war against slavery. If exchange with reciprocity is the mark of the human, then slavery is a perversion of the social order.

Catallactic policy. Two acts of political exchange are central to the period: the 1833 Act of Emancipation and the 1834 New Poor Law. As these are not customarily seen as exchanges, we shall expand upon this view.

The abolition of slavery – a seven-year "apprenticeship" – was accompanied by a £20 million "indemnity" to the slave-owners and a protective tariff on West Indian sugar. (Denman 1853) The compensation principle of catallactics is exchange. Here is Mill's analysis in his 1848 *Principles*, in which he maintains that emancipation, like all reforms, requires compensation: "Whether the object be education; a more efficient and accessible administration of justice; reforms of any kind which, like the Slave Emancipation, require compensation to individual interests;" (1965, pp. 865-66).

Government as exchange requires the recognition of constraints. The problem that Senior found with the "old" poor law was that it imposed only benefits on recipients and, as a consequence, it created the incentive for indigence. As Senior saw it, poor relief is desirable for those "poor" who are unable to earn their own subsistence:

> In one sense of that word, ["poor"] means merely the aggregate of the individuals who, from infirmity, or accident, or misconduct, have lost their station as independent members of society, and are really unable to earn their own subsistence. These persons form, in every well-ordered community, a small minority–a minority which it is in the power, and therefore within the duty of society, to relieve; but, if possible, to reduce, and certainly not to encourage. (1841, p. 14)

But how can society separate the indigent, whom society stands willing to assist, from those larger numbers who would simply like to be assisted? Senior proposed a test, in the form of a trade:

> ... to connect the relief of the able-bodied with a condition which no man not in real want would accept, or would submit to when that want had ceased. ... the able-bodied application, with his family, should enter a workhouse–should be supported there by a diet ample indeed in quantity, but from which the stimulations which habit had endeared to him were excluded–should be subjected to habits of cleanliness and order, be separated from his former associates, and debarred from his former amusements. (1841, p. 30).

One proves one is destitute by trading, by accepting a wholesome life. In Senior's view, the New Poor Law provided the safety-net of social insurance with the quid pro quo of "indoor relief" in exchange for strict sumptuary controls. In his review of Mill on intervention, Senior provided an additional example of exchange-oriented government policy:

> another exception is ... [t]he observance of Sunday as a day of rest ... . There is probably no institution so beneficial to the labouring classes; and they are aware of it. But without the assistance of law they would probably be unable to enforce it. In the few businesses in which Sunday trading is allowed, every shop is open. Though it would be beneficial to the whole body of druggists that every druggist's shop should be shut on Sunday, it is the immediate interest of every individual that his own shop should be open. And the result is that none are closed. (1848, p. 338)

Abstract Economic Man

Classical economists put forward a doctrine of abstract economic man, an analytical egalitarianism that explains behavior in terms of incentives, luck, and history (Smith 1976, p. 28). Mill's famous *Essay* provides a defense of the method of abstraction (Blaug 1980, Hausman 1981). He maintains that the "assumed" hypotheses of political economy include a set of behavioral assumptions:

> Political economy does not treat of the whole of man's nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth, and who is capable of judging of the

> comparative efficacy of means for obtaining that end. ... It makes entire abstraction of every human passion or motive; except those which may be regarded as perpetually antagonizing principles to the desire of wealth, namely, aversion to labour, and desire of the present enjoyment of costly indulgences (1967a, p. 321).

The wealth-maximization axiom is selected because it is "the main and acknowledged end" in "certain departments of human affairs" (p. 323). Perhaps more than any economist of his time or since, Mill was a synthesizer. But, for reasons of practicality in the face of multiple causation, he called for specialization in the social sciences (Hollander-Peart 1999).

In his 1848 *Principles,* Mill outlined the implication of such a method: it implies a rejection of racial "explanations" of outcomes, which he condemned:

> Is it not, then, a bitter satire on the mode in which opinions are formed on the most important problems of human nature and life, 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. (1965, p. 319).

Mill's abstraction from race and his focus instead on property rights were sharply disputed in the decades that followed the publication of his *Essay*. W. R. Greg objected specifically to the abstract accounts of human beings put forward by Classical economists on the grounds that they abstract from *race*:

> '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 miracles. He would fall behind the instalments of his purchase-money, and would be called upon to surrender his farm. He would often neglect it in idleness, ignorance, jollity and drink, get into debt, and have to sell his property to the newest owner of a great estate. ... Mr. Mill never deigns to consider that an Irishman is an Irishman, and not an average human being–an idiomatic and idiosyncractic, not an abstract, man. Greg (1869, p. 78).

James Hunt, the influential owner of the *Anthropological Review*, also repeatedly attacked race-neutral accounts of human nature: "Mr. Mill, who will not admit that the Australian, the Andaman islander, and the Hottentot labour under any *inherent* incapacity for attaining the highest culture of ancient Greece or modern Europe!" Hunt (1866, p. 122); see Levy (2001).

The Irish question raised the issue of whether the conclusions of political economy might be considered universally relevant, or of limited applicability (Bagehot 1876). In the latter half of the century, attacks on the nature and scope of economics focused on the relative roles of induction and deduction in economics, and on the legitimacy of studying economic phenomena separately from social phenomena (Peart 2001, pp. 362-65). Mill's proposal for widespread land reform in Ireland as well as his 1870 review essay, *Leslie on the Land Question*, argued, in line with the Historicists such as T. E. C. Leslie (1873) and J. K. Ingram (1878), that institutional differences in Ireland rendered the conclusions of political economy invalid there.

In response to such concerns, Jevons's recommendation went farther than Mill, calling for even more specialization, now *within* the discipline (1871, xvi-vii). Jevons also insisted that mathematical methods be used in economic theory (Schabas 1990), commencing his 1866 *Brief Account of a General Mathematical Theory of Political Economy* with a call to reduce the "main problem" of economics to "mathematical form" (1866, p. 282). Perhaps most significantly, Ireland provides a rare instance in which Jevons objected to Mill's policy recommendation (land tenure reform) (see Peart 1990).

Thus, notwithstanding his own significant contributions to applied analysis (Black 1981, Peart 2002), Jevons succeeded in taking a methodological step towards narrowing economics, insulating economic analysis from institutional concerns (Peart 2001). For an additional example, consider his comparison of Cairnes's opposition to slavery with his own neutrality: "Though I greatly admire 'Slave Power' as a piece of reasoning, I hardly go with you in your Northern Sympathies. I am strictly neutral." (23rd April, 1864 correspondence; Jevons 1972-81, 3: p. 53).

Materialism and Sympathy: The Occupational Structure of Wages

This narrowing of the discipline also entailed the removal from economics of non-material concerns. It is a commonplace to read the utilitarian economists of our period as simple materialists, concerned only with the aggregate wealth produced by society. But recent scholars have distinguished utilitarians from Adam Smith, for whom the desire for approbation is foundational and for whom approbation is incommensurate with income. Smith's treatment of the desire for approbation carried by cultural norms extends to occupational choice. This begins one of the great set topics in our period: the explanation of occupational wage differences.

As noted above, Smith holds that people are physically the same. If all people are the same and labor markets are competitive, then wouldn't wages equalize across occupations? Indeed, Smith claims this is so when we take "wages" to reflect the net advantages to employments, including non-pecuniary considerations such as "the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness of the employment." (Smith 1976, 117). Smith does *not* make the leap from the assertion that an occupation is useful to the assertion that the occupation is approved, and this is where the materialism reading fails.

In our period, Smith's results are accepted by a host of writers. Mountiford Longfield argued that Smith's conclusions follow from the assumption of *local* mobility:

Increased profits of bricklayers, or the diminished gains of barristers, will not induce

> any person to become a bricklayer who would otherwise become a barrister. Neither will the diminished profits of bricklayers, to pursue the profession of the bar, and by his competition reduce the gains of the profession to their proper level. This may be the case, and yet the due proportion between the gains of those two professions, so remote from each other, may be preserved by means of the intermediate professions. These act as media of communication. (Longfield 1834, 84-5)

E. G. Wakefield (1835) called Smith's analysis "one of the most admired and admirable chapters" "free from error," and "complete"(Wakefield in Smith 1835, 1:328). As the consulting economist behind the New Poor Law, Senior had reflected carefully upon the impact of disapprobation on our choices. His 1836 *Outline* added texture to Smith's account (Senior 1836, p. 201).

In 1852, the first edition of the work following his exchange with Carlyle on slavery, Mill added to his analysis of this issue in the *Principles*. He remained committed to the doctrine as "tolerably successful" (Mill 1965, p. 380). But he now alluded to the difference between theory and fact, and he sharpened his statement of non-competing groups:

> But it is altogether a false view of the state of facts, to present this [inequality of remuneration] as the relation which generally exists between agreeable and disagreeable employments. The really exhausting and the really

> repulsive labours, instead of being better paid than others, are almost invariably paid the worst of all, because performed by those who have no choice. (Mill 1965, p. 383).

The debate with Carlyle over the "Gospel of Labor" raised this point with a vengeance.

Since the analytical device of sympathy falls out of economic analysis as the transition to neo-classicism occurs, the question that arises is where does sympathy go? It enters into debates in evolutionary biology. In 1864, A. R. Wallace claimed that natural selection did not apply to humans because of sympathy, morality and the division of labor (1864, p. clxii). Wallace's demonstration that natural selection stops at the edge of sympathy is the beginning of the eugenics movement. As Greg (1873) put it, sympathy blocked the "survival of the fittest", and therefore these sentiments ought to be suppressed.

Institutional Reform and Higher and Lower Pleasures

When we neglect the problem of institutional reform, we lose the context in which the analytical machinery of Classical economics was developed. Mill's notorious statement of the difference between higher and lower pleasures in his 1861 *Utilitarianism* provides a case in point (1969, p. 211). But the same idea first appears in the 1848 *Principles*. The context is not of Mill's making. Here is Senior's statement of the consequences of slavery on people's habits:

> [slavery] destroys all the nobler virtues, both moral and intellectual; that it leaves

> the slave without energy, without truth, without honesty, without industry, without providence; in short, without any of the qualities which fit men to be respected or even esteemed. But mischievous as slavery is, it has many plausible advantages, and freedom many apparent dangers. The subsistence of a slave is safe; he cannot suffer from insufficient wages, or from want of employment; he has not to save for sickness or old age; he has not to provide for his family; he cannot waste in drunkenness the wages by which they were to be supported; his idleness or dishonesty cannot reduce them to misery; they suffer neither from his faults nor his follies. (1841, p. 2)

How do people make themselves into competent optimizers? Senior provides no answer.

Mill tackles the problem in the same context. Emancipation is justified by the increase in human happiness – the statement in response to Carlyle's 1849 proposal for re-enslavement (Mill 1850) is considerably sharper on this regard – not by any increase in material output. To civilize a man, one immerses him in material desires:

> To civilize a savage, he must be inspired with new wants and desires, even if not of a very elevated kind, provided that their gratification can be a motive to steady and regular bodily and mental exertion. If the negroes of Jamaica and Demerara, after their emancipation, had contented themselves, as it was predicted they would do, with the necessaries of life, and abandoned all labour beyond the little which in a tropical climate, with a thin population and abundance of the richest land, is

> sufficient to support existence, they would have sunk into a condition more barbarous, though less unhappy, than their previous state of slavery. (1965, p. 104).

While these material desires might not be approved in Mill's society, they are critical steps in the development of the capacity for self-reliance:

> The motive which was most relied on for inducing them to work was their love of fine clothes and personal ornaments. No one will stand up for this taste as worthy of being cultivated, and in most societies its indulgence tends to impoverish rather than to enrich; but in the state of mind of the negroes it might have been the only incentive that could make them voluntarily undergo systematic labour, and so acquire or maintain habits of voluntary industry which may be converted to more valuable ends. (1965, pp. 104-5).

If one can move to self-government entailing far-sighted concern for one's own interest, can one not take the additional step toward concern for others? Materialism is a only a step toward this end (1965, p. 105).

Whether Mill succeeds or fails – authorities are divided (Jevons 1879, Schumpeter 1954, McPherson 1982) – he points to a real difficulty in the transition between social states: habits which evolve for sensible reasons in one state might be counter-productive in another.

Classical Growth Theory

Mill integrates the problem of transformation from one set of institutions to another into the Classical theory of growth and distribution. As a Ricardian, he holds that a tax on profits will slow growth and therefore be shared by the workers in terms of wage reduction (Mill 1965, p. 827). His distinction between higher and lower wants enters into the analysis of growth in the first edition of *Principles* when he looks forward to a stationary state entailing the cultivation of the Art of Living, and easing the labor burden upon the poor (Mill 1965, p, 756). But just as "lower" wants help educate freed slaves to discipline themselves, so too the "trampling, crushing, elbowing, and treading on each other's heels, which form the existing type of social life" may play a vital role in the development of a society's norms. This is the lesson Mill draws from the American Civil War (1965, p. 754). For Mill, higher aspirations encompass a willingness to sacrifice for the happiness others. This would hardly surprise the moralist, Adam Smith, who begins the Classical period of British economics (1976, p. 9).

The Popularizers: Martineau on Slavery

While this was a period of sustained challenge to Classical economics, it was also a period of great popularizers of political economy. It is, however, a disservice to view Harriet Martineau as merely a reteller of the stories of economics. We consider her work for the same reason Stigler (1949) chose to illustrate the best of Classical economics with Senior on the handloom weavers: practical problems tended to bring out their best work. For Martineau and her peers the question of great import was how the institution of slavery matters. We point to two nice pieces of analysis.

Harem economics. In her 1830s visit to America, Martineau found compelling evidence against paternalistic accounts of slavery: fathers do not use their daughters sexually. As a Malthusian, Martineau attended to the trade-off between sex and material income. She found in America an instance where a man can have more of both sex and material income by acquiring additional families, only one of which will be white:

> Every man who resides on his plantation may have his harem, and has every inducement of custom, and of pecuniary gain,* to tempt him to the common practice.* [The law declares that the children of slaves are to follow the fortunes of the mother. Hence the practice of planters selling and bequeathing their own children.—Martineau] (Martineau 1837, 2: 223).

Martineau is responding here to the slavery apologists' claim that the morality of slavery can be judged by the relative infrequency of prostitution in Southern cities. (Martineau 1837, 2:325.) So it can, she argues, but not the way the slavery apologists thought. The relative infrequency of prostitution in slave cities provides evidence that slaves were used sexually in sufficient numbers to affect the market demand for prostitution.

Market slavery. In her novel, *Demerara*, Martineau introduces a character, Alfred, who seems to have studied political economy in Britain and who persuades his father to try something Smithian:

> "Task-work with wages," said Alfred, pointing to his own gang; "eternal

> labor, without wages," pointing to the other. "It is not often that we have an example of the two systems before our eyes at the same moment. I need not put it to you which plan works the best." (1832-34, 2:70-71)

In America the task work she saw worried her. Is an efficient slavery good? (1837, 2:157-58).

To What is Multiple Equilibria a Challenge?

It is commonly held that the most famous single challenge to Classical economics in this period came in the form of an attack on Classical wage theory launched by William Thomas Thornton in 1869. Thornton begins with the now-famous denunciation of the notion of demand and supply. He considers two methods of auction: one which starts high and moves down; another which starts low and moves up. Why, he asks, do we believe that the results from the two methods of auction will always be the same? (1869, pp. 47-8). The question was particularly important in the light of the Classical doctrine of the importance of the status quo: if the only difference is where we begin the auction, and Thornton is correct that this affects the resulting price, then the status quo matters.

Was Thornton's challenge really a difficulty for Classical economics? Two important Classical economists responded to his argument. John Stuart Mill's judgment was that Thornton had identified the possibility of multiple equilibria, a nice addition to the standard doctrine:

> [Mr. Thornton] has proved that the law of equalisation of supply and demand is

> not the whole theory of the particular case. He has not proved that the law is not strictly conformed to in that case. In order to show that the equalisation is not the law of price, what he has really shown is that the law is, in this particular case, consistent with two different prices, and is equally and completely fulfilled by either of them. The demand and supply are equal at twenty shillings, and equal also at eighteen shillings. The conclusion ought to be, not that the law is false, for Mr. Thornton does not deny that in the case in question it is fulfilled; but only, that it is not the entire law of the phenomenon. (1967b, p. 637).

John Elliott Cairnes was more emphatic in endorsing Thornton's "solution" to the problem of the determination of price, (1874, p. 110). Thus, two Classical economists of high regard considered the possibility of multiple equilibria with considerable composure.

But it would not be long before Thornton's case would be challenged, and the importance of the status quo would be dismissed. Fleeming Jenkin begins his 1870 article with a methodological attack. Like Jevons, he traced the difficulties of the recent debates to insufficient mathematical machinery (1887, 2: 76). After explaining how demand and supply curves can be used to describe choice, Jenkin considers Thornton's example:

> In a Dutch auction buyers are as likely at first tentatively to let the seller offer below the market price as to close with him above that price.
>
> In an English auction, buyers are as likely to first to run up above the market price as to stop bidding below it. ...

> The device by which Mr. Thornton has made it appear that in a Dutch and English auction there might be two market prices, is to assume that the demand at prices in the neighbourhood of the market price is constant at all prices; that the same number, and no more, fish would be bought at 18*s.* as at 20*s*. In this case the demand curve becomes horizontal near the market price; and as the supply curve is also horizontal, the market price is indeterminate. This case is not peculiar to any form of bargain, but represents an unusual state of mind. Jenkin (1887, 2:84-85).

Jenkin's conclusion – Thornton assumes "an unusual state of mind" – is the basis of Stigler's (1954) judgment that Thornton depends upon a "bizarre" demand curve.

Jenkin has transformed a difficult probabilistic problem – what are the other bidders going to do? – into a demand curve in which probabilistic elements have vanished. He does not allow for the possibility that bidders form different beliefs in the different institutional setting, since, if this happens, there is no reason to predict that bidders will behave the same way in the two types of auctions. For Jenkin's argument, and the neoclassical arguments to come, Thornton's counter-example had to be dispatched.

Neo-classical economics thus begins with the claim, *contra* Thornton and the Classical consensus, that the status quo does not matter. The question of the English and Dutch auction has since become a staple of the experimental economics literature, and the answer is in. The Classics were right: the method of auction matters. This difference can be routinely replicated (V. Smith 1982, pp. 943-44). Thus, in the context of the attack on Classical theory, we find an additional, and misguided, case of denial of the significance of institutions.

Conclusion: Trapped in the Status Quo

We have applied the Classical insight that the status quo is important to our reading of the Classics. From *our* status quo, in which racial explanations are anathema, we see nothing unusual in the Classical doctrine that racial explanations are the height of "vulgarity," as John Stuart Mill put it. Philosophers who radically move the status quo tend to seem commonplace when viewed from the status quo of their creation. But this supposition of unoriginality cannot survive immersion in the context of mid nineteenth century controversy: what one does not read can matter for what one does read. Thus, we hold that all texts are connected, and the history of economics ought to be a general equilibrium procedure.

Opponents of Classical economics held that some races (blacks and the Irish) were child-like and thus ill-equipped to make decisions on their own behalf. Such races required the benevolent master to guide their actions. The lynchpin of the Classical economists' opposition to both slavery and paternalism was their presumption of human competence which disallows masters, whether they own, rule, or look after their inferiors in a kindly fashion. For, supposing that the social world is composed of equally competent optimizers, there is no group that needs looking after and no group that can do the looking after. In post-Ricardian economics, there are no victims with whom to empathize:

trades are voluntary and mutually beneficial.

This world without victims is surely what gives Classical economics its reputation for hard-heartedness. By contrast, the great charm of paternalistic accounts is the compassion they allow for the victims of voluntary transactions. And the temptation is to construct a class of victimizers ("parasites" is the term of choice in the literature of the time) who optimize all-too-well for their own interest (Levy-Peart 2001). In the period that follows, social scientists succumbed to this temptation: Eugenicists argued that society had the right to curtail breeding by such parasites, the "unfit." (Peart-Levy 2002).

References

Bagehot, W. 1876. "The Postulates of Political Economy." *Fortnightly Review* 21 o.s. (15 n.s.) (1): 215-42.

Black, R. D. C. 1981. "William Stanley Jevons 1835-82." in *Pioneers of Modern Economics*. Edited by D. P. O'Brien and J. R. Presley. London: Macmillan, 1-35.

Blaug, M. 1980. *The Methodology of Economics, or How Economists Explain.* Cambridge: Cambridge University Press.

Cairnes, J. E. 1874. *Some Leading Principles of Political Economy Newly Expounded.* London.

[Carlyle, T.] 1849. "Occasional Discourse on the Negro Question." *Fraser's Magazine for Town and Country* 40: 670-679.

Carlyle, T. 1987. *Sartor Resartus.* Edited by Kerry McSweeney and Peter Sabor. Oxford: Oxford University Press.

Curtis, L. P. Jr. 1997. *Apes and Angels: The Irishman in Victorian Caricature*. Revised edition. Washington: Smithsonian Institution Press.

Denman, Lord. 1853. *Uncle Tom's Cabin, Bleak House, Slavery and Slave Trade*. Second edition. London.

Forget, E. L. and Peart, S. J. 2001. *Reflections on the Classical Canon in Economics: Essays in Honor of Samuel Hollander*. London: Routledge.

[Greg, W. R.] 1869. "Realities of Irish Life." *Quarterly Review* 126: 61-80.

Greg, W.R. 1873. *Enigmas of Life*. London.

Hausman, D. M. 1981. "J. S. Mill's Philosophy of Economics." *Philosophy of Science* 48 (3): 363-85.

Hollander, S. 2001. "'Classical Economics: A reification wrapped in an anachronism?" in *Reflections on the Classical Canon in Economics*. Edited by Evelyn L. Forget and Sandra J. Peart. London: Routledge, 7-26.

Hollander, S., and Peart, S. J. 1999. "John Stuart Mill's Method in Principle and in Practice." *Journal of the History of Economic Thought.* 21 (4): 369-97.

Hunt, James. 1866 . "Race in Legislation and Political Economy." *The Anthropological Review* 4: 113-135.

Ingram, J. K. 1878. "Address of the President of Section F of the British Association." *Journal of the Royal Statistical Society* **41** (August): 602-29.

Jenkin, F. 1870 [1887]. *Papers, Literary, Scientific, &c.* London.

Jevons, W. S. 1866. "Brief Account of a General Mathematical Theory of Political Economy." *Journal of the Royal Statistical Society* **xxix** (June), 282-87.

Jevons, W. S. [1871] 1909. *Theory of Political Economy*, 4th edition. Eited by H. S. Jevons, London: MacMillan.

Jevons, W. S. 1879. "John Stuart Mill's Philosophy Tested. iv. Utilitarianism." *Contemporary Review* **36** (November), 521-538.

Jevons, W. S. 1972-81. *Papers and Correspondence of William Stanley Jevons*. Edited by R. D. Collison Black. London: Macmillan.

Knight, F. H. 1935. "The Ricardian Theory of Production and Distribution." *Canadian Journal of Economics and Political Science* 1: 3-25.

Leslie, T. E. C. 1873. "Economic Science and Statistics." *Athenaeum* (September 27). (reprinted in *Essays in Political and Moral Philosophy*. 1879, Dublin: Hodges, Foster, and Figgis).

Levy, D.M. 1976. "Ricardo and the Iron Law: A Correction of the Record." *History of Political Economy* 8 (2): 235-51.

Levy, D. M. 2001. *How the Dismal Science Got Its Name: Classical Economics and the Ur-Text of Racial Politics.* Ann Arbor: University of Michigan Press.

Levy, D. M and S. J. Peart. 2001. "Secret History of the Dismal Science." www.econlib.org

Martineau, H. 1832-34. *Illustrations of Political Economy*. London: Charles Fox.

Martineau, H. 1837. *Society in America*. London.

McPherson, Michael S. 1982. "Mill's Moral Theory and the Problem of Preference Change." *Ethics* 92, 252-273.

Mill, J. S. [1836] 1967a. "On the Definition of Political Economy; and on the Method of Investigation Proper to It." *Essays on Economics and Society*. Volume 4 of *Collected Works of John Stuart Mill.* Edited by John M. Robson. Toronto: University of Toronto Press.

Mill, J. S. [1848] 1965. *The Principles of Political Economy with Some of Their Applications to Social Philosophy.* Volume 2 of *Collected Works*.

[Mill, J. S.] 1850. "The Negro Question." *Fraser's Magazine for Town and Country* 41: 25-31.

Mill, J. S. [1861] 1969. "Utilitarianism." Volume 10 of *Collected Works*, pp. 203-259.

Mill, J. S. [1869] 1967b. "Thornton on Labour and Its Claims." Volume 5 of *Collected Works*, pp. 633-68

Mill, J. S. [1870]1967b. "Leslie on the Land Question." Volume 5 of *Collected Works*, pp. 671-85.

Peart, S. J. 1990. "Jevons's Applications of Utilitarian Theory to Economic Policy." *Utilitas.* **2**(2): 281-306.

Peart, S. J. 2001. "Theory, application and the canon: The Case of Mill and Jevons." In *Reflections on the Classical Canon in Economics*. Edited by Evelyn L. Forget and S. J. Peart. London: Routledge, 356-77.

Peart, S. J. 2002. "'Facts Carefully Marshalled' in the Empirical Studies of William Stanley Jevons." *The Age of Economic* Measurement. Annual Supplement to Volume 33, *History of Political Economy*. Edited by Judy L. Klein and Mary S. Morgan. Durham, Duke University Press, 252-76.

Peart, S. J. and D. M. Levy. 2002. "'Not an Average Human Being': How Economics Succumbed to Racial Accounts of Economic Man." In *Race, Liberalism and Economics*. Edited by David Colander.

Persky, J. 1990. "Retrospectives: A Dismal Romantic." *The Journal of Economic*

Perspectives 4: 165-172.

Ricardo, D. 1951. *Works and Correspondence of David Ricardo*. Edited by Piero Sraffa. Cambridge: Cambridge University Press.

Robson, J. M. 1968. *The Improvement of Mankind: The Social and Political Thought of John Stuart Mill*. Toronto: University of Toronto Press.

Schabas, M. 1990. *A World Ruled by Number: William Stanley Jevons and the Rise of Mathematical Economics*. Princeton: Princeton University Press.

Schumpeter, J. A. 1954. *History of Economic Analysis*. New York: Oxford University Press.

Semmel, B. 1962. *The Governor Eyre Controversy*. London: Macgibbon & Kee.

Senior, N. W. 1828. *Three Lectures on the Transmission of Precious Metals.* Vol 2. *Collected Works of Nassau William Senior.* 1998 Edited by D. Rutherford. Bristol.

Senior, N. W. 1829. *Two Lectures on Population*. Vol 3. *Collected Works.*

Senior, N. W. 1830. *Three Lectures on the Cost of Obtaining Money*. Vol. 2. *Collected Works*

Senior, N. W. 1836. *An Outline of the Science of Political Economy*. Vol 1. *Collected Works*

[Senior, N. W.] 1841. "Poor Law Reform." Vol. 3 *Collected Works*.

[Senior, N. W.] 1848. "J. S. Mill on Political Economy." Vol 1. Collected Works.

Smith, Adam. [1759] 1976. *Theory of Moral Sentiments*. Edited by A. L. Macfie and D. D. Raphael. Oxford: Clarendon Press.

Smith, A. [1776] 1835. *An Inquiry into the Nature and Cause of the Wealth of Nations.* [Edited by E. G. Wakefield.] London.

Smith, A. [1776] 1976. *An Inquiry into the Nature and Causes of the Wealth of Nations.* Edited by W. B. Todd. Oxford: Clarendon Press.

Smith, V. "Microeconomic Systems as an Experimental Science." *The American Economic Review* 75 (December 1982): 923-995.

Stigler, G. J. 1949. *Five Lectures on Economic Problems*. London.

Stigler, G. J. 1954. "The Early History of Empirical Studies of Consumer Behavior." *The Journal of Political Economy* 62: 95-113.

Thornton, W. T. 1869. *On Labour, Its Wrongful Claims and Rightful dues, Its Actual Present and Possible Future.* London.

Thornton, W. T. 1870. *On Labour, Its Wrongful Claims and Rightful dues, Its Actual Present and Possible Future.* Second edition. London.

Wallace, A. R. 1864. "The Origin of Human Races and the Antiquity of Man Deduced from the Theory of 'Natural Selection.'" *Journal of the Anthropology Society* 2: clviii-cixx.

Whately, R. 1831. *Introductory Lectures on Political Economy*. London.

Whately, R. 1832. *Introductory Lectures on Political Economy.* Second edition. London.

Whately, R. 1833. *Easy Lessons on Money Matters; For the Use of Young People.* London.

Winch, D. 1972. "Marginalism and the Boundaries of Economic Science." *History of Political Economy*. 4 (2): 325-43.