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Group Analytics in Adam Smith's Work

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GROUP ANALYTICS IN ADAM SMITH'S WORK

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ABSTRACT

The link between occupation and character began with David Hume and extended by Adam Smith in service to their attack on the doctrine of innate national character. Worker's awareness of the relative approbative rewards to occupation is central to Smith's competitive labor market equilibrium. When the division of labor is extended by growth, the variance of character increases. With this insight Smith was able to offer a race-blind theory of civilization, something that escaped even Hume. 19th century anthropological focus on the variance of character can be seen as a racialization of Smith's work.

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Whenever commerce is introduced into any country, probity and punctuality always accompany it. These virtues in a rude and barbarous country are almost unknown. Of all the nations in Europe, the Dutch, the most commercial, are the most faithfull to their word. The English are more so than the Scotch, but much inferiour to the Dutch, and in the remote parts of this country they (are) far less so than in the commercial parts of it. This is not at all to be imputed to national character, as some pretend. There is no natural reason why an Englishman or a Scotchman should not be as punctual in performing agreements as a Dutchman. It is far more reduceable to self interest, that general principle which regulates the actions of every man, and which leads men to act in a certain manner from views of advantage, and is as deeply implanted in an Englishman as a Dutchman.

Adam Smith

INTRODUCTION

Statistical discrimination is the term coined to characterize the imputation of estimated group characteristics to an individual group member. One powerful feature of the model developed by K. J. Arrow and Edmund Phelps in the early 1970s is that it uses a group's stereotype as a statistical estimator instead of a simple expression of prejudice. By doing so, the modeler can deal with change in a more plausible manner than that available in the older preference-based theory of discrimination associated with Gary Becker [Becker 1957]. The irony of Arrow and Phelps improving Becker's work by developing a model of discrimination for agents with fixed preferences is surely not lost on anyone who followed Becker's later career.¹

We start with the recitation of twentieth century dates to emphasize that the ability of economists to work with groups was at a low point.² In fact, the ability to work with group activity might serve as a fair division between classical economics and post-World War II neo-classical economics. To give an example from Adam Smith's 1776 *Wealth of Nations*, approbation (whether positive or negative) follows from one's occupation in all sorts of complicated manners, and this influences one's choice of occupation. This is one example of how classical economists applied group characteristics to individuals. Individuals are moreover presumed to be aware of this process of imputation and to adjust their actions accordingly. Indeed, the adjustment forms the basis of Smith's celebrated argument that in competitive equilibrium the net advantages of employment are equalized. In one of the most successful set pieces of the book, Smith

¹ Arrow [1971, pp. 20–21]: "I have two suggestions to make, both of a very tentative nature. The first suggests that what I have referred to as the discriminatory tastes of the employer might in fact be better described as a problem in perception. . . . That is, employers discriminate against blacks because they believe them to be inferior workers." Becker's later view about appealing to differences in tastes to explain behavior is expressed very pungently in a celebrated paper with George Stigler, Stigler and Becker [1977].

² Arrow [1971, p. 16]: "The recognition of non-convexities and their importance in economic life is hardly new; we all recall the central role that Adam Smith gave to division of labor and its relation to the size of the market. Indeed, Smith's ideas of specialization among individuals, firms, and even nations are exactly analogous in formal structure to the occurrence of racial segregation in production. But it has proved very difficult to incorporate non-convexities in systematic general theories."

Group Analytics in Adam Smith's Work

argues that people are willing to trade material income for occupationally imputed disapprobation. This is all well-known.

What has been neglected is that in Smith's work, when individuals are aware, first, that they are members of a group whose interests are aligned and, second, that their individual actions influence group well-being, forces of approbation and disapprobation are set in motion to connect individual well-being with group well-being. That's one issue we consider. Two hundred years later, when Arrow first set out his work on discrimination, he pointed out that neo-classical economics failed adequately to deal with group interests.³ The particular case Smith considered, the coordinated reaction of group members to the conduct of another group member influencing the reputation of the group itself, provides a useful context for the economic analysis of reputation or stereotype.⁴ In an age before democratic politics it seems plausible to restrict what we might call stereotype endogeneity to a small group set that Smith, and David Hume before him, considered.

In this paper we explore how Smith's account of occupationally determined group "characteristics" from which reputation flows—he allows the imputations to be either true or a matter of prejudice—combats the then-common doctrine of innate national characteristics in service to analytical egalitarianism. That's the major issue we consider. An important partial step toward Smith's position is

³ Arrow [1971, pp. 25–26]: "Finally, a comment on the question of group interests. It is certainly a common view that in some sense racial discrimination is a device by which the whites in the aggregate gain at the expense of the blacks. Hence, the whole problem is to be interpreted as an exploitative relation. There is a stable relation here; the values inherent in discrimination uphold a structure that is profitable to those holding those values. On purely methodological grounds, I do not think such a view can be denied, provided it works, though it is contrary to the tradition of economics. Economic explanations for discrimination or other phenomena tend to run in individualistic terms, and the models presented earlier are no exception. Economists ask what motivates an employer or an individual worker. They tend not to accept as an explanation a statement that employers as a class would gain by discrimination, for they ask what would prevent an individual employer from refusing to discriminate if he prefers and thereby profit. Economists do indeed recognize group interests if they appear in legal form, as in tariffs, licensing, or legally enforced segregation. But the distinction between the legal structure and other social pressures is hardly a sharp dichotomy." Arrow considered the possibility of extended sympathy briefly in the 1963 addition to *Social Choice and Individual Values* and then more systematically in Arrow [1977].

⁴ The same issue, individual conduct influencing group reputation, comes up in discussions of the ethics of econometrics and notoriously econometrics, unlike the neighboring mathematical statistics, does not have a substantial code of ethics [Levy and Peart 2008; 2016].

Group Analytics in Adam Smith's Work

advanced in Hume's short but enormously difficult essay "Of national characters."⁵ Hume makes the pregnant distinction between the physical causes of character differences—wind, water and sunlight—and the "moral" causes provided by motivating incentives.⁶ Hume makes a remarkable claim that the link between occupation-linked incentives and character is a necessary one, overwhelming the physical environment:

A soldier and a priest are different characters, in all nations, and all ages; and this difference is founded on circumstances, whose operation is eternal and unalterable. [(1777) 1987, p. 198]

We find a kindred claim of necessary truth in Smith's link in the *Wealth of Nations* between occupation and character.⁷

"Of national characters" allows us to separate Hume's and Smith's visions because Hume appealed to the hidden force of intra-human variation to explain differences in levels of development. We see this in a footnote he added to the 1753-4 edition, claiming there are "four or five" different human species but only the white "species" exhibited civilization. This was dropped in the 1777 edition. What remained was the assertion, also included in the new 1753-4 footnote, that Negroes are not fully competent language users. On the contrary, Smith was able to explain differences in economic development by appealing to the consequences of variation in the waves and running water of the physical world confronting the universal human. Since the textual issues specific to this single footnote are complicated, and there is a published

⁵ The editor of the critical 20th century edition of Hume's *Essays* in which "Of national characters" appears suggests why we need specialist help, Miller [(1985) 1987, p. xxii]: "One finds abundant evidence of his reading in the Greek and Latin classics as well as of his familiarity with the literary works of the important English, French, Italian, and Spanish authors. ... He knew the important treatises on natural science, and he investigated the modern writings on political economy."

⁶ Smith credits Hume with opening one vital part of the discussion. "Thirdly, and lastly, commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors. This, though it has been the least observed is by far the most important of all their effects. Mr. Hume is the only writer who, so far as I know, has hitherto taken notice of it." [WNIII.iv.4; p. 412]

⁷ "The habit of sauntering and of indolent careless application, which is *naturally, or rather necessarily* acquired by every country workman who is obliged to change his work and his tools every half hour, and to apply his hand in twenty different ways almost every day of his life; renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasion" [WNI.i.8; 19] [emphasis added]. We have argued against the temptation to read modal language in Smith—both "natural" and "necessary" are modal—as stylistic tics of no great interest [Levy and Peart 2013].

Group Analytics in Adam Smith's Work

conjecture that Hume's change was prompted by Smith's work [Garrett 2000, p. 175] we discuss the issues in an appendix.⁸

In the *Wealth of Nations*, Smith used several terms to describe groups. Groups of occupationally-related individuals who are unaware of their common interests were often described as "races."⁹ Using Google's powerful Ngram Viewer we show that at least one of Smith's usages, "the race of kings," was more common than we might think. Those who by contrast are aware of their common interests and have some way of over-coming the collective-action problem were described as factions or sects. We look first at Smith's of "race" as occupation as a way to bring groups who have an awareness of their common interests. We look briefly at how Smith's notion of motivation by praiseworthiness was employed by the great Utilitarians, his grand-student James Mill and James's son John Stuart Mill, to provide a means of escape from the faction-cementing motivation by praise.

Smith's occupation-based account of character combined with his analytical egalitarianism implies that without occupational specialization, individuals in a society would be much the same. The 19th century anthropological characterization of "Negro inferiority" as a race with zero variance is thus a racialization of that argument. This explains the natural conflict between occupational-based theories of variance put forward by the political economists and racially-based theories of variance put forward by the anthropologists. In our previous work we have focused on the "immunization strategy" used to protect the zero variance theory of a race from the facts. With zero variance the group is the stereotype so any

⁸ As a philosopher Smith has been traditionally read as a not-very original student of Hume and thus of no interest other than what light he can shed on Hume. Richard Popkin's books which contain his two essays on Hume's racism as chapters, is a good illustration. Smith is mentioned only to illuminate Hume's thought. A new interpretative approach takes Smith as Hume's greatest technical critic since he, unlike anyone else of that era, could answer Hume within Hume's system. We've looked at the "other rational species" problem Hume raises in which a carefully stated form of "inferiority" explains enslavement. Smith's answer is very different than Hume's [Peart and Levy 2005]. We discuss the new Hume-Smith interpretation in Levy and Peart [2013].

⁹ Occupation as "race" is not found in *TMS*, *LJ* or *EPS*. "Natural character" is not found in *TJS*, *WN* or *EPS*. We use the standard abbreviations for the *Theory of Moral Sentiments*, *Lectures on Jurisprudence*—*LJA* for the earlier lecture notes and *LJB* for the later set—and *Essays on Philosophical Subjects*. Our searchable text comes from the days in which PDFs of the Liberty Fund printing of the Glasgow edition were freely downloadable.

Group Analytics in Adam Smith's Work

deviation ought, in this account, to falsify the model. Here, we suppose this move is a way to create stereotypes which serve ideological purposes.

OCCUPATION AS RACE

Race. Even though Adam Smith has a reputation for being the “individualist” thinker *par excellence*, his works are filled with group analytics. We have previously discussed his analysis of groups with unitary goals, in which the ancient political term “factions” is perhaps the central concept (Levy and Peart 2009). For a group characterized by its occupation, but without evident awareness of any common interest, Smith uses the word “race” in the *Wealth of Nations*. Perhaps the most amusing, and surely the most famous, usage is his characterization of his own occupation: “That unprosperous race of men commonly called men of letters . . .” [WN I.x.c.37; p. 148].

But there are many more: “race of mendicant friars” [WN IV.vii.b.14; p. 574], “race of banditti” [WN IV.vii.b.14; p. 571], “race of labourers” [WN I.xi.p.9; p. 266], “race of journeymen and servants” [WN I.viii.41; p. 98], “race of the kings” [WN I.iv.10; p. 43]. This usage of “race” would seem odd in our language, which requires some biological continuity.¹⁰ In a passage that helps link his usage to ours, Smith points to the caste systems in which there is a patrilineal continuity of occupation¹¹

Both in ancient Egypt and Indostan the whole body of the people was divided into different castes or tribes, each of which was confined, from father to son, to a particular employment or class of employments. The son of a priest was necessarily a priest; the son of a soldier, a soldier; the son of a labourer, a labourer; the son of a weaver, a weaver; the son of a tailor, a tailor; &c. In both countries, the caste of the priests held the highest rank, and that of the soldiers the next; and in

¹⁰ We see this insistence on the essentiality of inheritability in Glenn Loury's careful definition of race: “a cluster of inheritable bodily markings carried by a largely endogamous group of individuals, markings that can be observed by others with ease, that can be changed or misrepresented only with great difficulty, and that have come to be invested in a particular society at a given historical moment with social meaning.” [Loury 2002, p. 20]. An alternative definition Loury quotes from Stephen Cornell and Douglas Hartmann dispenses with inheritability: “A race is a group of human beings socially defined on the basis of physical characteristics. Determining which characteristics constitute the race—the selection of markers and therefore the construction of the racial category itself—is a choice human beings make. Neither markers nor categories are predetermined by any biological factors. These processes of selection and construction are seldom the work of a moment. Racial categories are historical products and are often contested.” [Loury, 2002, p. 206–7].

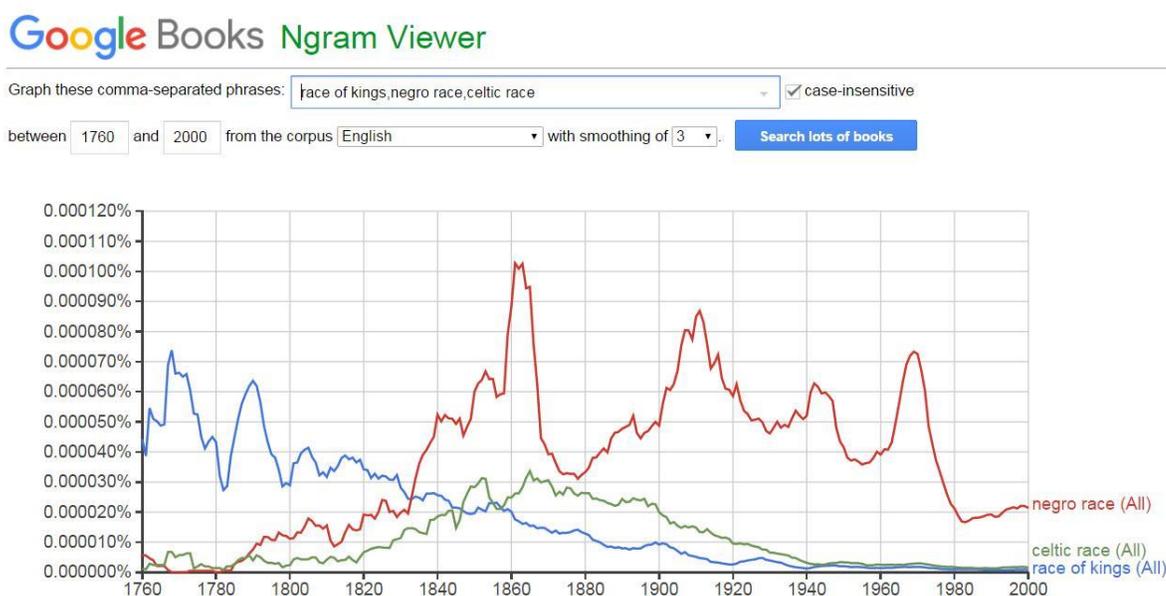
¹¹ The issue is also raised in the notes of Smith's lectures [LJA vi. 55, p. 351].

Group Analytics in Adam Smith's Work

both countries, the caste of the farmers and labourers was superior to the castes of merchants and manufacturers. [WN IV.ix, 43; p. 681]

In the passages quoted above from Smith, the “race of the kings” is the most plausible modern occupation with a family connection.

Smith's texts alone do not answer the question of whether his was a common usage in his own time. However, the freely available Ngram Viewer provides an answer to this question. Drawing upon our work on nineteenth century literature in which both the “Celtic race” and the “Negro race” are frequently used, we compare these with “race of kings” over the 1760-2000 period.¹²



Not only does the usage of “race” as inherited occupation occur in Smith's language community, but also the foregoing reveals that only in the 1830s, the era of British emancipation, was the “Negro race” used as frequently as the “race of kings.” The “Celtic race” seems localized to the period in which the “Irish question”—to vary a theme from Carlyle—was central to British politics.

¹² “Race of the kings” occurs a good deal less frequently than “race of kings” but unless there is a perfect overlap between texts that use “race of the kings” with those which also use “race of kings” we underestimate its frequency. That for our purposes the direction in which we wish to err. We experimented with “Jewish race” and found that, save for the 1860 spike, it seemed to track the “Negro race.”

Reputation. We need not belabor Smith's argument that character is endogenous to occupational incentives and, as a consequence, reputation follows occupation.¹³ What is worth emphasizing here, however, is how the people Smith studies are aware of this reputation and they adjust their occupational choices accordingly. In what is perhaps his neatest example, occupations associated with theater, Smith waives consideration of truth claims:

There are some very agreeable and beautiful talents of which the possession commands a certain sort of admiration; but of which the exercise for the sake of gain is considered, *whether from reason or prejudice*, as a sort of public prostitution. The pecuniary recompence, therefore, of those who exercise them in this manner, must be sufficient, not only to pay for the time, labour, and expence of acquiring the talents, but for the discredit which attends the employment of them as the means of subsistence. The exorbitant rewards of players, opera-singers, opera-dancers, &c. are founded upon those two principles; the rarity and beauty of the talents, and the discredit of employing them in this manner. It seems absurd at first sight that we should despise their persons, and yet reward their talents with the most profuse liberality. While we do the one, however, we must of necessity do the other. Should the *public opinion or prejudice* ever alter with regard to such occupations, their pecuniary recompence would quickly diminish. More people would apply to them, and the competition would quickly reduce the price of their labour. [Our emphasis] [WN I.x.b.24; p. 125]

Smith informs the reader that he does not know whether the reputation is deserved or not. For his purposes, explaining how net advantages of employment are equalized in a competitive labor market, the truth claim associated with public opinion does not matter. Smith will later consider how reputational externalities can be corrected but only in a very small number setting.

The difference between occupations described as “races” and occupations described as “factions,” “combinations” or “sects” seems to be that members of the latter are aware of their common interests, while those in “races” are not. Awareness is carried by judgments, by approbation of actions that are in

¹³ As we noted earlier Hume distinguishes “moral causes” (economic / institutional incentives) from “physical causes” [(1777) 1987, p. 198]: “That the character of a nation will much depend on moral causes, must be evident to the most superficial observer; since a nation is nothing but a collection of individuals, and the manners of individuals are frequently determined by these causes. As poverty and hard labour debase the minds of the common people, and render them unfit for any science and ingenious profession; so where any government becomes very oppressive to all its subjects, it must have a proportional effect on their temper and genius, and must banish all the liberal arts from among them. The same principle of moral causes fixes the character of different professions, and alters even that disposition, which the particular members receive from the hand of nature.” The next sentence contains the “eternal and unalterable” distinction between a soldier and priest that we quoted in the text.

Group Analytics in Adam Smith's Work

accord with common interests, and by disapprobation of actions that are contrary to common interests.

Factional interests are common and they are, by definition, at least partly opposed to the interests of those outside the faction. Factions thus attempt to gain at the expense of those outside the faction. If those outside the faction are unaware of their common and oppositional interests, the faction is able to exploit that unawareness; thus, an aware faction can exploit members of an unaware group. Perhaps the most famous example of this exploitation—it was recently subject to an interpretative dispute between the Justices of the US Supreme Court—makes this awareness clear¹⁴

We rarely hear, it has been said, of the combinations of masters; though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate. To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbours and equals. [*WN* I.viii.13; p. 84]

The polemical burden of the *Wealth of Nations* is that, unlike either laborers or landowners, merchants are completely aware of their own interests. Unawareness is not a function of ability: laborers do not have time to study and reflect; landowners do not have any incentive to do so.¹⁵

The great utilitarian project of the 19th century was to lessen the burden associated with factionalized action and hence to widen awareness. Democratic politics enters utilitarian analysis here. Francis Place's role as a trade union organizer is not an anomaly, nor are James Mill's majoritarianism and

¹⁴ The episode is discussed in Levy and Peart [2009].

¹⁵ At one place Smith offers the cost of collusion following from geographical dispersion as explanation for the landowner's lack of awareness. [*WN* IV.ii.21; pp. 461–62]: "Country gentlemen and farmers are, to their great honour, of all people, the least subject to the wretched spirit of monopoly. The undertaker of a great manufactory is sometimes alarmed if another work of the same kind is established within twenty miles of him. The Dutch undertaker of the woollen manufacture at Abbeville, stipulated that no work of the same kind should be established within thirty leagues of that city. Farmers and country gentlemen, on the contrary, are generally disposed rather to promote than to obstruct the cultivation and improvement of their neighbours farms and estates. They have no secrets, such as those of the greater part of manufacturers, but are generally rather fond of communicating to their neighbours, and of extending as far as possible any new practice which they have found to be advantageous. . . . Country gentlemen and farmers, dispersed in different parts of the country, cannot so easily combine as merchants and manufacturers, who being collected into towns, and accustomed to that exclusive corporation spirit which prevails in them, naturally endeavor to obtain against all their countrymen, the same exclusive privilege which they generally possess against the inhabitants of their respective towns." At another place Smith offers exogenous income as explanation. [*WN* I.xi.p.8; p. 265].

Group Analytics in Adam Smith's Work

his educational proposals and John Stuart Mill's support for proposals designed to help the laboring classes become self-aware.¹⁶

For the credit of the sect. Smith's work on occupation and reputation takes the group's reputation as exogenous to individual behavior. In his discussion of small religious sects, this limitation on the analysis is removed. Following Hume's lead conduct is monitored to insure that it remains to the "credit of the sect"¹⁷:

A man of low condition, on the contrary, is far from being a distinguished member of any great society. While he remains in a country village his conduct may be attended to, and he may be obliged to attend to it himself. In this situation, and in this situation only, he may have what is called a character to lose. But as soon as he comes into a great city, he is sunk in obscurity and darkness. His conduct is observed and attended to by nobody, and he is therefore very likely to neglect it himself, and to abandon himself to every sort of low profligacy and vice. He never emerges so effectually from this obscurity, his conduct never excites so much the attention of any respect table society, as by his becoming the member of a small religious sect. He from that moment acquires a degree of consideration which he never had before. All his brother sectaries are, for the credit of the sect, interested to observe his conduct, and if he gives occasion to any scandal, if he deviates very much from those austere morals which they almost always require of one another, to punish him by what is always a very severe punishment, even where no civil effects attend it, expulsion or excommunication from the sect. [WN V.i.g.12; pp. 795–96]

¹⁶ For James Mill, education was a measure to reduce the effectiveness of factions. He regarded education as the principal means by which people come to identify with a larger group: "[T]here can be no real Patriotism, no pointing of the *Affection*, the *Motive*, and *Disposition*, steadily to the good of the whole, without preference of any particular part; except, either in men of elevated minds and affections, in whom the larger associations, generated by a good Education, control the narrow associations, growing out of a particular position; or, in men whose position is such as to give them pleasurable associations chiefly with individuals of the general mass, whose good has this happy quality, that it is always identified with that of the community at large." [Mill (1829) 1869, 2: 276]. The link between James Mill's reform proposal and Smith's is clear since Smith regards religion as a form of education for people of all ages [Peart and Levy 2015].

Perhaps the most subtle aspect of this is James and John Stuart Mill's emphasis on the importance of Smith's doctrine of motivation by praiseworthiness as something distinct from motivation by praise [Peart 2014]. If the issue is that groups aware of their common interest exploit groups without such awareness, then motivation by praise may well be a central aspect of factional cement. Motivation by praiseworthiness, by contrast, may induce self-aware group members to take into consideration the well-being of those who are not aware that they are being helped or harmed. To the extent that praiseworthiness has motivational force, it may therefore prevent members in factions from harming those less powerful and less aware people who are outside the group.

¹⁷ Hume [(1777) 1987, p. 205]: "A small sect or society amidst a greater are commonly most regular in their morals; because they are more remarked, and the faults of individuals draw dishonour on the whole. The only exception to this rule is, when the superstition and prejudices of the large society are so strong as to throw an infamy on the smaller society, independent of their morals. For in that case, having no character either to save or gain, they become careless of their behaviour, except among themselves."

Group Analytics in Adam Smith's Work

In a stereotyping situation, there are externalities at work. If conduct has a non-zero influence on the group's stereotype, the well-being of other members will be influenced. Smith's treatment seems completely unexceptional in his small number setting. Extension to a large number setting may require an appeal to democratic politics, something not available to Smith.

VARIANCE AS THE CRITICAL PARAMETER

In the early statistical discrimination literature it is taken for granted that the parameter of interest is the mean of a group characteristic. To the extent that higher order moments are considered, a larger variance is considered an impediment to accurate forecasting of the capacity of an individual [Phelps 1972]. The situation in 19th century racial theorizing is, however, rather different. In the view of mid-century British anthropologists, inferiority was measured by variance: the "higher" the group, the greater the variance. A race with zero variance was the absolute bottom of the human hierarchy.¹⁸ And this characterization has the useful ideological property of reducing the influence of the conduct on the stereotype of an individual group member to zero.

Here we provide a context for that argument. When Smith made the argument that the division of labor created differences in character, the straightforward implication is that, without occupational specialization, there will be no differences in character. The students' notes of Smith's lectures detail how the argument was tried out before it was published in the *Wealth of Nations*. From the report of 1762-63:

It is not the difference of naturall parts and genius (which if there be any is but very small), as is generally supposed, that occasions this separation of trades, as this seperation of trades by the different views it gives one that occasions the diversity of genius. No two persons can be more different in their genius as a philosopher and a porter, but there does not seem to have been (?any) original difference betwixt them. For the 5 or 6 first years of their lives there was hardly any apparent difference; their companions looked upon them as persons of pretty much the same stamp. No wisdom and ingenuity appeared in the one superior to that of the other. From about that time a difference was thought to be perceivd in them. Their manner of life began then to affect them, and without doubt had it not been for this they would have continued the same. The difference of employment occasions the difference of genius; and we see accordingly that amongst

¹⁸ The formative paper in this tradition is James Hunt's [Hunt (1863) 1864]. It has been widely discussed in recent years, [Peart and Levy 2005, pp. 67-70].

savages, where there is very little diversity of employment, there is hardly any diversity of temper or genius. [*LJA* vi. 46; p. 348]

Then, from the 1766 report dogs enter the argument:

This disposition to barter is by no means founded upon different genius and talents. It is doubtfull if there be any such difference at all; at least it is far less than we are aware of. Genius is more the effect of the division of labour than the latter is of it. The difference between a porter and a philosopher in the first four or five years of their life is properly speaking none at all. When they come to be employed in different occupations, their views widen and differ by degrees. As every one has this natural disposition to truck and barter by which he provides for himself, there is no need for such different endowments, and accordingly among savages there is always the greatest uniformity of character. In other animals of the same species we find a much greater difference than betwixt the philosopher and porter antecedent to custom. The mastiff and spaniel have quite different powers, but tho' these animals are possessed of talents they cannot, as it were, bring them into the common stock and exchange their productions, and therefore their different talents are of no use to them. [*LJB* 221; p. 493]

In the 1776 *Wealth of Nations*, the famous argument now refers to dogs without savages as comparison.

With his occupationally grounded theory of character development, Smith has minimal use for the then-popular doctrine of “national character.”¹⁹ The phrase appears once in Smith's corpus, in the 1766 lecture report which denounces the doctrine. Smith's passage serves as our epigraph. Smith does, however, use the phrase “national prejudice” in both the lecture notes and the *Wealth of Nations*.

Again using Ngrams, we examine the usage of “national character,” “national prejudice” and, to link to the modern discussion, “stereotype.”²⁰ From this it is apparent that “national character” usage

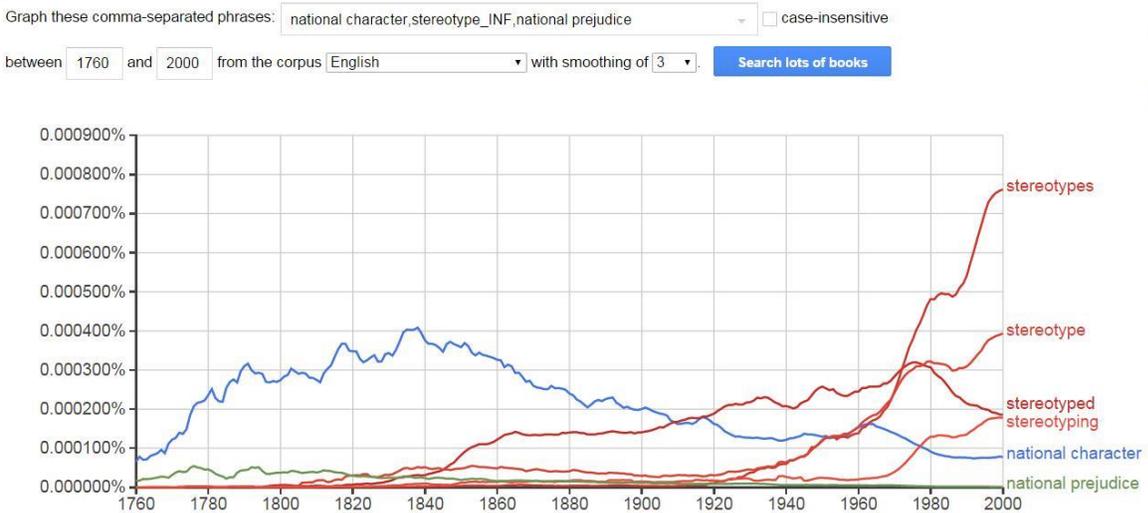
¹⁹ Hume distinguished between the wide-spread zero variance doctrine of national character and the one he was prepared to defend: “The vulgar are apt to carry all national characters to extremes; and having once established it as a principle, that any people are knavish, or cowardly, or ignorant, they will admit of no exception, but comprehend every individual under the same censure. Men of sense condemn these undistinguishing judgments: Though at the same time, they allow, that each nation has a peculiar set of manners, and that some particular qualities are more frequently to be met with among one people than among their neighbours. The common people in Switzerland have probably more honesty than those of the same rank in Ireland; and every prudent man will, from that circumstance alone, make a difference in the trust which he reposes in each. We have reason to expect greater wit and gaiety in a Frenchman than in a Spaniard; though Cervantes was born in Spain. An Englishman will naturally be supposed to have more knowledge than a Dane; though Tycho Brahe was a native of Denmark.” Hume [(1777) 1987, p. 197]

²⁰ “Stereotype” in the mid-19th century had the meaning of imposing identical institutions on presumably non-identical people. The “imposing identical” is a fair transfer its usage in printing original. Here we use the Ngram “inflection” option. The growth of the plural from 1920 is doubtless the result of Walter Lippmann's *Public Opinion* which introduced “stereotype” in its modern meaning. The link between Lippmann's work and the later statistical discrimination is not known to us.

Group Analytics in Adam Smith's Work

jumps in the 1830-60 period. This helps explain why J. S. Mill's attack on the "vulgarity" of the doctrine of national characters drew the ire of the race-based theorists such as W. R. Greg. As the most famous of the political economists of the analytical egalitarian stripe, it was only natural he would be attacked on the basis of his race-blind theorizing. Only in early twentieth century is "stereotype" used more frequently than "national character."

Google Books Ngram Viewer



CONCLUDING THOUGHTS: TASTES OR ESTIMATION?

We began, conventionally enough, by noting that the statistical discrimination approach, in which stereotypes are taken as estimators, offered attractive properties relative to earlier taste-based theories of discrimination for explaining changes in discriminatory behavior. The cluster of problems we have identified above is that of how mid-20th century economics passed from the individual to group. We have argued that these issues greatly preoccupied the economists in an earlier tradition. Both Hume and Smith had a great deal to offer about the externalities that are created when individual conduct occurs within a group setting. Second, we have touched upon the question of what sort of estimator has been supposed

Group Analytics in Adam Smith's Work

when conduct has no influence on the stereotype.²¹ If no amount of evidence will change the estimator, then a Hunt-style stereotype must be in place. If we accept that sympathy or ideological presuppositions create reason for economic statisticians to have preferences over their estimates [Levy and Peart 2008; 2016], then there is no reason to rule out folk statisticians having kindred preferences. Now we are back to tastes.

APPENDIX: ADAM SMITH AND DAVID HUME'S 1777 MODIFICATION

Between the publication of T. H. Green and T. H. Grose's edition of Hume's *Essays* of 1875, and the 1987 revision of Eugene Miller's edition, it would have been reasonable to believe that the following note appeared in Hume's "Of national characters" from its inclusion in the 1753/4 edition of *Essays* onwards:

I am apt to suspect the negroes, and in general all the other species of men (for there are four or five different kinds) to be naturally inferior to the whites. There never was a civilized nation of any other complexion than white, nor even any individual eminent either in action or speculation. No ingenious manufactures amongst them, no arts, no sciences. On the other hand, the most rude and barbarous of the whites, such as the ancient GERMANS, the present TARTARS, have still something eminent about them, in their valour, form of government, or some other particular. Such a uniform and [630] constant difference could not happen, in so many countries and ages, if nature had not made an original distinction betwixt these breeds of men. Not to mention our colonies, there are NEGROE slaves dispersed all over EUROPE, of which none ever discovered any symptoms of ingenuity; tho' low people, without education, will start up amongst us, and distinguish themselves in every profession. In JAMAICA indeed they talk of one negroe as a man of parts and learning; but 'tis likely he is admired for very slender accomplishments, like a parrot, who speaks a few words plainly. Hume [(1753-1754) 1875, p. 252]

With the reawakening of scholarly attention to race, these remarkable claims became the subject of much discussion. Richard Popkin's paper, "Hume's Racism" [Popkin (1977-78) 1980, pp. 260–62], is often given credit for calling attention to the fact that this note was subject of James Beattie's attack [Beattie (1770) 1809, pp. 318–21]. As Hume thought Beattie's general philosophical acumen negligible, it seemed

²¹ The thought that we need not worry about influence in a large number context would neglect the fact that a large number of people would be affected by a change in the stereotype.

Group Analytics in Adam Smith's Work

reasonable to think that Hume simply ignored the empirical challenge that Beattie and others raised [Popkin 1982]).

In 1987 in the revision of his edition of *Essays*, Miller pointed out a dreadful mistake in the Green and Grose edition.²² They had failed to notice that the note had been changed in a rather remarkable manner in the 1777 edition. The new material is in italics; what is deleted is struck out:

I am apt to suspect the negroes, ~~and in general all the other species of men (for there are four or five different kinds)~~ to be naturally inferior to the whites. There *scarcely ever* ~~never~~ was a civilized nation of ~~any other~~ *that* complexion, ~~than white~~ nor even any individual eminent either in action or speculation. No ingenious manufactures amongst them, no arts, no sciences. On the other hand, the most rude and barbarous of the whites, such as the ancient GERMANS, the present TARTARS, have still something eminent about them, in their valour, form of government, or some other particular. Such a uniform and constant difference could not happen, in so many countries and ages, if nature had not made an original distinction betwixt these breeds of men. Not to mention our colonies, there are NEGROE slaves dispersed all over EUROPE, of which none ever discovered any symptoms of ingenuity; tho' low people, without education, will start up amongst us, and distinguish themselves in every profession. In JAMAICA indeed they talk of one negroe as a man of parts and learning; but ~~it is~~ *it is* likely he is admired for very slender accomplishments, like a parrot, who speaks a few words plainly. [Hume (1777) 1987, p. 208]

John Immerwahr [1992] argued that Hume revised the note in response to Beattie's attack. Yet, as Aaron Garrett [2000] points out i) Hume did not withdraw the claim of Negro inferiority which Beattie explicitly addressed and ii) non-white civilizations could have come from any number of sources that Hume respected. The first on the list Garrett suggested as source is Smith's works [Garrett 2000, p. 175]. This possibility we consider.

Hiroshi Mizuta, in the newest study of Smith's library, has helpfully collected the extant evidence of the interconnections between Smith and Hume's *Essays*. In a letter from 1752, when presumably he was working on the very edition in which he added the footnote to "Of national characters," Hume wrote to Smith that he was revising the *Essays* and asked "If any thing occur to you to be inserted or retrench'd, I shall be obliged to you for the hint." [Mizuta 2000, p. 126].

²² Popkin trusted Green and Grose's edition, Popkin [(1977-78), 1980, p. 254; 1982, p. 65]).

Group Analytics in Adam Smith's Work

New editions of Hume's work were much discussed in Smith's last visit with Hume. Indeed, Hume's curiosity about the fate of the new edition of his works was offered as an excuse to Charon to delay his crossing for a while [Smith (1776) 1978, p xlvi].

What in the *Wealth of Nations* might have mattered and why did the attack on Negro capacity remain? Hume seems to claim that Negroes are not full language users—"like a parrot, who speaks a few words plainly." Smith explains why people trade and why dogs do not trade. We have a language:

Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that. When an animal wants to obtain something either of a man or of another animal, it has no other means of persuasion but to gain the favour of those whose service it requires. [Smith *WNI*.ii.2; p. 26]²³

Thus, nothing in Smith's construction can explain the actions of those without full competence in the use of language. Hume's claim seems to put Negroes out of Smith's class of human.

Second, what could motivate the removal of the assertion about the lack of non-white civilization? Smith, in the third chapter of book I explains variation in levels of development by facts about the local physical environment. When the ready availability of calm water attenuates the costs of moving goods, we find greater specialization and the greater extension of the division of labor. This greater specialization is Smith's signature of a greater degree of civilization. He starts his argument by an appeal to cases for which we have good reason to believe that civilization developed first:²⁴

The nations that, according to the best authenticated history, appear to have been first civilized, were those that dwelt round the coast of the Mediterranean sea. That sea, by far the greatest inlet that is known in the world, having no tides, nor consequently any waves except such as are caused by the wind only, was, by the smoothness of its surface, as well as by the multitude of its islands, and the proximity of its neighbouring shores, extremely favourable to the infant navigation of the world; [*WN* I.iii.5; p. 34]

²³ We discuss the language – trade link in Levy [1992], Levy and Peart ([2013] and Peart and Levy [2015]).

²⁴ The phrase "best authenticated history" might speak to Smith's attitude toward Montesquieu's empirical claims. Mizuta [2000, pp. 174–75] quotes Smith's judgment on some of Montesquieu's facts as "not all well ascertained." A less polite author or one less impressed by Montesquieu's ability might have compared the report of a 10-1 sex ratio to some of John Mandeville's more colorful reports.

Group Analytics in Adam Smith's Work

Inland water that allows goods to be moved cheaply, whether the water is a product of the physical world (a river) or of human policy (a canal). [*WN* I.iii.7; p. 35] Without calm water, economic development does not proceed. [*WN* I.iii.8; p. 35-6].

We collect our steps: we know Hume had, as early as 1752, asked Smith for advice for changes in his *Essays*. He had read the *Wealth of Nations* and wanted to talk with Smith about it. The *Wealth of Nations* has nothing to say about people without full capacity for language; Smith's analytical egalitarianism simply assumes that possibility away. So *Wealth of Nations* cannot refute an assertion that Negroes do not have full language capacity. However, Smith offers a theory of economic development that appeals to variation in the physical environment confronting the universal human. The phrase, still current in modern economics, the division of labor is limited by the extent of the market, explains why some societies develop and others do not. Some developed societies are characterized as non-white so Hume's assertion here cannot stand.

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