THE NATURE AND THE DERIVIATION OF ECONOMIC GENERALISATIONS

The Fundamental Postulates of Economic Analysis

Robbins does not attempt to state all the fundamental postulates of economic analysis. He concentrated mainly on a method of derivation of the fundamental postulates of the theory of value, the theory of Production and what he called the theory of Economic Dynamics. In this connection the theory of economic dynamics is made synonymous with the theory of profits.

The nature of economic generalisations is derived by examining examples from the existing body of analysis. Robbins says that it is also possible to derive this from the pure categories of the subject matter of economics and achieve the same results. However, Robbins does not use or explain the use of the latter method. It is not at all clear why Robbins does not demonstrate the use of this method, especially as the Striglian distinction between categories and data holds a pivotal place in his attempt to outline a scientific value-free economics.

Proceeding with the method of examination of examples from the existing body of analysis, and according central importance to the theory of value Robbins sets out its main postulate. The main postulate of the theory of value, is that individuals arrange~~s~~ their preferences in an order. This is based on the assumption that the different things that the individual wants to do have a different importance to him, and can be arranged therefore in a certain order. This idea can be put in many forms and also with varying degrees of precision, from the simple want systems of Menger and the early Austrians to the more refined scales of relative valuation of Wicksteed and Schoufeld and the indifference systems of Pareto and Messers Hicks and Allen.

However expressed, in the last analysis the basic idea is the possibility of drawing up a scale of the relative importance of different possible experiences. Robbins stresses that this fact is elementary and is clear to us from mere experience. This basic idea is extended to derive elaborations in the construction of theory. Thus is derived the idea of the substitutability of different goods, of the demand for one good in terms of another, of an equilibrium distribution of goods between different uses, of equilibrium of exchange and of the formation of prices.

Other subsidiary assumptions are made in order to extend the analysis from the description of the behaviour of the single individual to that of markets. Such subsidiary assumptions would state whether there were 2 individuals or many, the supply is in the hands of a monopoly or of a multiplicity of sellers, the individuals in one part of the market know or do not know what is going on in other parts of the market, the legal framework of the market prohibits this or that mode of acquisition or exchange, and so on. Robbins points out that under such a scheme, the distribution of property is a given factor, without pointing out the limitations and inadequacies of such an assumption.

Robbins also shows the connection between the main postulate of the theory of value with the concept of the economic aspect of human behaviour. The assumption of the schemes of valuation on the part of economic subjects corresponds to 2 of the 4 conditions of the economic aspect, namely the existence of ends of individuals, and that these ends are arranged in order of importance.

The main postulate of the theory of Production is the fact that these is more than one factor of production.

Robbins explains how this is so by reference to a method of analysing the Law of Dimishing Returns which he ascribes to Professor Mises and Mrs. Joan Robinson. The argument is as follows.

First a class of scarce factors is defined as "consisting of these factors which are perfect substitutes". In essence, the difference between one factor of production and another is imperfect substitutability.

Since all the corn in the world cannot be produced from one acre of land, the law of dimishing returns follows from the assumption that there is more than one class of scarce factors of production.

The theory of equilibrium of production is built up with the aid of other supplementary principles derived from subsidiary assumptions. For example, the assumption of relative indivisibility of factors given rise to the principle that within limits Returns may increase.

The main postulate of the theory of dynamics comes from the fact that we are not certain regarding future scarcities. Using the term, theory of dynamics as synonymous with the theory of profits, Robbins says that this theory is essentially an analysis of the effects of uncertainty as to the future availability of scarce goods and scarce factors.

Choice for the future is made not in the context of certainties, but in a range of estimated prohabilities. Robbins says, that this process of reduction to elementary concepts can be extended to the theory of money as well, by studying the demand for money, and the propositions of the theory of capital and interest.

The essential point which Robbins seeks to make from all this, however, is the fact that the propositions of economic theory are deductions from a series of postulates. Robbins seems to want to establish this fact firmly. This is the wide and universal applicability of the main postulates, which are as obvious as everyday experience and do not need controlled experiments to establish their validity.

Economic Law and its relation to History

Robbins shows how such an analysis of the broad bases of a theory can be used to dispute the claim that economic generalisations are valid only within the limit of certain historical conditions or that generalisations are 'historically relative'.

Robbins points out that such a view is derived from the failure to distinguish between the main assumptions and the subsidiary assumptions on which economic theory is built.

The main assumptions give us the main postulates of economic theory and such postulates are applicable irregardless of any time or space dimension, only subject to the qualification that the economic aspect is present. However, the subsidiary assumptions are derived from the actual conditions of the time and these would not be applicable to all historical conditions. Robbins admits that as theory becomes more complicated greater use of the subsidiary postulates are ~~used~~ necessary. Robbins also admits that it is with the introduction of subsidiary postulates that the element of historico-relativity is brought in. However, the universal applicability of assumptions such as the existence of scales of relative valuations of different factors of production, of different degrees of uncertainty regarding the future is undoubted.

Robbins says that it is only failure to realise this and a "too exclusive pre-occupation with subsidiary assumptions" which support the idea of the historico-relativity of economic laws.

<u>The inevitability of Economic Laws</u>

Robbins says that if the data in a particular situation ~~is~~ are known, subject to the stringent condition that the data remain unchanged, economic analysis can draw inevitable conclusions. This sounds like tautology and promises to be of little practical use. In reality, events can take unexpected turns.

The conclusions that are derived from a given set of data are inevitable because they are already implied in the presence of the original data.

This is the essence of the analytic method. To quote Robbins in full, on this: "The analytic method is simply a way of discovering the necessary consequences of complex collocations of facts - consequences whose counterpart in reality is not so immediately discernable as the counterpart of the original postulates"[14].

However, Robbins does admit that no economist can predict changes in events or the data, let above control them. This would reflect somewhat on the possibility of detailed and accurate prediction. However, economic analysis is still nevertheless useful in pointing out very broady the inevitability of certain conclusions. Robbins cites 2 examples, 1 in relation to business cycles and the other to the labour market.

Economic analysis shows clearly that the upswing of the cycle must be inevitantly followed by slumps and depression.

With reference to the labour market, economic analysis also shows that a relatively high wage policy must be matched by unemployment, other things being equal. Indeed economic policy is enhanced by a knowledge of what other things should change so that inevitable undesirable consequences do not follow.

Another way of putting this is that once certain conclusions that can be drawn with the aid of economic analysis, are known, it is possible to 'manage' the economy in order to avoid the results if undesirable. Of course it is important to note that it is not the economist who decides whether the results are undesirable. This decision is made by the politician.

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(14) Robbins, op.cit., p.122.