

DEFINITIONS AND BASIC CONCEPTS

"Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

This is well-known as the "Robbinsonian" definition of Economics. Lionel Robbins however did not formulate this concept. This was a concept already familiar to economists like Carl Menger, Ludwig von Mises, Frank Fetter, Richard Strigl and Hans Mayer⁽¹⁰⁾. However, in relation to the development of economic thought in Anglo-Saxon countries we must in some sense consider Lionel Robbins as the first and main exponent of this definition.

At the time of his writing, Robbins felt that his acceptance of this definition required explanation and justification. This was because he considered that the definition of economics generally accepted in "Anglo-Saxon countries" related to the study of the causes of material welfare.

Lionel Robbins used what he called the Materialist definition of economics to illustrate the superiority of the definition he had accepted.

An obvious indication of the inadequacy of the Materialist definition was that economics concerned itself

(10) Lionel Robbins, op.cit., p.16 f.n. Robbins acknowledges this in reference to the specific works of these writers.

not only with material goods but just as much as with unmaterial services. And yet it was strange that these very same proponents of the Materialist definition accept a non-material definition of productivity having come to reject the Smithian distinction between productive and unproductive labour.

In particular Robbins attempted to show the defects of Edwin Cannan's definition as found in Chapter II of Cannan's Wealth entitled the "Fundamental Conditions of Wealth for Isolated Man and his society".

If the validity of Professor Cannan's use of the terms economic and non-economic as being equivalent to material and non-material were accepted, Robbins points out that it could follow logically that in speaking of aggregates the wealth of society would be greater or less depending on the proportion of time devoted to material ends. Robbins does not presently deny the validity of such a statement. However to Robbins such an analysis seem to skim over a problem of fundamental importance. This is the economic problem of deciding between the 'economic' and the 'non-economic'; that of deciding how much time should be devoted to the economic and how much to the uneconomic.

This economic problem arising out of the necessity for choice is not accounted for in the Materialist definition. Indeed, Robbins points out that one of the main problems of the Theory of Production lies half outside Professor Cannan's definition.

Robbins felt that to be comprehensive a definition should get down to bedrock fundamentals. ^{THIS} ~~These~~ fundamental

lay in an examination of exactly those conditions which gave rise to economic phenomena. There were 4 conditions were characteristic of all human existence.

First, that 'ends are various'; second 'that the time and means for achieving them ends are limited'; third ^{that} these time and means are capable of alternative application; fourth, the 'ends have different importance' (11). Robbins stresses that only the simultaneous existence of all those conditions established the economic aspect.

Robbins pointed out that while the Materialist definition could be called classificatory one, the scarcity definition was to be described as analytic. A classificatory concept marks off certain types of human behaviour as belonging to the subject matter of economics, while an analytical definition was concerned with a particular aspect of behaviour. It is scarcity which determines this as form.

The only limitation on the subject matter of economics, points out Robbins, is the existence of the economic aspect. To Robbins, any activity which involved the sacrifice of alternatives, was part of the subject matter of economics. There were no limitations on the subject matter of economics, beyond this requirement.

We might note here that the basic concept of Scarcity as the rationale of the study of Economics was capable of being formulated in different terms to describe 3 different aspects. Firstly, the concept is used to indicate the existence of the economic problem. This problem arose out of the existence of the scarcity of means to serve unlimited wants.

(11) Robbins, op.cit., p.12.

Secondly, the same concept is formulated differently to define Economics. Here it will be noted the focus is on "human behaviour". Human behaviour is studied as a relationship between ends and scarce means which have alternative uses.

Thirdly, the basic concept translated in terms of the method and purpose of economic analysis. (This formulation will be encountered in various parts of the text below). Here it is explicitly stated that the ends are given and it is the role of economic analysis to trace out the implications and consequences of such chosen ends, in terms of the scarcity of means. This is succinctly put as the application of scarce means with alternative uses, to give ends. The third aspect is essentially mechanistic. The role of the economist is linked to this aspect. While the definition of Economics on the one hand and the purpose of economic analysis on the other, give rise to different implications it must be noted that there is really not very much difference between the two. The definition of economic analysis only gives an indication of how the economist deals with a particular problem.

However the definition of economics indicates broadly the basic interest of the economist - changes in human behaviour viewed from the economic aspect.

These are admittedly fine differences but they do exist. Robbins did not make these explicit and this has given rise to a lot of confusion.

Scarcity

Scarcity in economics, Robbins pointed out was not an absolute concept. It implied limitation in relation to demand.

We can see from this that broadly the Materialist definition envisaging the central problem of economics as increasing material welfare, did assume by definition the existence of scarcity in some form with other. However the definition which Robbins adopted, gave central importance to the problem of Scarcity. Scarcity of time and resources in relation to a heirachy of numerous ends formed the final basis of the study of economics.

Economic Good

This leads to a concept the emphasis of which is basic to the scheme of Economics Robbins adopted. This is the concept of an economic good. An economic good was not capable of physical measurement nor had intrinsic qualities. This is essentially a relative concept. An economic good or service is only so because of its relation to men and the ends to be served.

An example is taken from Winston Churchill's instructions at the end of the war, that all war materials that had been already 60% produced should be completed. Before the close of the war, this production would have constituted wealth but the continued production after the war was a waste of scarce resources.

While it is a relative, simple concept, Robbins points out it is not a simple matter to be able to grasp the implications of this concept.

Mass production without regard to conditions of demand was one reflection of the inability to grasp the concept of an economic good.

Another was the foolishness of retaining fixed capital in the face of a long ceased demand, on the grounds that heavy expenditure had be incurred in obtaining the fixed capital.

The concept of an economic good also helped to show up misconceptions in the analysis of the economic effects of inflation. In this connection Robbins chides economists like F.B. Graham who claim that one of the virtues of inflation is that under the stimulus of low interest rate it enables the purchase of large quantities of capital equipment. What was not realized was that when the unavoidable slump came, the equipment could not be worked at a profit.

All these examples are meant to show how it was possible to confuse technical and value productivity if due regard was not given to the concept of an economic good.

