

## **On Economic Agency**

The Implications of Slavery for Economics and of Economics for Reparations  
in the age of COVID-19 and George “Perry” Floyd

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## On Economic Agency<sup>1</sup>

*Slavery was and is a pathology of economics. The long-standing failure of core microeconomics to reflect that has caused us to mishandle our foundational concept of “an economic agent”. Correcting that will not only secure the integrity of our discipline at its core but is also essential to for us to grasp exactly what is at stake in the eruption now unfolding in the United States —with its global implications —and what is to be done about it.*

### Prices and Quantities

“Finding your Roots”, a US TV series exploring the genealogy of celebrities, occasionally introduces its African-American guests to their enslaved forbears. Those deeply personal encounters should stop those of us who are economists in our tracks because they challenge our discipline at its core.

As Michael K. Williams expresses, the experience of thus directly encountering his enslaved relatives —and their owner —made him feel “a little angry”. That kind of response is only aggravated if, as he was, the guests are also informed that their relatives were sold at auction, perhaps in 1850, for \$450 or some such sum.

To the guests, those numbers sound trivial, incomprehensible, and beside the point all at once. But we economists cannot resist the urge to “explain”. So, perhaps intermediated by the presenter, the soft-spoken but no-nonsense History Professor Louis Gates Jr., in we rush with our standard conversion into current dollars, authoritatively announcing an impressive many-zeroed number.

But in doing so, we commit three infractions:

- most people, including economists, have little real grasp of numbers beyond ten fingers (a million, a bajillion, it’s all a blur) so even at that level of “mathiness”, we express ourselves incomprehensibly;
- that calculation is anyway wrong because it ignores that under slavery, African-Americans were buyers in final goods markets only at the behest of their owners. So, to address that structural break, the consumer price index (CPI) used for this calculation should not be the headline CPI but that weighted by the consumption baskets of non-African-Americans only;
- and even so, in focussing on the current price conversion, we overlook a far more compelling and self-informing concept, namely what an owner could buy in 1850 with the proceeds from selling the relative of the “Finding Your Roots” guest: the terms of trade.

Of course, those terms varied between cases. They depended on the relative’s personal characteristics, including gender, and the state of the economy. And outcomes were diversified further by the inherent three player—buyer, seller, & sold—rather than the more familiar two player—buyer & seller—auctions, as people being auctioned did what they could to put bidders with “bad” reputations off.

But essentially, the terms were that if an owner sold a single man in his prime, s/he could buy a house.

A house.

Not Mount Vernon, Monticello, or Montpelier, the bucolic country estates—plantations all—where those who proclaimed liberty held people captive. But a house at the median value of residences owned by white people in the United States at the time of his sale. Sell such a person; buy such a house.

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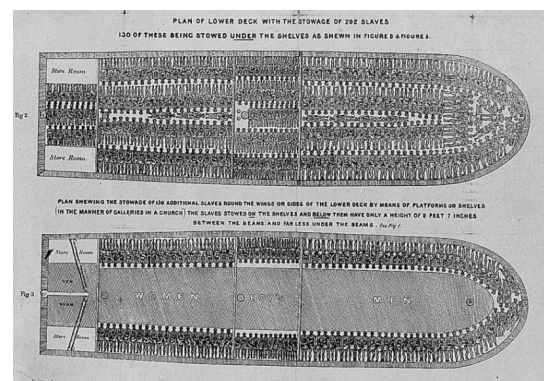
Those terms of trade should come as little surprise to economists (when we actually think about it). Even today, a working lifetime middle class mortgage buys a house, repaid by the earnings left over after living expenses. Slavery, in this regard, captured those “left-over-after-living-expenses net of losses-from-resistance” earnings (plus the expected value of potential offspring) for the person-owner, the net present value of which was reflected at auction as “one person, one house”. And just like real houses, [owned people were routinely mortgaged](#). People-owners denigrated those they owned, but the sums they were willing to pay for them and the associated financialization spoke a deeper truth.

Economists’ eyes should begin to open with this evidence. Those terms of trade begin to explain:

- why such detailed records of owned-people were kept for “Finding Your Roots” to find, why [so few people in the Southern States owned people](#) and why [they were so wealthy](#), why language bent—not “slavery”, the euphemism was “the peculiar institution”; not “owned people” but “slaves”—and why skin color became key, so the law could tell who was who, a convenience which emancipated descendants of [300 Royalist Scotsmen sold into slavery in America by Cromwell](#), 300 Scots houses;
- why the [UK government compensated some 46,000 British people-owners for abolition](#) in 1833 at Wilberforce’s bidding, to the sum of 5 percent of UK GDP and 20 percent of annual tax revenue, [causing a burst of inflation](#)—indicating heavy over-compensation—when payouts were made in 1836-7, with the Government debt issued to finance that compensation only paid off in 2015 by a direct descendant of one of those so over-compensated, Prime Minister [David Cameron](#);
- why US people-owners saw the upside to British abolition in 1833—because that supply blockage raised the auction prices of owned people already in the US—and why even those philosophically defined by espousal of small government and States Rights favored huge Federal government to enforce people-owners’ property rights, up to and including [the 1850 Fugitive Slave Law](#);
- why free black people in the US prior to 1865 were [so liable to being kidnapped](#), why [they were also the original objects of the “send them back” trope](#), why personal abuse of owned-people had limits including that their murder was a capital offense in several pre-civil-war Confederate State Constitutions, and why [lynching was almost entirely a post-emancipation barbarity](#);
- why people-owners didn’t “just set them free”, why heirs overturned so many willed manumissions, and why people-owning in some States and not others [constituted kindling for Civil War](#);
- and why prior to and subsequent to that conflagration, African-Americans [elicited—and continue to elicit](#)—a primal fear, notwithstanding their [breathtaking forbearance down the generations](#).

Those terms of trade thus begin to supply an intuition as to why politics, philosophy, law, and [even literature](#) all bent—like a space-time warp—around the free market business of people-owning: if it makes “us” rich, it must be right. But before developing that idea further, we have to get our heads around not just price, but quantity.

We’ve all seen etchings of the abomination of people shackled below decks (see image). But to get to grips with the business underlying that, for a moment do not think of these as 292 abused people. Instead, think of them as the people-traders of the day did, as 292 houses, the high unit-values of which shielded shipping profit-margins from heavy in-transit losses. Hence the business impetus for each voyage, and from there to support industries—shipbuilders, insurers, [clothiers](#), bankers, lawyers, and ironmongers.



And that is [per voyage](#). The best estimates are that the total number of Africans thus transported by all Enlightenment European nations to North and South America and the Caribbean combined, over 3 centuries, [was 12 million](#). That is 12 million houses. That is a little under half of the total number of houses in the UK today, and likely considerably more than the number of houses in Britain at the time —when it emerged as the global hegemon and was a key orchestrator of the Atlantic Trade in People.

And that number excludes those consequently born into slavery in the New World. For the US alone, [388,000](#) people were imported but [4 million](#) were emancipated after 1860, ultimately by the 13th Amendment—excluding the 12 percent or so of the African-American population in 1860 who were already free largely thanks to earlier manumissions. You do the maths about what the ratio of imported to emancipated in America and the total shipments of owned-people imply for the number of “houses” elsewhere in the New World—even with the even greater brutality and so shorter life-spans there.

The division of the spoils from those prices and quantities between people-traders, the support industries, and people-owners—in part fruit of feeding the appetite for raw cotton of England’s aptly designated “[dark Satanic Mills](#)”—produced the elegant Enlightenment prosperity of cities such as [Bristol](#), [Glasgow](#), [Manchester](#), and [London](#), and the Southern charm of [Charleston](#) and [New Orleans](#).

Thus, people-owning was no Dark-Ages historical episode or economic footnote; it was a gigantic, enduring, Enlightenment, free-market-emblematic, business.

Given that, it is little wonder that such effort was devoted to co-opting possible impediments. As people-owners were all the most reputable of Christians, this industry depended on finding some way around notions of “[setting captives free](#)”.

So with the commendable exception of the Society of Friends, no people-owners were thereby denied communion, marriage, or burial by the church, nor were they excommunicated as a group. Instead, Christians across the “Enlightenment” World [were persuaded to define Africans as “not people”](#). And they went to great lengths—including via fierce taboos on “miscegenation”, even eventually inventing that blood-curdling word for it—to maintain that convenient doctrinal fiction, as well as advancing the enduring myth of “benevolent” people-owners encompassing both Founding Fathers and Secessionists.

Views to the contrary, even back then, [were denounced in the US as “European Socialism”](#). So this was not just how people thought at the time: [owned-people had no difficulty getting this philosophical question right](#) and, as charged, Karl Marx, a Jesuit-schooled atheist, [did not get it wrong either](#).

But the church not only thus “[passed by on the other side](#)”, it advocated its own enslavement of Africans [as a means of raising church funds](#) and thus it owned, bought, and sold people itself albeit exhorting, as Cardinal Gerbil, that they be treated, as animals, “humanely”. The Pope [formally condemned African enslavement only in 1839](#), three centuries after the commerce began and two decades after the [first political embargo](#), but still without penalties. The magisterium of the church has been emphatic in its definition of life but less-so in its definition of humanity.

The modern echo of this profound corruption of organized religion by these prices and quantities can be seen in the assignment of African-Americans to pews at the back of US Catholic churches up to the mid-1950s (over a century after papal condemnation of the enslavement of Africans and a decade after full integration of the US Army), [apartheid in American churches to this day](#), and in the attention that white power Christian terrorists pay to places of worship, including in [Charleston](#), [Pittsburgh](#), and more recently in [Christchurch](#).

With obstacles thus co-opted, the highly profitable industry endured. And it could easily have lasted much longer—as it did elsewhere in the Western Hemisphere. In December 1862 (two years into civil war, three months after undertaking to sign an Emancipation Proclamation, and weeks before the promised date) President Abraham Lincoln, judging that Northern voters—all of whom were white men, many of military age—preferred immediate-peace-with-slavery to more-war-with-emancipation, formally proposed to Congress that the Confederacy could keep slavery for another 40 years, if it surrendered. Frederick Douglass despaired.

Who knows if 1900 would finally have been it, as Brexit deadline- and substance-shifting illustrates. But Jefferson Davis declined and the Proclamation was signed. Lincoln, “The Great Emancipator”?

And not just “Old Abe”. Those in Britain who proved capable of orchestrating and profiting from the Atlantic Trade in People for centuries and of insisting on gross over-compensation at taxpayer expense for its abolition went on in similar vein to preside directly over a famine in Ireland, another in Bengal a century later, and much else in-between including flooding millions of Chinese veins with opium and censuring “workhouse freeloaders” perennially. Yet novels and costume dramas recast such people as all Top Hats, etiquette, duty, and Monarchy, with exactly what originally purchased such as Howard’s End—slavery, or over-recompense for its abolition?—literally no matter. Its all green, pleasant, and industrious now.

But slavery originated in such people and their ilk, in their utterly unconstrained profit-seeking. And despite repeated rebellions and countless individual acts of ferocious resistance by Africans and their New World descendants, there was nothing inevitable about its demise precisely because at its core it was all about vast numbers of “houses”.

### Economic Agency

This entire phenomenon sat uneasily with claims of Imperial altruism and Cold War assertions of the munificence of free markets.

But perhaps the main reasons why Adam Smith, David Ricardo, John S Mill, Alfred Marshall, and Paul Samuelson—whatever their personal views on the matter—so completely airbrushed it out of core microeconomics and trade theory are that it so embarrassed their aspirations to see economics recognized as pristine, respectable, scientific, and normatively authoritative, it wasn’t preying outside their windows on anyone who looked like them, and it was, at least for the latter two, outlawed.

And as this recognition was sought from the social milieu that was responsible for slavery, rather than associate the study and advocacy of profit-seeking with something so vile, better to dismiss it as a degenerate relic to be morally condemned and, like a shameful family secret, not spoken of further. Even our flagship textbooks have followed this lead, at best mentioning the matter only in passing.

But it is no ancient relic: my own parents, as adults, could have shaken the hands of many born into US slavery; such people endured a century of its close cousin, Jim Crow, and others, of de facto and de jure Apartheid; full-on mass slavery emerged again out of free markets and bad macro in Europe and Asia as recently as the 1940s; the practice has direct parallels with serfdom, caste, and mass incarceration (including in China); “the first African-American to ..” appointments are still lauded, a sign not of their progress but of the lamentable inertia in the rest of us; white power consciousness is resurgent; people-trafficking persists; and even now, it is not a crime to own a person in almost half the countries of the world. The underlying issue thus remains both latent and very real.

And economics treats no other core pathologies of profit-seeking similarly. Thus, though they manifest in many forms, are outlawed, and their heyday in the Trust era is long-gone, economists do not condemn monopolies morally and then dispatch them to the outer reaches of our specialist literatures. Instead, they are prominent in [every introductory textbook](#), as they should be. Nor do we disregard any profit-seeking activity that is outside the law; to the contrary, we, again rightly, trumpet property rights. And thus neither of these matters are dismissed from our explicit focus on grounds that they are covered by our generic injunction that government should set appropriate “rules of the road”.

Yet rather than treat slavery similarly, economics students worldwide, typically [unencumbered by any encounter with history](#), study the [Arrow-Debreu](#) (A-D) theorem (or its reduced forms), that given convex preferences, perfect competition, and demand independence, prices adjust to equate supply and demand simultaneously for all goods. Given the normative status of prices, that (Lorenz curve etc. aside) maximizes welfare. So monopolies, information asymmetries, public goods all matter. But the take-away: “as [Milton Friedman’s humble pencil vividly illustrates](#), free markets are pretty amazing!”

We behave this way on the empirical side too. Slavery must be the paradigmatic counter to the glibly presumed association of GDP and welfare, given that as productivity in the US and Europe soared in the half century to 1860, the global owned population also sky-rocketed. Yet how many economic studies of that half century trouble to temper their awe at [its unprecedented output](#) achievements by so much as acknowledging the contemporaneous explosion in slavery, let alone that the two might be symbiotic cause and effect ([to say nothing of the global environmental crisis](#) now playing out [in the wake of that era](#))? And our empirical sins run the gamut from such omissions all the way to shameful acts of commission —[embracing the worst racial stereotypes in the name of economics](#).

So A-D may be “hyper-mathy” and Friedman’s pencil may be sharp, but as analyses of profit-seeking these are so disassociated from centuries of slavery that both border on autism. All they describe is decision-making by economic agents subject to constraints; no-one has decisions made for them.

That “blind spot” compromises the core of our discipline.

Start with the fact that A-D assumes that no-one has decisions made for them despite exhibiting the ultimate free-rider problem on this matter. No economic agent in that model has a private incentive to ensure “appropriate” definition of economic agency so long as they individually are so-defined. And those that invent and enforce inappropriate definitions may be rewarded with “houses”. So even if a sound definition is parachuted in from somewhere outside the model, it is unstable.

And once economic agency has been compromised, that is a highly stable equilibrium, especially when a tractable discriminator such as skin pigmentation is present around which it can be organized.

In that context, stable universal agency cannot be recovered within A-D simply by relaxing the assumption of person-heterogeneity in the single dimension of their ability to defend their own agency. If personal characteristics — say skin pigmentation — which might be exploited to compromise agency are unevenly distributed so that a majority group can form on that dimension, then homogeneity of individuals’ ability to defend their agency can be overwhelmed by simple weight of numbers.

So abandoning the assumption of heterogeneous people in the single instance of individuals’ ability to defend their own agency plus a very strong form of group homogeneity in that ability are both required in some combination in order to yield stable universal agency in A-D. This inconsistency and



complexity are long-overlooked and consequential features of our long-standing presumption — drawing on our discipline-defining model (and its many reduced forms) — of the universality of agency.

And these are no abstract observations. For centuries, millions of Africans and their New World descendants had their decision-making rights, their status as economic agents, removed for profit. Ignoring that renders their implicit treatment in A-D analogous to inanimate factors of production — like land, fixed capital, or total factor productivity — with their price determined at auction to be that of a house. Where the church treated them as “non-people” and constitutions treated them as “non-citizens”, the market and A-D have implicitly treated them as “non-economic agents.”

In the long pre-industrial [Malthusian era](#), the incentive for such seizure of rent was limited by universally low rents and limited capacity to enforce slavery. But all that changed with the Enlightenment. That, via globalization, raised rents worldwide above Malthusian levels. And, as it occurred in Europe before reaching Africa, it also put Africans at an individual and group disadvantage in defending their agency. For these reasons, slavery manifested in the Enlightenment on a [scale unlike anything ever seen before](#), anywhere.

So for economics to dismiss slavery as “just Dark Ages stuff” — even on the conceit that nothing (or even nothing partly) pre-industrial is economics — is not only theoretically unsatisfactory, but, implicitly, it is also the worst form of data-mining, with inevitable consequences for the coherence of conclusions drawn on that basis.

The defense of microeconomics “as is” against this critique, that “A-D assumes property rights”, is no defense. The issue is not property rights: it is economic agency.

And to counter that an owned-person made some decisions — whether to tilt his head to the left or right as he slept — and thus denote him as an economic agent just like a white man who also got to choose his location, work, spouse, and to secure the agency of his children trivializes the matter. Not least, that counter overlooks the gigantic industry that long made its entire living between those two notions.

Instead, both the elements and dimensions of matrices of relative prices facing otherwise identical A-D individuals may be made to differ according to discriminators, which can be invented out of — in A-D terms — nothing. The huge returns to generating such discriminators encourages those who are thus “entrepreneurial” to surmount coordination obstacles among themselves they may face in so doing.

Such co-ordination challenges may be minimal if — like a firm which stumbles on a new technology with permanently declining average and high entry and exit costs, thus securing excess profits — the circumstances are simply there to be exploited. But, as with slavery, discriminatory technology may also be deliberately created with sufficient coordination. Or it could emerge from a mix of the two.

Accordingly, skin pigmentation is not the only discriminator: others include social class, [gender](#), religion, and immigrant status, an array confirming that economic agency is not binary but is also of degree, that discriminators [do not necessarily require the state as enforcer](#) because [sufficiently general prejudice or norms suffices](#), and that asymmetries in the ability of individuals and groups to defend their own agency, if not accidental (as in the Enlightenment), can be generated deliberately.

Furthermore, in an eerie echo of the asymmetric Enlightenment shock to the ability of people to defend their agency, online naivety, by allowing targeted manipulation of personal and [price information](#), may be being developed into another kind of discriminator now. The issue here is not

surveillance or privacy. Instead, just as owned-people, denied schooling in literacy, maths, and money, had no idea what they were being sold for or who to, you have no idea what your online intimate information is being sold for or who to either—and thus how its sale may ultimately affect the matrix of goods and labor market prices you may individually confront, your status as a decision-maker.

This phenomenon is already producing the extremely skewed distributions of wealth and income generally associated with denial of agency. And just as Enlightenment slavery originated in a seismic technological shock and white men wading ashore offering Africans industrial trinkets, so, facing a similarly seismic technological shock as interaction moves online, we are being duped by “easy shopping and easy chat” into blithely conceding ever more agency—a threat which COVID-19 has exacerbated by driving so much more interaction onto the likes of Amazon and Zoom.

And a given discriminator may have multiple manifestations—as illustrated by the failure of Abolition to secure parity of status for African-Americans as economic agents and by the varied agency status of women over time and across countries.

Furthermore, such complex discriminators may interact. Thus, some free African-Americans owned people in the pre-Civil War US as did many white women. And though “Me Too” rightly highlights damage done to agency by long-standing gender presumptions, it overlooks the long-standing reverse presumption—when the accused was African-American—and the full implications of that for female agency. So economic agency may not just be partial but also state- and multi-discriminator-contingent, and path dependent.

Even when those subject to a discriminator are not all readily observable, as with LGBTQ people and some immigrants, it may still secure the aims of profit seekers via the threat of individual exposure.

Last, induced addiction, including online and cigarettes, is a further class of discriminator. It does not establish different sets of relative prices but compromises control over preferences, on a colossal scale, including among those in China—and more recently the US—whose “veins were flooded with opium”.

None of these kinds of discrimination are simply “competed away”, as the classic analysis asserts, because those subject to them are thereby kept in agency half-way houses. So pay gaps remain even after all arbitrage opportunities have been exhausted by non-coordinating profit-seeking firms and by those discriminated against, with the specific and extreme case of slavery illustrating this general point.

And in the case of slavery, even if—reflecting relative motivation—productivity of the owned unskilled is below that of non-owned unskilled as Adam Smith posited, in a non-Malthusian world the owned may be still be “priced into work” by seizure of their rent, as may owned skilled labor. Indeed, this was reflected in the opposition of the unskilled in Northern States to slavery elsewhere in the Union and its extension to new States.

Nor, in the case of gender, is this just another instance of “war between the sexes”, not least as profit seekers exploiting this discriminator may sometimes be female. Instead, it is a disruption to orderly inter-gender relations born of profit-seeking. Thus, more generally, employers (profit-seekers) are happy that thereby underpayment is an enduring competitive equilibrium and producers (also profit-seekers) are also happy to treat the particular needs of those discriminated against as secondary.



Where slave auctions were once the “smoking guns” of this underlying disorder of free markets, that role is now played by the accumulation of [evidence of long-enduring pay gaps](#) even controlling for all conceivable productivity indicators.

And if those gaps seem trivial compared with the depravity of slavery, amortize them over a working life. They may be worth 1/8 of a house per person. Then amortize that over the billions of people adversely affected worldwide to obtain a sense of the order of magnitude of the returns to profit seekers from such discrimination now.

Thus, slavery is certainly not the only nor even the [worst fruit of profit incentives to deny agency](#).

The fallacy of the intellectual giants on whose shoulders economics stands was to treat the incentives to deny agency as manifest in slavery as exogenous, as historical or social or political but not as endogenous economic phenomena. Despite the evidence of auction after auction after auction, they totally ignored the centrality of the profit motive.

Game theory, including our omnipresent principal-agent modeling, has fared no better: it has taken no interest in games the object of which is to attenuate or remove the agency of other players.

And our mathematics did not save us either: [all that dispassion and rigor was blind to all this](#).

So rather than being [innocent and convenient, the simplifying assumption of exogeneity](#) was the means of completely missing the point: that there may be enormous private returns to compromising economic agency, and that doing so gives rise to the ultimate and most fundamental of all externalities.

Our profession’s disregard for all of this may — [on top of everything else](#) — explain why economics is so bereft of black people and women, because we touch on this set of issues, if at all, only in intellectual ghettos — economic history, women’s, and African-American studies. Little wonder that such people may be put off given that one of (to them) the most blindingly obvious and significant aspects of their lives is simply absent, rendering economics not only “not for them” but “not really about them” either.

We remain implacably allergic to reflecting that much of their personal life experience, well over half of humanity, challenges the assumption on which the [entire edifice of microeconomics is built](#), against centuries of counter-evidence, that economic agency is always and everywhere a given and indivisible.

Much effort is going into “[fixing macro after the Great Financial Crisis \(GFC\)](#)”, even though [macro did not fail to anticipate crisis; officials did that](#). But all this suggests that a long overdue agenda remains to fix microeconomics and trade theory in light of the explosion of the global people-owning industry in the European “Enlightenment”. Even if free markets do not necessarily tend to full-blown slavery — given sufficient ability to defend agency — denial of agency nevertheless remains one of their most serious pathologies, right up there alongside monopolies, information asymmetries, and public goods. It is plainly insufficient for us to condemn the compromise of agency morally and then ignore it.

Instead, transforming the treatment of agency in our discipline-defining model would not just recognize the relevant data, but also render that model — and intuitions spawned by it — fit for purpose for the issues now topping the agenda, including inequality, privacy, [Artificial Intelligence](#), and, of course, [#BlackLivesMatter](#).

It would also incorporate into standard microeconomics the fact, evident in the lives of millions of owned-people, that asymmetry in the ability to defend agency is lethal.

And thus recognizing the significance of variation in people's ability to defend their own economic agency might also finally chasten political mythology—flattered by our unreconstructed neoclassical economics—which inculcates unqualified obsequience to self-made “[makers and doers](#)”.

Our formal recognition of the fragility of agency and the brute economic facts of slavery might also cure us of our insufferable wistful self-righteousness—“if only it wasn't for politics!”—by acknowledging exactly what long happened to our foundational concept of agency when profit-seeking was, in fact, given free rein.

This reframing of our treatment of agency would also be a further way to reconcile the contrasting ethos of macro and micro along with the macro-foundations, rational expectations, multiple equilibria, and second-best literatures, not least as [bad macro also undermines appropriate definitions of agency](#).

In this era of populism versus globalization, this reframing would also underpin the appropriate headline message for economics to address to both sides—after all, people-owning was nothing if not globalization on the grandest of scales—that universal economic agency has to come and be maintained from somewhere “outside the model”, without which its normative implications collapse.

Further, it points towards an alternative resolution to Dani Rodrik's [impossible trinity](#)—the proposition that democracy, the nation state, and economic integration cannot all fully co-exist, with such as Paul Collier assigning [primacy to nation states and community identities among these three](#).

Instead, profit-seeking may explain why nation states form at all; to defend local economic agency against [other national governments attempting to subvert it](#), whether as slavery or in other forms, and/or to serve as an instrument to compromise the economic agency of those on the “wrong side” of the national discriminator, whether elsewhere (the Imperial Agenda), or domestically—a duality tellingly captured in the repeated declaration in [Rule Britannia](#); “[Britons never will be slaves!](#)”

In this way, nation states may constitute much more than simply another instance of “capture” of a government agency by a group in pursuit of its narrow commercial interest, such as bank regulators by banks. Rather, nation states may be summoned into existence precisely to defend economic agency and/or to subvert the economic agency of “others”. So nation states' collective action problems, including on [corporate tax](#), climate, and countries' priority access to a COVID-19 vaccine, may not only reflect ordinary free-riding (the global commons) but also malign intent reflecting the genesis of nation states as enforcers of national discriminators. That original purpose may explain the vulnerability of minorities in all nations and the [generally right-wing ethnic responses to globalization](#).

Given such profound and intrinsic downsides to nation states, we should explore if other means to assert economic agency might ultimately better resolve Rodrik's trilemma. This should be an economics not an international relations enquiry. If better alternatives are found, then not least given that the assertion of agency via nation states took us to mass slavery and to the edge of catastrophe in global nuclear standoffs, they may come to be seen as just as anachronistic and barbaric as absolute monarchies—once so ubiquitous and elemental that they were pre-ordained by God, no less—are now.

This reconsideration of our treatment of economic agency also calls into question our assumption that economies consist essentially only of persons, firms—born of the [Coase Theorem](#)—and governments.

That triptych overlooks the central role that may be played by groups—born of agency free-riding—which conspire to invent and enforce discriminators for profit.

Indeed, instead of being totally ignored, such groups may warrant the same conceptual prominence in economics that we now give to firms. Just as the specific means used by oligopolists to co-ordinate with each other—golf or alum buds?—is irrelevant to the prominence they are accorded in economics, so it should be for agency-free-riders. Neither should their lack of brass plaques or corporate logos distract us from their ubiquity and significance. Indeed, such groups may have national flags instead, only one of which is that of the Confederacy. And even if they lack any such insignia, like black holes, their existence may still be confirmed by detection of their effects rather than by direct observation.

And our obliviousness to them also reflects the conception of economics as the study of “my national economy now”. That circumscribed horizon shrinks the rest of the world to exogenous abstract symbols like  $p^{\text{row}}$  and  $r^*$ . But just as for millennia those who observed the actual horizon could not conceive of the world as being anything other than flat, so this conception of economics obscures such groups precisely because nation states, by construction, secure the agency of the powerful within them. Hence, the classicists’ assumption that agency was “a given”, and the excision of slavery from core micro because “it wasn’t preying outside their windows on anyone who looked like them.”

More prosaically, this whole discussion also clarifies that we are fundamentally wrong to place slavery on the spectrum of labor contracts—self-employment, profit-sharing, sharecropping, gig-work, zero-hours, wage employment, slavery. Though agency is not binary, these other forms of labor contracts are essentially the outcome of negotiations between economic agents and slavery is not. Instead, it is one of the most abhorrent means of capturing economic rents by means of compromising economic agency, and that is the spectrum on which we should place it.

The discussion also challenges parallels often drawn between economics and natural selection. In nature, competition, pecking orders, and division of labor are ubiquitous, cannibalism occurs, and species codependence and inter-species subjugation—parasites—are also observed. But no other species systematically subjugates whole groups of its own members for the special benefit of the others. That is *unique to us*, a pathology of economics, corrupting variation and diversity—both key to species’ resilience—into means of extracting rent.

And all these considerations suggest that we should abandon our “*verbal tick*” of referring to our caricature of rational optimizing individuals as “economic agents”, given that it, not least via endless reflexive repetition, subliminally reinforces in us the presumption that universal agency is a given. If we mean to refer to all people, we should say so expressly. The phrase “economic agents” should be restricted to cases where we specifically intend to exclude those not fully recognized by the market.

For those of a neo-classical disposition inclined to dismiss this entire call to fix microeconomics because “slavery has been abolished” and assuming universal economic agency—as micro has long done—surely amounts to much the same thing as analyzing and advocating it, ponder your assessment if medical students were given no instruction on infectious diseases because *smallpox has been eradicated*, or if Medicine had merely assumed, in the face of all physiological theory and counter-evidence, that no-one smoked.

And for those of the opposite inclination—hostile to any and all neo-classicism—who dismiss the argument on grounds that they already focus on market failures, non-linearities, *long cycles*, and multiple alternatives to the classical assumptions, they, just like Adam Smith et al, also overlook the

most fundamental market failure of them all, agency, by treating discrimination as a social, political, or cultural—and not as a fundamentally economic—phenomenon. So like the neo-classicals, universal agency is not defined even as one of let alone as the core *economic* task of Government, and the [power of neo-classical insight](#)—with standard qualifications and agency properly handled—is discarded.

Accordingly, this is not yet another “baby-with-the-bathwater” heterodox critique of neo-classicism. Instead, it adopts all the neo-classical assumptions—full information, complete contracts, optimization etc—as embedded in A-D, but it recognizes an inconsistency: that while A-D assumes heterogeneous individuals, it also implicitly assumes a very strong form of homogeneity in the ability to defend agency, an inconsistency which delivers Universal Economic Agency in A-D despite agency free-riding. Far more appropriate to assume heterogeneity consistently, thus (belatedly) fully incorporating denial of agency into the neo-classical framework, thus correcting its panglossian narrative at its core.

So the point is not to just address slavery as a historical matter. It is to put economic agency in its proper place in microeconomics, including how and why it is compromised and the implications for welfare and for the role of the State. Every Microeconomics Theory 101-and-up text book should include a stand-alone discussion of “Economic Agency”. Not one of them does, or ever has.

In addition, a concerted (and much belated) effort by the profession, applying advanced techniques, is warranted to develop our understanding of these conceptual and practical issues further: the technological properties of any discriminator; the coordination costs among those seeking to exploit or establish one; the interactions between groups seeking to establish discriminators and firms; scope for resistance by those targeted; the consequent net potential private yields; the interactions between such discriminators; and all the associated externalities. The aim of such a collective intellectual endeavor would be to improve our ability to discern how to secure agency against profit-seeking.

And Abolition may guide such policy responses because slavery was not ended by an embargo on seizure of people in Africa or by increased African ability to resist—both of which stopped the new flow but which raised auction prices of already owned people. It was ended by addressing the stock of owned people by terminating the legal recognition of slavery and criminalizing it. Similarly, online naivety may best be addressed not by controls on the flow of new data as [the GDPR](#) attempts—which raise the price of data already collected—but by action on the stock, on the other side of these platform businesses: as with the campaign against cigarettes, regulating—a ban on?—individualized adverts.

But even before such prescriptive results are in, recasting our standard assumption that agency is a given and is indivisible would reflect the evidence, help to distinguish our discipline from others’ self-interested assertions of market beneficence, and situate gender where it belongs in economics, at the core, not at the periphery as a begrudging token concession to fashion. And all this would put our profession where it belongs, [in the front line in defense of universal agency](#) against new—or the same old—discriminators.

If you incline to berate the Catholic Church for its tardiness to 1839 in pronouncing—let alone acting—on the enslavement of Africans, bear in mind that in the senses just outlined, microeconomics has yet to get to grips with this matter even now.

Until we do, the lists we proffer to non-economists and policymakers of the essential functions of government—public goods, property rights etc—and of the essential recommendations of microeconomics—competition, efficiency, full information, free trade, fair income distribution, and so

on—continue to omit perhaps the most fundamental government function and recommendation of microeconomics of them all: Universal Economic Agency.

Until we correct those two longstanding omissions, we also overlook a profound conundrum inherent in nation states: that in a positive sense, they are founded as instruments to enforce particular discriminators—even if not slavery—yet the most fundamental normative economic purpose of the state is to secure Universal Economic Agency.

Similarly, until we correct those two longstanding omissions, we also give woefully inadequate recognition to Universal Economic Agency as a—if not the—fundamental principle of Justice. Indeed, rather than maximin, it would be chosen from behind [John Rawls’ veil of ignorance](#) because that would forestall risk that agency free-riding determines who does and who does not count for purposes of calculating maximin after the veil is lifted. Universal Economic Agency “sets the captives free.”

And until we correct those two longstanding omissions, we remain, at best, substantively outside debates on recompense for past occurrences of compromise of agency and, at worst, utterly indifferent to or on the wrong side of them. Far from merely constituting yet another instance of rent-seeking by a special-interest which we usually (and rightly) condemn, calls for reparations for African-Americans concern the *correction* of the consequences of gross rent seeking. Thus, if anything, economics should be at the forefront of those endeavors.

Indeed, as outlined below, our contribution to those efforts should also be a primary focus for the public profile of our profession as a whole because the fundamental issue they raise is not “the past” or “bygones”, but is the assertion of Universal Economic Agency now and in the future.

## **Reparations**

Great harm was inflicted by the Government on owned African-Americans, not simply by neglect or even malign neglect, but by design and for profit. A (if not the) central function of Federal and State Governments to 1863—and the American Colonial Governments before them—was to do so.

In an act of magnanimity and wisdom, African-Americans in 1865 proposed just token government reparations of ["40 acres and a mule" per family](#). That suggestion, [like others](#), was summarily discarded.

Subsequent Government welfare has not constituted compensation because it is given to all who are eligible regardless of past harm, it is paid only to those who meet its particular eligibility criteria and not to all those harmed, and the scale of payments bears no relation to the harm done.

Thus, with Government culpable, and compensation sought but denied, the *prima facie* economic case for reparations for that period remains.

That case certainly reflects that the effects of slavery remain all-too-evident in current generations:

- financially, the [median net worth of African-American households is still only 1/10 that of whites](#);
- non-financially, of many such indicators, African-American death rates remain [significantly above those of white people](#)—as brought into [stark relief by COVID-19](#)—though all attention, including [by the academics who raised the alarm](#), has hitherto focussed on white “deaths of despair”.

So while descendants of those who perpetrated slavery may have already dissipated their ill-gotten inherited gains away, descendants of its victims remain deeply marked.

But all that said, the *economic* case does not hinge on such “catch-all” considerations, nor on vague concern with “injustice and guilt”, nor “as atonement”, nor in exasperation to get us all finally “over it.” Instead, the economic case for reparations for pre-1863 injuries is motivated by two clear losses:

- seizure of output; and
- deprivation of economic agent status.

The former may be valued, by the evidence of auction valuations and basic theory, at one house per owned-person working life, though, of course, sometimes owned people contributed far more.

The latter is more difficult to value directly. But indirect evidence abounds: owned-people risked their lives to break their bonds; and millions of immigrants voluntarily ran similar risks to escape other tyrannies to live the promise of the Statue of Liberty.

Still, this evidence bundles output and agency together. To separate them, examine yourself: how much would you require your dearest loved-one to be paid, as well as the house your lifetime work produces, for you to voluntarily accept irrevocable bondage for you and any offspring, including to compensate that loved-one for their distress at thus losing you? That sum, excluding the house you produce, is the value you place on a lifetime of your own economic agency. It is worth at least a second house to you.

Accordingly, where Ta-Nehisi Coates calls for reparations as compensation for “theft”, that is just the half of it, both conceptually and financially, because that overlooks deprivation of economic agency.

And establishing individual eligibility for compensation is technically simple. Any adult citizen who self-declared as African-American in censuses predating a commitment to pay such reparations would be eligible. Other citizens, including any who declared as mixed race, should be eligible according to individual tests of origin as seen in “Finding Your Roots” according to the African share in their DNA.

But many, shielded by the same discriminator behind which people-owners stood, may nevertheless ascribe a (much) lower value to others’ economic agency than to their own, especially when it comes to evaluating the case for reparations. In this way, the agency free-rider problem in A-D which profit seeking exploited to give rise to mass slavery is revealed as no historical anachronism. Even in the absence of slavery itself, it remains both latent and potentially determinant in regard to the prospects for reparations today—yet a further indictment of the neglect of agency in core microeconomics as is.

However, such free-riding, flagrant or otherwise, should not distort the economic case for reparations.

And that economic case is compelling when, in light of all the preceding considerations, it is properly framed as conjoined matters of inheritance and of the credibility of the Sovereign’s commitment to its most fundamental economic purpose—to secure Universal Economic Agency.

**Regarding inheritance**, though those owned prior to 1863 have all gone, that would only be decisive against reparations if all inheritance was taxed at 100 percent. But instead, gains and losses transfer across generations—as reflected in the strength of the bequest motive and as formally reflected in high tax-free thresholds—typically many multiples of the median house price back to the 1890s—in all vintages and precursors of the US Estate tax since 1863.



So compensating descendants is a very close substitute for recompense to those directly abused.

And there is no general economic basis to treat uncompensated losses differently from any other inherited asset, absent practical impediments—notably the determination of exactly who, owes exactly how much, to exactly whom?—to rendering equal treatment in any particular case. Such impediments typically are severe and hence are often determinant against such equal treatment in practice.

But in the case of pre-1863 slavery, such difficulties are negligible. The view that compensation cannot now be demanded of the individuals responsible misconstrues where that liability lies: by acts of commission and omission, it rests with the Sovereign. And the crudity (uniformity) of that particular expression of the racial discriminator, the assiduous associated record-keeping, and the availability of census and DNA data mean that the current value of uncompensated losses can be [calculated to well within an order of magnitude](#) on the basis of “two houses” and the beneficiaries are readily identifiable.

Thus, despite the passage of some time, two core propositions—[Pareto’s loss compensation](#) and [Pigou’s tax externalities](#) principles—underpin the inheritance element of the economic case for reparations, with both notions extended, via close substitution, to the descendants of those who suffered directly.

But, as might be well-advised and similarly to most actual legacies, were reparations on this basis limited to adults over 40 with the younger benefitting via eventual inheritance from them, the amount per payout would rise commensurately. Special arrangements would need to be made for those below any eligibility cutoff age whose parents are deceased—and so who may have no-one to inherit from.

So such reparations would be no hand-out; they would be—and should be labelled as—an inheritance.

This labelling of reparations would not only bypass belated constitutional prohibitions on racial discrimination, but would honor the most heart-felt desire of all owned-African-Americans—that the fruit of their sweat and suffering from “can see to can’t see” and, for many, overnight as well would, somehow, rebound to the benefit their children.

**Regarding credibility**, were the Sovereign now to dismiss this liability to pay descendants of owned-people for the gross violation of its duty to secure the agency of their forbears, that would set the broader precedent that, after such violations, it acknowledges no such liability.

So even if it takes some “ex ante” preventive steps instead—banning and/or criminalizing slavery—the rejection of ex post penalties on it for failures alongside compensation for individual perpetrators thereof conveys exactly the opposite message regarding its intent to secure Universal Agency in future.

Such refusal to compensate is thus not just a denial of the Sovereign’s abrogation of its duty to secure the agency of African Americans, but sets the precedent that it denies full responsibility for that duty in all instances. Given agency free-riding and heterogeneity in the ability to defend agency, such mixed signals are the slender thread on which hangs economics’ longstanding presumption that agency is always and everywhere a given and indivisible.

The need for an unqualified commitment on agency raises the premium on full acknowledgement of failure in the few cases when, as for pre-1863 slavery, it is straightforward to identify exactly who, owes exactly how much, to exactly whom.

Thus, whereas the “Bill of Rights”—another ex ante measure not applied to owned people—aims to stop majorities riding roughshod over minorities, full ex post recognition of such liabilities would realize that principle at an even more fundamental level than a constitution, in the economic sphere.

And it has to be recognized at that deeper level because, as with slavery, discrimination may not just be formally defined as legal but, with nation states often expressly originating in intent to enforce discriminators, deprivation of economic agency may be [written into the constitution](#) and thus—Bill of Rights notwithstanding—[enforced by the Supreme Court](#).

So although such self-imposed liabilities will neither undo past slavery, nor directly compensate those actually enslaved, nor punish individual people-owners, nor prevent a Sovereign from going rogue on Agency again, paying out the full liability to the descendants of owned people is an imperative for a Sovereign which means what it says about securing Universal Economic Agency henceforth. And thus rendering the commitment to Universal Economic Agency credible may constitute a first step towards identifying and establishing an alternative to the nation state as the core instrument to secure agency.

This signaling/credibility basis for reparations is identical to the conventional case for independence of central banks according to a strong version of which, rejection of independence reflects and signals intent to inflate. Similarly, rejection of such reparations reflects and signals intent to deny agency.

And just as moderate stable inflation is key to macro, so universal agency is—even more-so—to micro.

**Accordingly, reflecting both the inheritance and credibility imperatives**, reparations now, in the amount of two houses per owned-person-working-life, would, on a first pass at the [calculations](#), yield payouts for each living adult African-American of some \$136,000. Given some data imprecision and several “at least” assumptions, that rounds to \$150,000. If payouts are restricted to those over 40 years old, that number per recipient approximately doubles. In these calculations, the proxy of a white middle class house now for a white middle class house built in the slavery era replicates compound returns. [Tokens and symbolic gestures](#) for reparations, however well-meant, are simply way off.

Such a payout would establish rough parity of median African-American net worth with white households now, still leaving huge—[and understated](#)—disparities in average net worth.

For the standard efficiency reasons, compensation as a single bullet cash payment would be far [superior to payment in kind](#). Thus, [baby-bonds and the like](#), whatever their other merits, are inappropriate as reparations.

But in addition, any such protracted in-kind restoration programs, as with 40 acres and a mule, are liable to corruption by hostile administrators and cancellation by subsequent administrations, both reflecting the persistence of the racial discriminator.

Practical objections—what about waste, wealthy beneficiaries, felons etc?—are not decisive in other instances of inheritance or loss-compensation and so are not relevant here either. Indeed, given the fundamental imperatives, emphasis of such matters echoes the high-handed presumption of self-designated “benevolent” people-owners to determine matters in their own personal interest, regardless.

And as liability to pay this inheritance and to secure Universal Economic Agency is Sovereign, so as for [wrongful imprisonment](#), the burden of payment properly falls on all taxpayers regardless of their individual culpability in the original atrocity.

That slavery partly occurred under Colonial governments is also irrelevant; as the US has always insisted, successors inherit all Sovereign liabilities, [regardless of the particular nature or antiquity of those liabilities](#) or of any political or constitutional transitions. Once the US government has paid out these reparations, it is of course at liberty to attempt to seek partial reimbursement through the international courts from the British government for its earlier leading role in the trade in people. But there is absolutely no case to delay payouts until—or to render them contingent on—such British payments given that successors inherit all Sovereign liabilities.

And the precedent is already set that Sovereign liabilities—including the bond to compensate British people-owners in 1836—can endure for centuries and, as with consols, can literally and formally be never-ending.

Furthermore, the logic behind statutes of limitation—to prevent claims from clogging court systems, business, and government—reinforces the inheritance and credibility case. Not only would this payout not proceed through the courts at all, but pre-1863 slavery is utterly singular in its duration, depravity, and deliberate design, and in the ready solutions to the practical factors—determining exactly how much is owed by exactly who, to exactly whom—which typically impede [other claims for sovereign compensation](#), including extensive [post-1863 harm to African-Americans](#).

So were a settlement to include embargoes on suits against any other institutions or descendants of people-owners for pre-1863 slavery, as it should, the underlying purposes of statutes of limitation would be fully met. With murder already setting the precedent that some crimes may be exempt from such statutes, delay only adds insult to injury, both to African-Americans and to Universal Economic Agency more broadly, if it is, or is seen as, an attempt [to run out an inappropriately referenced clock](#).

And the practical impediments to other large one-off payouts for other cases of gross sovereign harm also attenuate concerns that this settlement might “open the financial floodgates” to others.

Such compensation for pre-1863 injuries would also have [seismic economic benefits](#) even beyond its primary motivations—securing both inheritance and the credibility of assertions of Universal Economic Agency. Whereas interventions to address African-American economic and social disadvantages are often conceived in terms of [government spending](#) and [regulation](#), such reparations would instead [realize the “bootstraps”](#) necessary for them to lift themselves up by returning the resources for that which were, in fact, produced by their own forbears. Such reparations would therefore constitute “the quintessentially American self-help” solution.

The terms of trade for all this? This sum is just half of the increase in Federal debt occasioned by the GFC and can be paid for by reversing the revenue losses from the recent Trump tax cuts ([by CBO estimates](#)) and holding that for about two decades, financed by a long-dated Reparations/Inheritance Bond. It is thus evidently no more resource-incompatible than these two initiatives, and the [fiscal actions for Covid-19](#) bring into stark relief that total Federal debt is simply not a binding economic constraint. And—rather than just contain the fallout from prior gross technical policy errors and grant regressive give-aways—it would serve a far more fundamental purpose than these other payouts.

Thus, as a funded “stock operation”, it would be unaffected by and would not affect need for medium-term adjustments to keep Federal debt sustainable. And as compensation for past harm, it would not affect African-American eligibility for other government programs, including education and social security, beyond any interaction with the pre-existing eligibility criteria for those programs.

As with insurance settlements, reparation payments should not be liable to Federal, State, or Local income tax. Beyond that, given that African-Americans will along with all others, pay to service the Reparations Bond, the amount they receive up front should be further raised pro-rata to ensure that they receive “two houses” after-tax and after-reparations/inheritance bond service.

Note that all this would do no more than return resources produced by owned people to their heirs. It would not, as the Pigou principle dictates, levy a tax on the associated externality. That should in principle be paid as well. And once a suitable “Pigou tax” is calculated, the obvious people for the Sovereign to pay any such a levy to are, of course, those same heirs.

Given its impulse to demand, one propitious macroeconomic context for this would have been at the trough of the GFC. And [with real interest below real growth rates](#), unsatisfied global demand for safe assets, and need for [fiscal action to raise core inflation](#), such a bond issue could still play that role even now. But given urgent need to correct the [roots of excess private debt in inequality](#) and the seismic impact of such reparations on African-Americans’ economic outlook and on Universal Economic Agency, reparations now should also be central to supply-side policy to address the economic fallout from COVID-19 and the boiling tensions over agency surfaced by the [lynching of George Floyd](#).

Thus, rather than resort to [a wall](#), yet more [voter suppression](#), [gerrymandering](#), and [racialized policing](#), and now outright [militarized control of protests](#) all in a futile [Canute-style](#) effort to forestall the [imminent loss of majority status](#), “White America” would do better to secure, fundamentally, the credibility of Universal—and therefore its own future—Agency by emphatically backing such reparations for pre-1863 slavery now, as the majoritarian boot shifts to the other foot.

If the US still aspires to be the “[shining city on a hill](#)” as the first self-created and self-declared multi-ethnic and multi-religious State, [promising justice “for all”](#), it should set aside its last desperate assertion of white power and, as with the [Declaration of Independence](#), D-Day, and the moon-landing, stun the world by doing this.

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## Coda

Notwithstanding the compelling economic and strategic case, the [H.R. 40 process](#), the [debate on reparations in the 2020 US Presidential primaries](#), economics may yet render it all—like Abolition itself, and for the same economic, [not political](#), free-rider reasons—a [very very long shot](#), even with the eruption over agency that is now unfolding in the US in the wake of the murder of George Floyd.

And nor is a wholesale rewrite—or should that be write?—of economic agency in economics text books in prospect anytime soon. Where our intellectual fathers seeking approval in the direct shadow of slavery from the social milieu directly responsible almost entirely let it go, so now, with Economics Faculties overwhelmingly white, privatized, and seeking “clients” among privileged parents who prize economics as a route (disproportionately) for their sons into such safe harbors as banking, expect such disturbing notions at the core of our discipline to remain airbrushed out of standard texts.

But it is at best disingenuous and at worst complicit of economics to [feign innocence and ignorance](#) about the roots of slavery and its echo in right wing populism; unfettered profit-seeking. And after George Floyd, we cannot go on with the illusion and the delusion that it has nothing to do with us.

Our condemnation of slavery as “utterly unthinkable now” is not only fundamentally incorrect but also impedes our thorough reflection on the urgency of reparations. And our ostentatiously high-minded but casual dismissal of the matter implicitly treats the dual losses incurred by owned-people exactly as the people-owners of the day did; as irrelevant. That parallel alone should suffice as a wake-up call.

But if not, then perhaps we may be persuaded by the core tenets of our discipline, even “as is”:

- that economic losses (and not the perpetrators thereof) should be compensated;
- that given the bequest motive and that descendants are close substitutes for their forebears, all types of assets transfer across generations absent practical obstacles, as do all sovereign liabilities;
- that commitments about the future—especially concerning something as fundamental as Universal Economic Agency—should be credible, not just assumed;
- that nominal global safe interest rates and inflation need to rise; and,
- just as with carbon emissions, that externalities should be subject to tax.<sup>2</sup>

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<sup>2</sup> This is a slightly updated version of the paper which was released with [the NIESR blog](#) on June 10, 2020.