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LIONEL ROBBINS: NEOCLASSICAL MAXIMIZER OR PROTO-PRAXEOLOGIST?

JOSEPH T. SALERNO

I. INTRODUCTION

Austrian economists writing after the so-called Austrian revival of the 1970s have generally been dismissive of Lionel Robbins's *An Essay on the Nature and Significance of Economic Science* (Robbins 1932), denying it a significant role in shaping the modern praxeological paradigm in economics.[1] Their attitude in this regard has been heavily influenced by the views of Israel Kirzner. Kirzner (1979, pp. 5, 27, 166 and *passim*) sharply contrasts what he dubbs "Robbinsian economizing" with "Misesian human action." And he explicitly equats Robbinsian economizing with the later neoclassical paradigm of "maximizing" in which all ends and means are given and known to the choosers, whose only "choice" therefore consists in allocating the known means among the given ends so as to "maximize" utility or profit. As Kirzner (1979, p. 6) puts it: "For Robbins, economizing simply means shuffling around available resources in order to secure the efficient utilization of *known* inputs in terms of a given hierarchy of ends."

Kirzner goes on to characterize Robbinsian decision makers as "strictly price takers" who are unable to raise or lower prices in the face of unanticipated reductions or accumulations of inventories. Thus the concept of economizing at the center of Robbins's analysis is, according

Joseph T. Salerno (salerno@mises.com) is professor of economics at Pace University and editor of the *Quarterly Journal of Austrian Economics*.

[1]One of the few exceptions is Murray Rothbard (1997, p. 287) who described Robbins's *Essay* as "presenting a watered down version of the praxeological method of Ludwig von Mises." As we shall see, even this way of putting matters understates the importance of Robbins's book.

to Kirzner (1979, p. 7), completely devoid of the "entrepreneurial element." Lacking this entrepreneurial element, the Robbinsian concept of economizing is therefore incapable of serving as the foundation for a theory of the dynamic market process. At best, theorizing in terms of Robbinsian economizing can only lead to "a theory of market equilibrium."

Kirzner (1979, pp. 170, 172–73) sums up his argument:

> The Robbinsian economizing-allocation-maximizing view of the decision is a construct that excludes the entrepreneurial aspect of human action. . . . Corresponding to Robbinsian economizing at the level of the individual, we have market general equilibrium. . . . Robbinsian allocation coordinates activities directed at a variety of goals so as to fit into a single overall pattern imposed by the given hierarchy of ends. General equilibrium in the market depends on the successful coordination of all individual market activities so that no single plan need fail to be carried out.

Kirzner, it seems, completely disqualifies Robbins as a contributor to the praxeological paradigm in economics, portraying his methodological work instead as the foundation for the maximizing paradigm that is at the core of modern neoclassical economics. But there is some tension in Kirzner's work on this point. For example, in a footnote Kirzner (1979, p. 259, n. 15) states, "It is of some interest that Robbins's own concept [of economizing] owed a good deal to Mises." In another footnote, after noting Menger's influence on Robbins's concept of economizing, Kirzner argues,

> [T]here is ample scope . . . for interpreting imperfect knowledge in Menger as a context within which economizing activity may be carried on. Menger's reference, at one point, to "economizing individuals aware of their advantage" [reference suppressed] must therefore be understood to refer to economizing individuals whom, for the sake of a particular problem in hand, we choose to imagine to happen to be so aware.

Here, Kirzner appears to be conceding that uncertainty, expectations, and error are perfectly consistent with the economizing framework, and that ends and means *are assumed as data given to the economic theorist and not to the economizing agent* whose choices are the subject of analysis.

In an earlier work, *The Economic Point of View*, Kirzner (1976, p. 130) seems to have clearly recognized this point, when he warns:

> To construct a model of action in terms of ends so conceived [i.e., as data] may well lead one unwittingly to disregard the fact that to the actor himself ends are not data at all but have been pur-

> posely chosen and are constantly in danger of being supplanted by newly prized ends. In viewing economics as concerned with preselected ends that are the ultimate frame of reference for a particular economic problem, one must exercise constant care not to transform the chosen ends into objective "pull" similar to physiologically conditioned "need." . . .

In general in this earlier work, Kirzner (1976, pp. 159–63) does not distinguish as sharply between Robbinsian economizing and Misesian acting, characterizing the latter as a broader and more fundamental concept of action that encompassed the former concept. In this paper I shall challenge Kirzner's interpretation of Robbins's methodological position on two grounds. First, I present evidence that Ludwig von Mises saw a much greater affinity between his own and Robbins's work than one would infer from reading Kirzner's description of the differences between their works. In fact, I will argue, Mises treated Robbins's book, which was published a year before Mises's first significant essay on the topic, as providing the most advanced exposition of economics as a praxeological science to that point. In the third section, I proceed to examine the vision of the market economy that Robbins expressed at various places in the *Essay* and argue that, contrary to Kirzner's interpretation, it implies an underlying theory of the market as a dynamic process unfolding in time.

The points raised in this paper are not intended as a definitive argument against the Kirznerian interpretation of Robbins's economic method.[2] But my hope is that the considerations brought forward will stimulate a rethinking of Robbins's place in the praxeological tradition.

II. MISES ON ROBBINS

Mises (2003) published his seminal essay on praxeology, "The Task and Scope of the Science of Human Action" in 1933, the year *after* the first edition of Robbins's book appeared.[3] Evidently Mises viewed Robbins's *Essay* as a path breaking work. In the Preface to the German edition of the *Epistemological Problems of Economics*, in which his essay first appeared, Mises (2003, p. lxii, fn. 2) criticized Arthur Spietoff because he did "not

[2]Any such endeavor would need to include an overall critique of Kirzner's interpretation of the concept of action as "discovery." I have attempted such a critique in Salerno 1993.

[3]In this essay, Mises used the word "sociology" to designate the science of human action.

even seem to be acquainted with Robbins's important work." It is significant that Mises did not mention the title of Robbins's book despite the fact that it had been published only the year before. The omission seems to indicate that Mises would have expected any competent economist to be familiar with the work.

Mises (2003, p. 19) explicitly considered Robbins as part of the tradition that conceived human action as the central concept of economic science, writing, [T]he subject of our science is human action. . . . . The investigations of . . . Cairnes, Bagehot, Menger, Max Weber and Robbins show that they are all guided by this idea." Mises (2003, pp. 18–24), then went on to survey the writings of Senior, J.S. Mill, Cairnes, and Wieser in order to demonstrate that, despite their outmoded philosophical positions and terminologies, they all conceived economic science as "an aprioristic discipline." Apparently, he did not feel that such qualifications were needed in the case of Robbins. Menger, however, whom Kirzner regards as having come closer than Robbins to comprehending the concept of Misesian action, was singled out for especially harsh criticism by Mises. Even judged against the imperfections of Wieser's writings, Mises (2003, p. 22, fn. 27) concluded, "Menger's pioneering investigations are still further weakened by their dependence on Mill's empiricism and psychologism."

Indeed, Mises (2003, p. 17) embraced Robbins's conception of economic science as the allocation of scarce means among valued ends as the essence of human action. Hence Mises aimed in his article at clarifying and defending the epistemological foundations of what he considered an already established science of human action. Wrote Mises (2003, p. 18):

> We do not maintain that the science of human action should be made aprioristic, but that it is so already. We do not want to discover a new method, but only to characterize correctly the method that is actually used. The theorems of economics are derived not from the observation of the facts, but through deduction from *the fundamental category of action, which has been expressed sometimes as the economic principle (i.e., the necessity to economize)*, sometimes as the value principle or as the cost principle. [Emphasis added]

In a subsection of his article entitled "The Distinction between Means and Ends: The 'Irrational'," Mises (2003, pp. 33–34) gave an example designed to demonstrate that "ends are determined by the wishes and desires of the individual." At the end of the example there is a footnote to a passage by Robbins in the *Essay*. There Robbins (1932, pp. 23–24) wrote:

> Economics . . . is concerned with the aspect of behavior which arises from the scarcity of means to achieve given ends. It follows that Economics is entirely neutral between ends; that in so far as the achievement of *any* end is dependent on scarce means, it is germane to the preoccupations of the Economist. Economics is not concerned with ends as such. It assumes that human beings have ends in the sense that they have tendencies to conduct which can be defined and understood, and it asks how their progress towards their objective is conditioned by the scarcity of means—how the disposal of the scarce means is contingent on these ultimate valuations.

Evidently, then, Mises was very comfortable with the description of human action in terms of given ends. In fact it may not be an exaggeration to say that Mises viewed the Robbinsian (and Mengerian) economizing or means/ends analysis as the essence and vocabulary of action. Passages consistent with this interpretation are scattered throughout Mises's article, four of which I will now quote.

> What we know about the fundamental categories of action—action, economizing, preferring, the relationship of means and ends, and everything else that, together with these, constitutes the system of human action—is not derived from experience. (Mises 2003, p. 13)

> The "seeking to attain an end" and "the striving after a goal" cannot be eliminated from the concept of action. . . . Even in the unconscious and apparently senseless behavior of the neurotic and the psychopath there is meaning, i.e., there is striving after ends or goals. (Mises 2003, pp. 33–34)

> What is economic is only the conduct of acting men. Economic action consists in the endeavor to remedy the state of dissatisfaction or expressed differently, to satisfy wants as far as the scarcity of means allows. (Mises 2003, p. 61)

> Goals change, ideas of technology are transformed but action always remains action. Action always seeks to realize ends, it is in this sense always rational and mindful of utility. It is in a word human. (Mises 2003, pp. 65–66)

Now the textual evidence presented in this section strongly suggests that Mises recognized a strong affinity between his own position and that of Robbins. Furthermore, Mises saw no advantage in repudiating or eschewing the terminology of the economizing approach used by Robbins and Menger. In fact he characterized this terminology as an alternative way of expressing the same concept that was fundamental to his own system. Still, establishing that Mises viewed Robbins's basic conception of economic science as essentially identical with his own does not establish that Kirzner has errs in asserting a lack of identity between the two. Just because Mises did not perceive essential differences between Robbinsian economizing and Misesian acting does not mean that they do not exist.

In the next section, I present evidence from the *Essay* that indicates that Robbins shared with Mises a vision of the market economy as a dynamic process unfolding in time. Like Mises, Robbins identified the dynamic efficiency of the market economy in the ability of entrepreneurs to continually anticipate and adapt production to ceaseless changes in relative valuations and technical conditions. In fact, as we shall see, this explains why Robbins insisted that economic theory must assume that ends are given.

III. ROBBINS ON THE DYNAMIC NATURE OF THE MARKET ECONOMY

As noted above Kirzner interprets Robbins's economizing framework with its emphasis on given ends and means as excluding the element of entrepreneurship from analysis and thus transforming the theory of the market into a theory of general equilibrium. But Kirzner's interpretation of Robbinsian economizing and its implications for the theory of the market are flatly contradicted by Robbins's characterization of the market, and by his explanation of why the assumption of given ends is vital to the economic theorist.

To begin with, Robbins hardly viewed economizing man as an automaton who is a prisoner of a given ends/means framework and who is incapable of learning about and adjusting his actions to changes in market conditions, as Kirzner seems to suggest. Rather Robbins portrayed humans as adopting and abandoning any given framework under both the compulsion of inner urges and inclinations and the impact of external influences—but always and at any every moment operating within a definite framework of these data. But this is just another way of stating that a conscious individual always must *choose*.

Thus Robbins (1932, p. 18) portrayed us humans as

> . . . sentient creatures with bundles of desires and aspirations, with masses of instinctive tendencies all urging us in different ways to action. But the time in which these tendencies can be expressed is limited. The external world does not offer full opportunities for their complete achievement. Life is short. Nature is niggardly. Our fellows have other objectives. Yet we can use our lives for

> doing different things, our materials and the services of others for achieving different objectives.

When Robbins therefore said, "Economics is not concerned with ends as such," he meant that "human beings have ends in the sense that they have tendencies to conduct which can be defined and understood. . . ." He did not mean that ends are not subject to change or can be predicted by the subjects themselves or by the observing economist. Indeed ends can and do change rapidly and unpredictably. To illustrate this, Robbins postulated a community of sybarites who are visited by the Dominican Giramo Savonarola the noted book burner and art destroyer who preached against the immorality of the Renaissance. Savonarola's preaching prevails and the community is convinced. Their ends/means framework changes radically but yet the necessity of economizing remains in full force. As Robbins (1932, p. 25) described the situation:

> Their former ends become revolting to them. The pleasures of the senses are banished. The sybarites become ascetics. There is no need to change the categories of explanation. All that has happened is that the demand schedules have changed. Some things have become relatively less scarce, others more so. The rent of vineyards falls. The rent of quarries for ecclesiastical masonry rises. That is all.

Robbins treated the ends and their ranking as data for economics, precisely because they were subject to change whose explanation cannot be comprehended in the nomothetic propositions that constitute economic theory. It is worth quoting Robbins (1932, p. 87) at length on this point

> [T]here is no means available for determining the probable movement of the relative scales of valuation. Hence in all our analysis we take the scales of valuation as given. It is only what follows from these assumptions that has the character of inevitability. It is only in this area that we find the regime of law.
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> It follows, therefore, that economic law cannot be held to relate to movements of the relative scales, and that economic causation only extends through the range of their original implication. This is not to say that changes in values may not be contemplated. Of course, changes in values are the main preoccupation of theoretical Economics. It is only to say that as economists we cannot go behind changes in individual valuations. . . . We may explain changes due to changes in these data. But we cannot explain changes in the data themselves.

It is quite clear from the foregoing passage that Robbins viewed the task of economic theory as explaining observed changes in the real world. His point is that the economist qua economist theorist cannot "explain" changes in valuations in the same way that he can "explain" the changes that are caused by changes in valuations. Thus in using the term "given data" to characterize relative valuations and technical facts, Robbins (1932, pp. 44, 87) did not mean to imply that the data were *known* to the economic theorist, let alone all economizing individuals in the market. To the contrary, Robbins resorted to such pleonastic phraseology as a means of emphasizing the inscrutability of these data and their modes of change to the theorist. This is also the reason that he adopted Strigl's distinction between "exogenous" and "endogenous" changes (Robbins 1932, p. 116).

In order to explain the succession of concrete historical events, the economist must take account of both types of changes. Robbins (1932, p. 116) gave the following example. Assuming a given demand for money, an increase in the supply of a national currency will result in a fall in its value on the foreign exchange market. This is an "endogenous change," an inevitable result determined by economic law and the presence of the assumed change in the configuration of the concrete economic data. Now in many cases, for instance the German hyperinflation of the 1920s, governments foolishly or cunningly respond to the depreciation of the external value of their currency by printing more of it. This is an "exogenous change." As such, "there is no *inevitable* connection between a fall in the exchanges and the decision to set the printing presses working. A new human volition interrupts the chain of 'causation'."

As we see, Robbins conceived of the market as a complex entwinement and mutual adaptation of autonomous actions and law-constrained reactions, of exogenous and endogenous changes unfolding over time. This brings us to Robbins's theory of the market economy. Is it indeed a theory of a static state or of general equilibrium, as Kirzner insists it must be? Let us examine the few instances in his *Essay* in which Robbins deals directly with the substantive propositions of economic theory.

In discussing an unforeseen change in demand or cost conditions that renders a particular type of machinery unprofitable, Robbins (1932, pp. 51–52) characterized the situation as "a waste due to ignorance." He went on to point out that once the change had occurred, however, it would be wasteful to take it into account in future decisions. For Robbins, "The problem is one of adjustment to the situation that is given." Robbins concluded "it still remains the unshakable achievement of this theory [of subjective value] that it focuses attention on this fact, as important in applied economics as it is in the purest of pure theory."

Adjustment and adaptation of the market to changing conditions was the key to Robbins's dynamic standard of economic efficiency. In refuting the error regarding the positive effects of inflation on the accumulation of capital, Robbins (1932, p. 53) argued:

> For the efficiency of any industrial system does not consist in the presence of large quantities of up-to-date capital equipment, irrespective of the demand for its products or the price of the factors of production which are needed for the exploitation of such equipment. It consists in the degree of adaptation to meet demand of the organization of *all* resources.

Thus stated, Robbins's efficiency standard seems to belie Kirzner's portrayal of him as a general equilibrium theorist. Kirzner's position appears even less plausible in light of Robbins's eloquent description of the connection between realized present prices and anticipated future prices. According to Robbins (1932, pp. 61–62):

> Quite clearly, at any moment, anticipations of what prices will be at a future period inevitably influence present valuations and price relationships. It is possible to exchange goods now for goods in the future, and we can conceive an equilibrium direction of price change through time. This is true and important. But while there is and must be a connection between present prices and anticipations of future prices, there is no necessary connection between present prices and *past prices*. The conception of an equilibrium relationship through time is a hypothetical relationship. Through history, the given data change, and though *at every moment* there are tendencies toward an equilibrium, yet from *moment to moment*, it is not the *same* equilibrium towards which there is movement. There is a fundamental asymmetry in price relationships through time. The future—the apparent future, that is to say—affects the present, but the past is irrelevant.

Thus for the Robbinsian economizer, it is entrepreneurial anticipations of future market conditions that are part of the "given data" that constitute his framework of choice at any moment. But these given data are not known with certainty by him because of the continual emergence of unexpected exogenous changes. The result is a dynamic market process in which endogenous changes are induced by adjustment to the irrevocable errors of the past, at the same time that economizers are struggling to anticipate and adapt to exogenous changes.

If change in the data is indeed addressed in Robbins's theory of the market economy, then why does Kirzner object so strenuously to Robbins's economizing framework? I believe the answer lies in the differing methods that Robbins and Kirzner employ to incorporate change into their respective theories. A brief comparison of Robbins's economizing framework with Kirzner's discovery framework sheds light on this point. Kirzner (1973, 1979) "endogenizes" all change by treating it as the outcome of the "correction" of past errors. Erring actors are stimulated to discover and adopt more individually attractive and socially coordinative ends/means frameworks by their failure to achieve their purposes. After failing to find a particular good for sale at an expected price, a buyer looks elsewhere and discovers an opportunity to purchase the good he has been seeking at cheaper prices; or he learns about a cheap source of an alternative good previously unknown to him that better serves his purposes. A seller rebuffed in his attempt to sell his wares at the anticipated price, seeks and finds more eager buyers in a nearby neighborhood he rarely frequents. These discoveries and consequent exchanges bring the plans of diverse individuals into greater coordination. Every round of market activity reveals errors that generate further discoveries of arbitrage opportunities whose exploitation impels the market closer to a state of complete plan coordination.

The market process, as Kirzner conceives it, is thus essentially an error correction process that converges on a real and attainable equilibrium. For Robbins, in contrast, equilibrium is a purely "hypothetical" construct based on a constellation of data that changes from moment to moment. Whereas Kirzner practically banishes exogenous change from his theory, Robbins identifies efficient adaptation to such change as the most important problem confronting economizing man. Kirzner views the market process as initiated by experience of past errors; the efficiency of this error correction process lies in the progressive overcoming of ignorance of each individual with respect to the plans of other individuals leading to a mutual coordination of plans. Robbins dismissed past errors as irrevocable and irrelevant to present choices; the market process is set in motion by the necessity of using presently available means, including the results of past errors, to efficiently adapt action to anticipated but uncertain changes in *future* conditions.

IV. CONCLUSION

I believe the evidence presented in this paper raises serious questions for Kirzner's interpretation of Robbins's *Essay*. Mises certainly treated Robbins's book as an important contribution to the science of human action and did not draw a distinction between the Robbins's economizing man and his own concept of the purposive actor. Furthermore, contrary to Kirzner's claim, the economizing framework, at least as Robbins understood and applied it, does not ineluctably lead to a static theory of the market. In fact Robbins's remarks on theoretical issues that are scattered throughout the *Essay* reveal a conception of the market that is dramatically dynamic and process-oriented.

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