

## The Enduring Significance of Robbins By Sam Bostaph

In his comprehensive intellectual history titled *THE GROWTH OF ECONOMIC THOUGHT*, Henry William Spiegel identifies (p. 536) Carl Menger's methodological studies as "the beginning of a period in which economic theory was largely identified with microeconomics." Spiegel claims that Lionel Robbins's *ESSAY ON THE NATURE AND SIGNIFICANCE OF ECONOMIC SCIENCE* (1932) closed that period. The roots of Robbins's definition of economics as (1932, p. 15) "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses" Spiegel finds (p. 528) in Philip Wicksteed's view that efficient resource administration is the goal of economics, while the laws it develops are applicable to all choice situations. For Spiegel, Robbins's *ESSAY* appeared at the end of the heyday of microeconomic theory because (pp. 536-7) "modern economics" took another direction with the advent of Keynesianism. The rise of macroeconomics in the 1930s led to the abandonment of methodological individualism in favor of aggregative analysis, as well as the replacement of cause and effect analysis with mutual interdependence and mathematical model-building. Further, Spiegel goes on to identify Ludwig von Mises's *HUMAN ACTION* as an extension and culmination of Robbins's expansion of the scope of methodologically individualistic microeconomic theorizing beyond the conventional borders of the discipline. Consequently, Spiegel (p. 543) concludes, "...the unyielding tenacity with which Mises adhered to his views place him in an extreme position, remote from the mainstream of economic thought and considered utopian by many of his contemporaries."

Spiegel is incorrect in his judgment that Mises's methodology is an extension of Robbins's—in fact, there is evidence that the influence actually ran the other way. Robbins's "Preface" acknowledges his intellectual debt to both Wicksteed and Mises.

In *THE ECONOMIC POINT OF VIEW* (1960), Israel Kirzner (p. 109) notes that after Robbins's definition was published, it became part of all discussions of the proper subject matter of the discipline. It was consequently criticized by adherents of the newly arisen belief that if resources were unemployed or underemployed as a result of macroeconomic disturbance, then "scarcity" per se was not the problem, and Robbins's definition was only appropriate for the "classical" concept of an economy in a full employment state. To this argument, Kirzner responds (p. 143-4) that it is not the level of employment of resources in a particular economy that is the relevant context for this discussion; it is the individual point of view that Robbins adopts. From that point of view, unemployed resources are still scarce means, they are just temporarily withdrawn from decision-making as a result of a breakdown in the economic system and are currently being wasted. Kirzner goes on to classify Robbins's conception of economics as the culmination of a tradition mainly influenced by the thought of Max Weber. Unlike Spiegel, Kirzner does not see Mises's conception of human action as the culmination of the Robbins approach; instead he argues that it was a parallel development and solely the work of Mises. Rather than being a study of "the disposal of scarce means," as Robbins (1932, p. 15) would have it, Mises presents economics as the most developed of the sciences of human action, or "praxeology." Kirzner identifies (p. 161) the crux of the difference between Robbins and Mises as follows:

Economizing consists in the allocation of scarce resources among competing ends. Acting, in the praxeological sense, consists in selecting a pattern of behavior designed to further the actor's purposes.

“Economizing” in Robbins’s sense of the word results in a particular *pattern of resource allocation*; economic behavior as a science of human action is a *pattern of behavior* implied by a selected scale of ends. It is teleological. Means only become such after they have been selected as appropriate for certain ends. The concept of “purpose” is therefore crucial to understanding human action. In consequence, economics as *a science of economizing* is not the same as economics as *a science of human action*, although the former can be included within the latter as a special case. Mises himself (HUMAN ACTION, 1966, p. 3) specifies the difference between the general science of human action—“praxeology”—and economics as one of its sub-disciplines. Economics is the science of the human action of choosing to exchange one alternative for another. At the beginning of chapter 4 of his EPISTEMOLOGICAL PROBLEMS OF ECONOMICS (1960), originally published in 1933, Mises explains that this definition applies to interpersonal exchange, whether direct or indirect (using money); and, it applies as well to the actions of isolated individuals engaged in productive acts. It is the subjective theory of value that makes all rational action “economic.”

So far as Mises’s own view of the differences between his approach and that of Robbins is concerned, there is only one reference to Robbins’s ESSAY in HUMAN ACTION (1966, p. 103, n.7). It concerns the meaning of “rationality.” Mises has just pointed out in the text that just because a person is seen to prefer “a” to “b” and also “b” to “c”, he is not inconsistent if he chooses “c” over “a” at some other point in time. The three acts of preferring cannot be synchronous and value judgments are not immutable. The text in Robbins that Mises footnotes is pp.91ff of the second (1935) edition. There Robbins argues that if by “rational” one means “consistent,” then *in a state of equilibrium* if “A” is preferred to “B” and “B” to “C”, then “A” must be preferred to “C”. In actual acts of preference, Robbins admits a possibility of

“inconsistency” in the sense just mentioned, if the consumer is inattentive or not fully informed. He also recognizes the importance of “purpose” in human behavior and the possibility of inconsistency in purpose. I don’t see that he recognizes the importance of the context of real time and changing judgments of value that is so crucial to Mises’s theory of human action.<sup>1</sup>

I hasten to buttress this assessment of Robbins’s 1935 view of consistency in actions taken by noting that in *EPISTEMOLOGICAL PROBLEMS OF ECONOMICS*, Mises differentiates (p. 32) between “primary” ends, such as dispelling hunger or cold or going from A to B, and “proximate” or “intermediate” ends, such as preparing food or gathering firewood or taking care to walk in the shade. One’s primary end may be to get from “A” to “B”; however, if the sunshine is especially hot along the way, one might detour in order to walk in the shade. Mises footnotes for comparison the discussion of human ends in the first (1932) edition of Robbins’s *ESSAY*. At the beginning of chapter II (p. 23) in footnote 2, Robbins is at pains to distinguish his concern with human ends as “the objectives which are, so to speak, formulated in the various tendencies to action,” from a concern with “the metaphysical conception of a unitary end of conduct.” This footnote does not appear in Robbins’s second edition of the *ESSAY*. Although it is true that the purpose of Robbins’s discussion of ends at the beginning of chapter II is to argue that economics does not concern itself with them and that there are none that could be termed “economic,” nevertheless, the reader is left with the impression that Robbins considers all ends to be given or fixed, and independent of some teleological directing principle.<sup>2</sup> Thus, he states that the main problem with which economics is concerned is (pp. 23-4) how the progress

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<sup>1</sup> Rothbard (p. 229) argues that it is not “consistency” in preference, but “constancy” in preference through time that Robbins is assuming—and that Mises is criticizing.

<sup>2</sup> Kenneth Boulding (pp. 105ff) interprets Robbins’s view that economists do not concern themselves with the ends of individuals to mean that economists are not concerned with the ends of economic systems. He nominates rising per capita income, cultural and institutional progress, income redistribution, and so on, as worthy systemic ends and claims (p.123) that the economist’s “mental picture is that of the economy as a whole.” Could any “modern economist” have more completely missed Robbins’s point?

of human beings "...towards their objectives is conditioned by the scarcity of means—how the disposal of the scarce means is contingent on these *ultimate* [emphasis mine] valuations."

Robbins's failure to recognize fully how the real time dimension of choice allows for changing judgments of value and thus perceived "inconsistencies" in preferences is puzzling in the light of the development of his view of the subject matter of economics in chapter one of both editions of his *ESSAY*. In section 3 of that chapter in the first edition, Robbins lists three fundamental characteristics of human existence that are important from the economic point of view. They are (pp. 12-13) that human "...ends are various" and "the time and the means for achieving these ends are at once limited and capable of alternative application." He adds (p. 12), "at the same time the ends have different importance" as a fourth characteristic in the second edition.<sup>3</sup> It is notable that Robbins includes "time" and its limitation in the context of human choice among alternatives as he develops his argument over the next few pages. Unfortunately, in section 4 he excludes isolated man from "economic analysis" on the basis that analysis is unnecessary in this case because (p. 17) "the behaviour of a Crusoe" is "*extra-marginal*."

Now, it is true that the exchanges that are made by isolated individuals are different from those made by trading individuals. Those of the isolated individual are guided by subjective marginal value comparisons, as Mises clearly recognized, whereas those made by trading individuals must take either barter or money prices into account as part of the decision context. In the context of an exchange economy, interacting individuals with individual purposes use the system of relative prices in conjunction with expected marginal value tradeoffs to guide their

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<sup>3</sup> In the second edition of his *ESSAY* Robbins mentions as one of "the most fundamental propositions of economic analysis" that (p. 75) "the different things that the individual wants to do have a different importance to him and can be arranged therefore in a certain order." Later (pp. 78-9) he claims, "the main postulate of the theory of value is that individuals can arrange their preferences in an order, and in fact do so." Tjalling Koopmans (p. 136) slightly misstates Robbins as having claimed "that each consumer has a complete preference ordering of all commodity bundles the consumption of which is possible to him." Koopmans then goes on to criticize Robbins's proposition as being in conflict with "our direct knowledge of consumption decisions." It denies the consumer the ability to change his consumption program as his knowledge of his own preferences changes through time.

actions so as to minimize their expected costs in achieving those purposes. Nevertheless, the economic principles involved in rational choice in either context are the same. Isolated man is choosing among alternatives in real time according to expected marginal value tradeoffs. Contra Robbins (p. 17), his behavior is not “extra-marginal.” His decisions are guided by his purpose(s) and they are always made at the margin.

It is also true, as Robbins (p. 18) points out, that individual decisions have implications in a social context that reach beyond the individual and that the decisions of executives in a communist society would be arbitrary and unreflective of the valuations of individual members of that society. It is not the case that the decisions of the executives in a communist society are analogous to those of Robinson Crusoe, as Robbins also claims. Unlike those of the isolated individual, the production decisions of the executives are not guided by their subjective marginal value comparisons, but more likely by their whims, prejudices or arbitrarily chosen goals. Their personal purposes are different from those of the economy they direct, and their personal marginal value tradeoffs are different from the quantitative and qualitative tradeoffs of the economies they direct. And, as Robbins (pp. 17-18) credits Mises for showing, it is the absence of resource market prices in the social context of the socialist economy that makes economic calculation impossible and thus the planning of the socialist economy entirely arbitrary and ad hoc—unlike the planning of a Robinson Crusoe, which is guided by his purposes in light of his subjective value comparisons.

Robbins clearly recognizes (p. 19) the role of the “laws of choice” in explaining the actions of the isolated individual; and, he recognizes as well that the exchange economy cannot be explained without those same laws. Perhaps, it was Robbins’s failure to see that the isolated

individual's context is not one of arbitrariness that prevented him from attaining the complete Misesian view of economics.

The importance of this difference in perspectives between Robbins and Mises is emphasized in Kirzner's recent book on Mises's life and works. From Robbins, mainstream microeconomics developed its Logic of Choice or the concept of the economic actor as optimizer. As Kirzner (pp. 85-6) puts it, "With ends and means taken as given, the agent—whether consumer, producer or factory owner—allocates his given means in such a way as to maximize the achievement of his most valued ends." But, for Mises, Kirzner (pp. 86-7) continues, "...the unit of analysis is *human action*, a concept which includes the *identification of the very ends-means framework* within which efficient decision making must be exercised." Kirzner (p. 95) concludes that neoclassical microeconomic theorists, who took their cue from Robbins, became increasingly concerned with equilibrium analysis, rather than a theory of the market process toward equilibrium—a state never reached in the actual social world.<sup>4</sup>

As is well-known, Robbins's definition remained the standard one of undergraduate introductory textbooks until fairly recently. In fact, I just received a new text by Glenn Hubbard and Anthony O'Brien (ESSENTIALS OF ECONOMICS, Prentice-Hall, 2007) that defines "economics" as (p. 4) "the study of the choices people make to attain their goals, given their scarce resources." I hasten to point out that use of such a definition is not universal these days. At the same time I received the Hubbard book, I received another one by Paul Krugman et al.

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<sup>4</sup> Interestingly, it is Robbins's ESSAY that F.S.C. Northrup assumes is the expression of "classical Austrian economic theory." The analysis of Robbins's presentation of the basic concepts and method of economics leads Northrup to the conclusion that Robbins's approach can provide a theory of statics; however (p. 253), "it is impossible to attain a theoretical economic dynamics within the assumptions or by the method of contemporary economic theory." Seligman (pp. 520ff) lumps Mises and Hayek with Robbins and deems their (sic.) view of economics a "rigorous exercise in economic formalism" that "became a particularly depraved form of scholasticism, a 'barren dialectic of scarcity,' utterly devoid of substantive content." Screpanti and Zamagni (pp. 147-8) see the culmination of the extension of Robbins's approach in Paul Samuelson's mathematical optimization principle, although they (p. 197) acknowledge the Austrian influence on Robbins—in particular, the Mengerian roots of his end-means definition of economic science.

(ESSENTIALS OF ECONOMICS, Worth, 2007) that ignores the central role of scarcity in economic theory and slides around a specific definition of “economics” by defining an “economy” as (p. 2) “a system for coordinating society’s productive activities,” while “economics” is “the study of economies, at the level both of individuals and of society as a whole.” This inability of Krugman et al. to define the subject of their book was no surprise to me, as I’ve never had the impression that Paul Krugman knows what economics is anyway.

So, what is “the enduring significance of Robbins”—the title of my paper. For me, it is the stimulus given by Robbins’s ESSAY for reflection on the uniqueness of the Misesian conception of our subject. Robbins goes very far toward a true grasp of the subject matter, but his grasp falls short of his reach. Nevertheless, reading Robbins is an excellent way of contrasting his explanation of the basic nature of economics with that of the Austrian School, as found in the work of Mises as an extension of Carl Mengers’s foundations. Such a reading wonderfully clarifies one’s understanding of the basic conception of economics as a science of human action, rather than one of mere “economizing.” Mises is the end of that particular journey of understanding. After all, if you are not clear in your mind on the nature and significance of the subject you are studying, you can hardly expect to reach a clear understanding of the subject itself.

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