Section I

THE SCOPE OF ECONOMICS

Economics and ethical values

J.M. Clark found Robbins' view as to the "neutrality of ends" inadequate. He declared that insofar as some economists feel obliged to accept the valuations individuals make in markets as final, and other economists do not, he considered Lionel Robbins' work as standing at one extreme and his own position at the other[1]. J.M. Clark felt that although he could accept that the distinguishing feature of economics is that it deals with people's actual valuations and not with what these valuations ought to be, he could not accept the conclusion that economics should accept the verdict of the market as final for its purposes. This view in dangerous, Clark thinks, because economics then becomes "power without defined purpose". Market forces, Clark points out, are capable of acting independently of individual decisions.

"The market - is not a passive instrument, but a social institution, which acts as if it had a life and purpose of its own, independent of those of the people who operate it and doing things to then that none of them planned or desired"[2]. Therefore unless we can state clearly our own purposes, accepting market valuations as final does in effect mean "subjecting us to its purposes and not serving ours"[3].

(1) J.M. Clark, Economic Means to what ends, American Economic Review; Volume 40 Papers and Proceedings 1950.

(2) Ibid. p.48.

(3) Ibid. p.48.

Economics should not rely or put faith in the humanity and goodness of man, but include within its framework values that would ensure its principles were not being used for the wrong purposes.

Clark extended his argument into the field of Ethics. As opposed to Robbins view Clark declared that Economics had several inescapable links with Ethics.

One of these links is the fact that ethical conduct is crucial to the working of the voluntary economic mechanism. To approach economic theory, therefore as an "insulated treatment of economics" was not to provide people with the means to realize ethical values. It was absolutely necessary for economics to be trained in the direction of giving a more profound understanding of the ethics of voluntary co-operation and also the effect it has on other cultural values.

Only if some purpose was clearly defined could man himself effect what was desired and what the market did not do.

However Clark does not state exactly what these values are that Economics should uphold, except in a broad way. While in theory, what Clark is saying is all very well, in practice one must come up against the practical difficulty of stating exactly what such values should be. It was in recognition of this difficulty that Robbins said that it was worthwhile seperating the areas where settlement is possible from those where this is not possible. Clark is merely restating a problem already recognized by Robbins.

Individual Choice and Given ends

Howard S. Ellis describes economics as being basically concerned with the processes and results of individual free choice on the market(4). This differs from Robbins' description of economics as dealing with the application of scarce resources to given ends. Ellis takes issue with the phrase "given ends" because this would include the analysis of productive effort to serve ends decided by a dictator. Ellis holds that it is the attitudes of all individuals and not a single individual which made resources scarce and ascribed value to products. Ellis would go so far as to say that where the individual cannot choose, economics does not exist. Ellis says that Robbins is wrong in accepting any given end. Economics should, according to Ellis, state one end in particular and that is the "freedom of the individual to make the best of his situation as a producer and as a consumer", subject to the qualification that this does not cost other individuals a greater loss of freedom.

Ellis considers that where Robbins regards economics as dealing with the application of scarce means to given ends, he himself would consider economics as being concerned with the application of scarce resources to unlimited wants. It is interesting to note that Ellis has confined himself to one of the 3 ways of formulating the principle of scarcity. This would be what Robbins considered to be the method and purpose of economic analysis(5).

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(4) Howard S. Ellis The Economic way of thinking; American Economic Review; Volume 40, 1950.

(5) See p.10 above.

However, Ellis has summarized his own position in terms of Robbins' formulation of the economic problem. Indeed Robbins did say that where the general condition of unlimited wants in the face of scarce resources existed, the economic problem of the necessity to choose arose. Where individuals were not faced with conditions of scarcity and choice, there was no need for economics.

So far as the basic definitions go there seems some correspondence between the position of the two writers.

However, it is the conclusion that Ellis draws from his basic definition that marks the point of divergence. He concludes as we saw, that where the individual cannot choose economics does not exist.

He demonstrates how this is so in a very interesting manner. He says that Economics has successfully described the results of competitive market situation where free individual choice exists. But economics has not been so successful in describing conditions, as in monopoly, where individual choice faces restrictions. The less the element of free individual choice there is in a situation, the less successful has been the analytic technique of economics.

Ellis demonstrates this further in an analysis of 4 concepts of maximum or optimum solutions current in economics. These are, first, maximum satisfaction, second Robertson's idea of "appropriate" fluctuations in output as an approximation to the criterion judging the effectiveness with which society applies its limited resources, third, the optimum propensity to save, and fourth the optimum rate of foreign exchange. He attempts to show that where state interference or any other barrier to individual free choice exists, economics is that much removed.

We shall consider his analysis with regard to the second, the idea of appropriate fluctuations to output, and the third, that of the optimum prospensity to save, because these show adequately his process of reasoning.

Economics recognizes the desire to achieve stability in the economy. Therefore fiscal, monetary and wage policies are designed to achieve this by regulating fluctuations to output. Ellis points out that although such policies do cut across the freedom of individual choice, they do so in impersonal ways and the ultimate result is to enhance individual free choice. This is the remedy provided for sharp fluctuations by Economics. Ellis points out that Keynesian economists are against the regulation of individual businesses, industries and occupations. Where such discriminating regulation took place the solution offered by economics loses its significance.

Ellis defines the optimum propensity to save as "that amount which is compatible with full employment without inflation".

This optimum which requires the regulation of the level of saving by the state, acts as a barrier to free choice. This is because there is a tendency for capital accumulation in Western civilization and the most important purpose for saving, Ellis considers, consists in providing for the future.

Therefore, an optimum which involves state interference, impinging directly on free individual choice, is inferior to monetary and fiscal policy measures which work impersonally and work towards the ultimate enhancement of free choices.

In this way Ellis shows that the economic way of thinking is directed towards free choice and the degree to which such free choice is inhibited in any particular sector of the economy, the technique of economic analysis does not apply.

Ellis concludes that where there is central planning, economics does not exist. With regard to central planning, Robbins did not elaborate on the utility of economic analysis to such a society. However Robbins did not deny, as Ellis seems to, that the economic problem does exist whatever the system of society.

In brief, it should be noted that, as shown earlier, Ellis' argument is essentially an extension of Robbins' own statement of the economic problem. This extension is used for commenting on the validity of economic analysis in situations where individual choice does not exist.

Choice and Resource Allocation

In accepting and promoting the theory of markets and the analysis of the exchange economy as propounded by Professor Amon, Archbishop Whately and others in the past, as the central problem in economics, Buchanan "proposes to take Lionel Robbins as an adversary and to state, categorically that his all too persuasive delineation of our subject field has served to retard, rather than to advance scientific progress"(6).

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(6) J.M. Buchanan: "What should economists do"; The Southern Economic Journal, Volume 30, 1964.

It is because Robbins' delineation of economics was done with the specific aim of achieving scientific progress in the perfection of economic theory, that the statements of Buchanan demand further examination.

Buchanan's first criticism of Robbins' definition of economics is that Robbins reduces economics to a mere set of problems. Buchanan claims superiority for the Exchange theory of Economics on the grounds that it examines a particular form of human activity and studies the various, institutional arrangements that arise as a result of this form of activity.

Therefore, it is clear that Buchanan's criteron for the proper study and use of Economics is the degree of focus on human behaviour. However, Buchanan seems to have overlooked the fact that Robbins did define Economics in terms of human behaviour - "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses". The focus is on human behaviour and human behaviour is studied from the economic aspect. Therefore, by Buchanan's own criterion, there seems to be little advantage that the Exchange theory has over the Scarcity theory.

Buchanan goes on to criticize Robbins for leaving economics "open-ended". Robbins never identifies for whose ends economics is devised. This is true, because all that Robbins did say was that economics is applicable in all situations where economic phenomena exist and he did not specify the choosing agent.

Because of this silence on the matter of the choosing agent, Buchanan declares that the extension of the theory of individual behaviour to the group was inevitable. This was because Robbins was not intrinsically concerned with ends or the choosing agent.

Thus, Buchanan states that if a person's preference function could be established, it was only normal that this be extended on to the study of the group. From this, the summing up of utilities was an easy step.

Robbins could not prevent this extension because he did not make a distinction or specify the choosing agent.

Robbins did dissaprove of the process of summing utilities, but this was, according to Buchanan, implicitly sanctioned by his not stating the choosing agent.

Buchanan makes reference to the social welfare function, of "the new welfare Economics". Buchanan considers this as nothing but a mere computational exercise. Once the ends to be maximized are given the whole problem resolves to mere technology. Economics might as well be turned over to applied mathematics. This, he points out, has been the trend of economics in the mathematical refinements that have taken place. Buchanan calls this trend the Mathematics of Social Engineering.

For all these developments, Buchanan blames the wide-spread acceptance of the choice definition of Economics which is to Buchanan nothing but a viewpoint of Economics from the technological angle.

From here Buchanan's argument can be divided into 2 parts. Firstly, he shows why he thinks that Robbins' definition of economics reduces economic analysis to a mere set of problems and secondly he attempts to show that there is no distinction between the economic and the technological as pointed out by Robbins.

With regard to the first point, it might be noted that Buchanan's basic error is that he equates the 2 ideas of 'choice' and 'resource allocation'. He treats both these problems as problems of the economist(7). In his criticism of Robbins, he does not seem to recognize this difference. The necessity for choice gives rise to the economic problem, but this does not mean that the economist can do the choosing. In interpreting Robbins' position, Buchanan states that resource allocation is the problem of the economist. So far he is right. But then he goes on to say that 'resource allocation' and 'choice' are the same thing, thus establishing the necessity for 'choice' as a problem also facing the economist.

This is what makes Buchanan state that the problem of choice is merely a computational one that even a computer could work out once given the utility function. What Buchanan overlooks is that the given utility function is a reflection of choice.

As far as economics is concerned the choice is already made and it is up to economic analysis to determine how to achieve this by stating the alternative methods and

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(7) Ibid. p.217 "The theory of choice, of resource allocation, call it what you will"

deciding on the best method. This is resource allocation which is essentially different from "choice".

Secondly, Buchanan states that the traditionally accepted distinction ~~of~~ between economics and technology (explained in Robbins' Essay) does not exist. Against this, we must place Robbins' forbidding statement that "at the present day one of the main dangers to civilization arises from the inability of men ... to perceive the difference between the economic and the technical".

Buchanan's interpretation of Robbins' distinction is illustrated with an example. An economic problem arises when mutually conflicting ends are present, when choice~~s~~ must be made among them. The technological problem is characterized by the fact that there is only one end to be maximized and that there is only a single best or optimal solution.

There appears to be some error in Buchanan's interpretation of Robbins' concept of the economic problem.

Buchanan considers only the multiplying of conflicting ends in his interpretation, whereas, according to Robbins, the economic problem arises only when "time and means for achieving ends are limited and capable of alternative application and the ends are capable of being distinguished in order of importance resulting in the necessity of behaviour assuming the form of choice". Robbins made clear that the economic problem exists only when the four fundamental conditions of the economic aspect are present simultaneously.

Buchanan reveals his error by giving a practical example.

> "The consumer finds that she has only $10 to spend in the supermarket. She confronts an economic problem in choosing among the many competing products that are available for meeting diverse ends and objectives. By contrast, the construction engineer has $1,000,000 allotted to build a dam to certain specifications. There is only one best way to do this and locating this way constitutes the technological problem"(9).

Buchanan comments that there is really no difference in the problems facing the engineer and the consumer.

A minor point to note is that Buchanan, in making an inconvenient comparison by contrasting a consumption situation to a production situation, makes his analysis unnecessarily difficult and leads to confusion. Robbins, in exemplifying the distinction between the economic and the technical, confines himself to production.

What does Buchanan mean when he says that there is really no difference, or that it is only one of degree? This difference of degree to Buchanan is really one of the degree to which the utility function has been specified in advance of the choices made. Buchanan does not make clear whose utility function, the housewife's or the construction engineer's, has been specified in advance although it seems that the construction

(9) Ibid p.216.

engineer's end has been specified in advance. However one cannot speak of a construction engineer's specified end as representing a known or unknown utility function as Buchanan seems to imply.

Finally, Buchanan does not seem to appreciate, as Robbins pointed out, that the economic and technological problem can exist in any one situation. Buchanan sees and demonstrates only the technological aspect in both his illustrations and ~~this~~ thus concludes that there is no difference. Of course, if one abstracts from 2 situations only one common aspect, then the inevitable conclusion must be that the 2 situations are essentially subject to the same forces.

Yet, with a little examination it can be seen that Buchanan's consumer is faced with a fully fledged economic problem. She has only $10 and the $10 being the accepted medium of exchange is capable of numerous alternative applications to achieve her ends as expressed in her preference function. Buchanan does not see it in this way. Buchanan also makes his analysis unnecessarily complicated by introducing money as the means of obtaining products which are a further means for meeting her diverse ends and objectives. Buchanan does somehow confuse the issue by bringing in 2 sets of means.

The construction engineer however does face an essentially technological problem in that the means allotted have no alternative use as far as the engineer is concerned they must be applied to a specified end and therefore his problem is rightly and essentially technological.

Now we come on to the strictures of the author of "A Philosophical Interpretation of Economics"(8), Professor J.K. Mehta.

In the chapter on "Economics and the End", Mehta reprimands Robbins for not stating exactly what the end is. He admits that maximum satisfaction is implied as it is in the works of other economists. He also agrees that Robbins is perfectly correct in stating that there is no such thing as an economic end. Of course, Robbins himself does not claim perfection in his concept, because he says that an economic end is conceivable. However, it is inconvenient to speak of an economic end in the very restrictive circumstances which involve the acceptance of Robbins' definition of economics. It will be recalled that his definition was phrased in terms of study of human behaviour as a relationship between scarce means which have alternative uses. To accept this definition is to accept the neutrality of ends - a position that Robbins assumes. However, Mehta accepts the definition without accepting the necessary implications. Mehta insists that it is necessary for economics to state an end. This end, according to Mehta, is the state of wantlessness. This he arrives at by an ingenious method of philosophical juggling. Therefore, Nirvana is the ultimate objective of Economics.

This is a value judgement one may or not accept. We do not want to quarrel with Mehta if his philosophical interpretation leads him to impose the religious beliefs of a particular people on all men. But what we must quarrel with is the illogically of his argument.

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(8) J.K. Mehta, A Philosophical Interpretation of Economics, London; George Allen and Unwin 1962.

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The inconsistency of Mehta's argument is this.

Once Robbins' definition of Economics is accepted, the existence of countless wants clamouring for fulfillment must be recognized. This Mehta probably accepts, otherwise there would be no problem of achieving Nirvana. Now one practical approach to the economic problem would be, as Robbins suggested, to determine the proper allocation of scarce means to these wants.

Mehta, in saying that the object of Economic is to achieve Nirvana, is in effect saying that the ultimate object of Economics is to do away with itself. Economics cannot be relevant any longer when wants exist no more. The process by which Economics would achieve Nirvana was to move economic subjects steadily upwards a scale of nobler wants each suppressing the existence of baser wants.

This throws Economics right into the centre of a furious controversy as to what constitues noble, and what basw wants.

Yet, Mehta says that the end chosen should be consistent with the nature of the science and the assumption: underlying its superstructure. One of the fundamental assumptions of economics theory is the existence of many wants that are ordered in a scale

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Yet, Mehta says that the end chosen should be consistent with the nature of the science and the assumptions underlying its superstructure. One of the fundamental assumptions of economics theory is the existence of many wants that are ordered in a scale of preferences. Of what value therefore has Nirvana as the specified end of economics and moreover how is it consistent with its underlying assumption?

Thus, Mehta's argument is essentially illogical.