J. Saitama Univ. Fac. Educ., 59(2):119-134 (2010)

The 'Robbins Circle' of the London School of Economics and Political Science: the Liberalism group's counterattack of Laissez-faire against Cambridge[1)]

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Keywords: LSE, Robbins Circle, Cambridge

Summary

The purpose of this paper is to describe the 'Robbins Circle' of the early 1930s at LSE—a miraculous group comprising Lionel Robbins, F. Hayek, N. Kaldor, J. Hicks, A. Lerner, and others—contrasting it with Cambridge economists and elucidating Robbins's perspective. Few reports have explored their theory and policy through Robbins's view. The 'Robbins Circle' supported LSE as the 'international stronghold of the continental economists such as Austrian economics and Lausanne economics as a rival to Cambridge economics.' If we divide their theories conveniently into microeconomics and macroeconomics, then microeconomic theory has been based on Robbins's famous definition of economics and his general equilibrium theory, whereas macroeconomic thought was based on Hayek's monetary over-investment theory. Their policies were fundamentally 'Laissez-faire' in their underlying philosophy, although some economists differed frequently on matters of practical judgment. They sought the 'intellectual independence' of LSE and 'the pursuit of excellence' of the continental economics. Although many economists of the 'Robbins Circle' were dispersed by the influence of the Keynes Revolution, the interrelationship between LSE and Cambridge, and Robbins' participation of the War Cabinet, was considerably influential for them to aspire to the Cambridge school in the point of protecting liberal society.

1. Introduction: What is the 'Robbins Circle'?

The decade of the 1930s in the world historical context marks a period rife with economic and political upheaval: many countries abandoned the gold standard system, with introduction of austerity measures and protective tariffs, with advocation of centrally planned economies, and with the rise of the Nazis from the Great Depression that originated on October 24, 1929—the day when the New York Stock Exchange shrank so abruptly. The decade of the 1930s in the history of economics also represents a considerably important period for considering the rise of modern economics. It was a time during which various theories and analyses appeared and coalesced as a foundation for building modern economics. At Cambridge, A. Robinson, J. Robinson, R. Kahn, P. Sraffa, and J. E. Meade formed the 'Cambridge Circus' with the onset of the publishing of *A Treatise on Money* (Keynes 1930) . The 'Robbins Circle' was formed around the same time at the London School of Economics and Political Science (LSE). The 'Robbins Circle' was a miracle group in the early 1930s at LSE—comprising Lionel Robbins, Friedrich Hayek, Nicholas Kaldor, John Hicks, Abba Lerner, G.L.S. Shackle, Arnold Plant, Ursula Webb, Ronald Coase, Roy Allen, Richard Sayers, P. Rosenstein-Rodan (with University College of London) and others. Apparently, LSE was deeply influenced by Fabian Socialism fostered by the images of founders Mr. and Mrs. Webb and B. Shaw et al. However, as Robbins said 'it should be readily perceived by any knowledgeable person from how wide a range of professional belief and political affiliation they were recruited' (Robbins 1971: 131). The LSE has remained an independent organization that contributes to academic freedom and the advance of knowledge irrespective of the political standpoint since it was established in 1895. The fact that so many famous economists of the 20th century met and gathered there together in 1930s British economic academic circles is truly remarkable in the history of economics.

Scarcely had Robbins become a Professor of LSE at 30 years old when he had organized meeting for the staff of each department in his room at teatime each week. In addition, as the Chairman of the department, he sponsored a seminar for researchers for discussing the subjects in which they were interested.

According to one account in the *Autobiography of an Economist* (Robbins 1971) by Robbins:

> 'Chapters from Hayek's Pure Theory of Capital, Hicks and Allen's Reconsideration of the Theory of Value, Plant's Economics of Patents, Lerner's Factor Prices in International Trade, Kaldor's Classificatory Note on Conceptions of Equilibrium, Victor Edelberg's Ricardian Theory of Profits - these are specimens of the sort of material which was presented to our discussions. It was very exciting. The feeling was general that after a period of relative stagnation, economics was on the march again and that we were participating in active operations' (Robbins 1971:131-2).

In fact, LSE was an urban-type academic facility, which differed from Cambridge; it had geographical advantages, as it does even now. The site of LSE was situated at Aldwych, the centre of London, equidistant from Whitehall, the City, and the British Museum. Additionally, it was situated conveniently between the main railway terminals. Therefore, most of the more interesting economists of the day visited LSE to deliver special lectures: Haberler and Machlup from Vienna, Bresciani-Turroni from Rome, Lindhal, Ohlin and Frish from Scandinavia, Marget and Knight and Viner from the United States of America, and others (Robbins 1971: 132). Consequently, the 'Robbins Circle' in the LSE within the cosmopolitan London metropolis enjoyed a personal ambience and an environment in which all felt free to accept the new economic ideas from all over the world. Regarded from another angle, it was the 'consciously radical method' that Robbins aimed to bring as a new perspective on continental economics to the British economics academic circle that had been largely dominated by Marshall or the Cambridge school (Hayasaka 1989: 234).

Numerous studies have examined the 'Robbins Circle'. First, the 'Robbins Circle' supported LSE as 'The international stronghold of the continental economics such as Austrian economics and Lausanne Economics in Britain'. According to Wiseman (1985), the 'Robbins Circle' was a place 'of intellectual independence and the pursuit of excellence.' Second, the 'Robbins Circle' was opposed to 'Cambridge Economics as Insularism.' Third, 'LSE vs. Cambridge' was manifested as a distinction in economic theory and policy (Howson and Winch 1977; Winch 1969; Marcuzzo et al. 2005). Fourth, the 'Robbins Circle' is positioned as 'the London School' or 'the Vienna School combined with the Lausanne School in Britain' in the history of economics (Buchanan 1988; Sugimoto 1981).

Nevertheless, few attempts have been undertaken to explore the content and character of economic theory and the concrete economic policy in the 'Robbins Circle'[2], such as the following questions: what are the detailed tenets of the continental economics? What was the 'Robbins Circle'? What did LSE's economists think of Cambridge? It is crucial to investigate the economic theory and policy in the 'Robbins Circle' and the relation between LSE and Cambridge during the interwar period for reconsideration of British economic society.

Our purpose is to discuss the nature of the 'Robbins Circle' in the 1930s LSE, especially through Robbins's view from the following items: Part 2 presents the outline of economic theory and nature in the 'Robbins Circle'. It can be divided conveniently into macroeconomics and microeconomics. Part 3 presents the economic policy in the 'Robbins Circle', especially through Robbins's perspective. Part 4 presents discussion of the coherence between theory and policy in the 'Robbins Circle', also especially through Robbins' perspective. Finally, Part 5 concludes with an explanation of the 'Robbins Circle', viewed in contrast to Cambridge economists.

2. Economic Theories of the 'Robbins Circle': Microeconomics and Macroeconomics

2-1 Microeconomics

Robbins first presented the famous definitions of economics in *An Essay on the Nature and Significance of Economic Science* (Robbins 1932, abbreviated hereinafter as *NS*) in 1932 as follows: 'Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.' (Robbins 1935: 16)[3]

This definition was supported first among American new classical economists after World War II as the economic definition allowing an efficient allocation of scarce resources, except for the theory of distribution, which is based on a value judgment. As Robbins recollected the following: 'I was deep in the study of the marginal utility theory of value at the time, especially in the works of the Austrians and Philip Wicksteed'. (Robbins 1971: 146), his definition of economics consists mainly of continental economics such as the Austrian economics and the Lausanne economics and others[4].

Robbins's economics was 'new' economics in 1930s Britain[5], if we consider that the Cambridge school such as Marshall's economics influenced British economics. For example, given by the ordinal preference without the marginal utility of money, the consumer's demand curve can be depicted from 'A reconsideration of the theory of value' (Hicks and Allen, 1934). That explanation shows 'preferences' in the means of Robbins's definition. According to *NS,* new economics was shown as follows.

'This notion can be expressed in various ways and with varying degrees of precision, from the simple want systems of Menger and the early Austrians to the more refined scales of relative valuations of Wicksteed and Schönfeld and the indifference systems of Pareto and Messrs. Hicks and Allen.'(Robbins 1935: 75).

After Robbins showed the definition of economics, Robbins said that 'we have a theory of equilibrium, a theory of comparative statics and a theory of dynamic change'(Robbins 1935: 68). Consequently, Robbins insisted not only on a static equilibrium, but also on market dynamics, such as that involved with entrepreneurship as follows:

'In planning for the future we have to choose, not between certainties, but rather between a range of this range itself may vary, and accordingly there must arise not only relative valuation of the different kinds of uncertainties between themselves, but also of different ranges of uncertainty similarly compared. From such concepts may be deduced many of the most complicated propositions of the theory of economic dynamics'.(Robbins 1935: 78).

'His expectations of price are based upon his knowledge of markets, His expectations of cost on technical information coupled with knowledge of the price for the various factors of production. But, the prices of the various factors of production, which are the resultant of the competitive bidding of the different entrepreneurs, tend to reflect the value of their contribution to the production of different products'.(Robbins 1934: 152).

According to Ronald Coase, who had attended Robbins seminar in LSE, although Robbins did not understand the economic organization in Knight's *Risk, Profit and Uncertainty,* Robbins was interested not only in Knight's distinction between Risk and Uncertainty but also in his book's 'Part II: Perfect competition'[6]. Therefore, although Robbins's economics emphasized the equilibrium of economics, Robbins researched not only statistics but also the dynamic market by discerning statistics from dynamics in economics[7].

Young economists who took part in the 'Robbins Circle' had Robbins's economics in common. In 'The Role of Time in Economic Theory'(Rosenstein-Rodan 1934), Rosenstein-Rodan referred to the problem of coordination through the changeable time in reference with the argument of Robbins's *NS.* In Kaldor's 'A Classificatory Note on the Determinateness of Static Equilibrium', Kaldor referred to the equilibrium and disequilibrium in the time of economic course(Kaldor 1934a). For example, he showed convergence and divergence using and proving the cobweb theory according to the distinction between statics and dynamics. He wrote numerous essays on the equilibrium of the firm, J. Robinson's imperfect competition, and market imperfection and excess capacity(Kaldor 1934b; 1934c; 1935), when he examined how to attain the equilibrium under the free competition market[8]. As Hicks pointed out, 'it has to be recognized that a general abandonment of the assumption of perfect competition, a universal adoption of the assumption of monopoly, must have very destructive consequences for economic theory'

(Hicks 1942: 83), *Value and Capital*(Hicks 1939) was the book that not only investigated the statistics but also tried to approach dynamic general equilibrium by introducing the concept of time such as the 'week' and 'Monday'. Lerner researched the general equilibrium theory geometrically, Pareto optima, and time and production. *The economics of control* (Lerner 1944) was based on a Ph. D. dissertation that he submitted in the London University.

Consequently, the 'Robbins Circle' created the original theory of prices and evolved the theory of the firm in modern economics, by introducing the time of statistics and dynamics into economic analysis, the theory of the firm and the others, and by considering the manner in which scarce resources are attained under free competition[9)].

2-2 Macroeconomics

The central concept of macroeconomics at LSE was Hayek's *Prices and Production*(Hayek 1931 (1935)). Hayek delivered lectures continually at both LSE and Cambridge; then he became a Tooke Professor at LSE in the autumn of 1931. Although Hayek's lecture was not accepted at Cambridge, at LSE 'the lectures were at once difficult and exciting; and they conveyed such an impression of learning and analytical invention'(Robbins 1971: 127). Stimulated by Hayek's lecture, Robbins urged Hicks to approach Hayek's concept mathematically. It was partly for lecture revelation of an aspect of classical monetary theory that for many years had been forgotten, partly for the development of models of an elementary structure of a capitalistic economy that purported to show the influence on production and relative prices of changes in the proportions of expenditure allotted to consumption and investment, respectively.(Robbins 1971: 127).

According to Haberler(1958), the theory of the trade cycle called 'the monetary over- investment theory' is the following.

Assuming that resources are perfectly employed and that prices are flexible, investment funds supply more than the case of voluntary saving if credit expansion occurs and the rate of monetary interest falls less than the rate of natural interest. Furthermore, capitalistic production prolongs the period of production through forced saving. People's time preference does not change if roundabout production is adopted. Therefore, consumption does not decrease, and the increase of income in the part of production goods turns to consumption goods. Furthermore, the quantities of available consumption goods are decreasing gradually. Here it is necessary to switch to the short turn of production from the roundabout. The capital facilities are destroyed and a crash would occur if the long-term process of production were influenced by the stoppage of credit. Therefore, without monetary intervention in the structure of production, we must keep neutral money. In other words, it is necessary to correspond the rate of monetary interest to the rate of neutral money. Nevertheless, it is impossible to do such a thing through a financial authority such as a central bank, partly because it is difficult to find the level of the rate of natural interest and change the money supply, and partly because the current money supply changes constantly. Consequently, the use of finance as artificial stimulative policy merely delays progress to a structure of production that is adapted to the demand delay. Additionally, it prevents the coordination of the structure of production.

Robbins published *The Great Depression* in 1934 for adaptation of Hayek's theory to Robbins's economic policy (Robbins 1934). In the book, Robbins divided the structure of production into two categories: income goods and capital goods. He understood the roundabout process similarly to Hayek. Furthermore, credit expansion of the central bank's policy using the interest rate brings about the expansion and contraction of the money supply; it also affects the degree of the roundabout process of the production structure. Robbins commented as follows:

> 'Once costs have begun to rise it would require a continuous increase in the rate of increase of credit to prevent the thing coming to disaster. But that itself, as we have seen in the great post-war inflations, would eventually generate panic. Sooner or later the initial errors are discovered. And, then starts a reverse rush for liquidity. The Stock Exchange collapses. There is a stoppage of new issues. Production in the industries producing capital-goods slows down. The boom is at an end'. (Robbins 1934: 42).

Additionally, it is necessary to control the money supply to accord the rate of monetary interest with the interest rate necessary to avoid the crash, but it is impossible for the financial agent's policy to control the monetary and real aspects (Robbins 1934). The policy of the central bank should depend on the 'rules of game' that are based on the international gold standard[10].

Consequently, the monetary over-investment theory and Austrian capital theory were both roundly examined in the Robbins Circle. For example, Kaldor translated Hayek's *Geldtheorie und Konjunkturtheorie* (Hayek 1929) into English with H. M. Croome, whose English title was *Monetary theory and the Trade Cycle* (Hayek 1933). Hicks published the essay on Trade Cycle (Hicks 1933); Lerner published essays on 'Capital, Investment and Time' (Lerner 1931-2; 1944)[11].

3. Economic Policies: Policy recommendation of Laissez-faire

During the Great Depression, some debates took place over whether free trade or protectionism was preferred. To oppose protectionism, *Tariffs: The Case Examined,* which comprises papers by LSE group members such as Robbins, Hicks, Plant and others, edited by William Beveridge, Director of LSE, was published in 1931. In addition, Robbins sent a letter to *The Times* with his colleagues—Plant, Gregory and Hayek—who opposed protectionism strongly, as did Keynes, Pigou, and others. Kaldor also wrote 'The Economic Situation of Austria' (Kaldor 1932) and discussed the maintenance of the free trade. For that reason, many economists in the 'Robbins Circle' advocated liberalist policies, although a slight difference was apparent among their opinions[12]. Such Laissez-faire policies at LSE were mainly advocated by Robbins, so arrangement of his systems of Laissez-faire policies should proceed as follows.

The conflict between Keynes and Robbins started from the time when Robbins was appointed as a member of the Committee of Economists on 24 July 1930. The Prime Minister, Ramsay MacDonald, asked Keynes to become the Chairman to suggest an appropriate policy for the Great Depression. The members were H. D. Henderson, Pigou, J. Stamp, and Robbins. Young Robbins was pleased to have been invited by Keynes. Nevertheless, when the report was drafted, Keynes asked Robbins to agree strongly with the two following points. The first was that the government make public investment policy for revitalization of industry activities; the second point was that the government promote the protectionism for improving the balance of payments. Robbins opposed Keynes firmly in the Committee. Ultimately, they parted ways.

Howson and Winch (1977) and Winch (1966) added great detail to Robbins's concrete economic policies, and fuelled the conflict between Robbins and Keynes. In brief, we can arrange Robbins's policy suggestions from the follow items.

(1) Against 'Industrial monopoly'[13)]

Industry monopoly that does not depend on natural monopoly is a by-product to protect trademark and patent legislation that are inimical to competition. Pools and restriction schemes flourish chiefly when they receive government support.

(2) Against restrictions on foreign lending[14)]

Any measure to restrict the volume of various foreign lending on any foreign investment, such as imposing differential taxation on any form of foreign investment, damages the prestige of London as an international monetary market.

(3) Against public policy[15)]

The worst cases of market rigidity and the instability of industry structure are the creations of government policy.

(4) Against wage subsidies[16)]

Wage subsidy policies promote wage stickiness and do not calm down inflation of the best wage because of the liquidity of labour. In addition, our economic situation is under a deficit-financing situation. The cause of wage stickiness is the abuse of unemployment insurance, although we need not demolish trade unions. Therefore, the wage cut should be undertaken.

(5) Against protective tariffs[17)]

The policy of a protective tariff that abandons the free trade system depending on the Gold Standard does not help unemployed people or activate our industry. It could make our situation worse.

(6) Against price controls and reflation[18)]

During the deflation, Keynes insisted on the control of prices by the central bank and the abandonment of the Gold Standard. *The Economist* proposed reflation measures. However, deflation is the necessary condition of recovery.

From the points explained above, Robbins's economic policies were opposed to a state-controlled economy and protectionism. This was the Laissez-faire policy, which depended on the traditional gold standard and free trade since Adam Smith's classical economics. Robbins admired and respected 'the Laissez-faire philosophy' of 'Govern well, govern little' as follows:

> 'The maxim "to govern well, govern little" is not to be interpreted in the sense that government is a necessary evil to be reduced to an absolute minimum, but in the sense that when governments bite

off more than they can chew, they don't do their own business properly'.(Robbins 1934: 193)

Consequently, Robbins argued strongly for free trade because the destruction of free trade would have exacerbated the world economic situation despite the fact that it served national interests and had been intended only as a temporary measure.

4. Coherence of theory and policy: 'Neutrality' of economics

Robbins suggested many Liberalist policies since he had become a professor of LSE, as explained in section 3. Nevertheless, Robbins said 'Economics cannot pronounce on the validity of ultimate judgments of value' in *NS.* In other words, economics science is best left as 'neutral' because the propositions involving 'ought' are on an entirely different plane from those propositions involving 'is'. Although he insisted on 'the neutrality of economics,' why did Robbins propose so many economic policies based on a Laissez-faire orientation?

In 1937, it was settled for Robbins to presume the concept of 'Political economy' in *Economic Planning and International order* as follows:

> 'It(Political Economy) depends upon the technical apparatus of analytical Economics; but it applies this apparatus to the examination of schemes for the realization of aims whose formulation lies outside Economics; and it does not abstain from appeal to the probabilities of political practice when such an appeal has seemed relevant'.(Robbins 1937: vi-viii)

According to this distinction, 'Political economy' includes not only economics, but also researched areas such as 'politics', 'ethics', and 'history' that so readily incorporate value judgments. However, before 1937, Robbins implied distinct economics and other research areas called the 'applied economy', which seems to accord to his 'political economy'. In *NS* 2nd edition, Robbins wrote the following:

> 'All this is not to say that economists may not assume as postulates different judgments of value; then on the assumption that these are valid enquire what judgment is to be passed upon particular proposals for action. On the contrary, as we shall see, it is just in the light that it casts upon the significance and consistency of different ultimate valuations that the utility of Economics consists. Applied Economics consists of propositions of the form, "If you want to do this, then you must do that." "If such and such is to be regarded as the ultimate good, then this is clearly incompatible with it." All that is implied in the distinction here emphasised is that the validity of assumptions relating to the value of what exists or what may exist is not a matter of scientific verification, as is the validity of assumptions relating to mere existence.'(Robbins 1935: 149).

We can better understand his distinction between 'economics' and 'political economy' by pursuing an interpretation of the problems of 'the interpersonal comparison of utility', in which he criticized Pigou's welfare economics. According to Robbins's *NS,* 'It(the extension of the Law of Diminishing

Marginal Utility) is simply the accidental deposit of the historical association of English Economics with Utilitarianism' (Robbins 1935: 141) and '(it) is held to provide a criterion of all the forms of political and social affecting distribution' (*Ibid*.: 136). Robbins said the following.

> 'The Law of Diminishing Marginal Utility implies that the more one has of anything the less one values additional units thereof. Therefore, it is said, the more real income one has, the less one values additional units of income. Therefore the marginal utility of a rich man's income is less than the marginal utility of a poor man's income. Therefore, it transfers are made, and these transfers do not appreciably affect production, total utility will be increased. Therefore, such transfers are "economically justified". *Quad erat demonstrandum.*' (Robbins 1935: 137)

Robbins criticized Pigou's welfare economics from the following points: 'The law of diminishing marginal utility invoked does not follow in the least from the fundamental conception of economic goods', 'it makes assumptions which, whether they are true or false, can never be verified by observation or introspection', and 'the proposition we are examining begs the great metaphysical question of the scientific comparability of different individual experiences.' (Robbins 1935: 137).

Consequently, Robbins suggested that an interpersonal comparison of utility is impossible within economic science partly because it is difficult to measure the social utility based on the utilitarianism and partly because the insistence that the law of diminishing marginal utility affects political action is a metaphysical problem. In other words, Robbins showed that value judgments differ from the traditional British economics. Subsequently, he insisted on the neutrality of economics.

However, the economics that Robbins insisted on is not necessarily 'neutral'. It is apparent from 'the last sentence' of the Chapter 6 in *NS* as follows:

> 'Economics does depend, if not for its existence, at least for its significance, on an ultimate valuation--the affirmation that rationality and ability to choose with knowledge is desirable. If irrationality, if the surrender to the blind force of external stimuli and unco-ordinated impulse at every moment is a good to be preferred above all others, then it is true the raison d'etre of Economics disappears. And, it is the tragedy of our generation, red with fratricidal strife and betrayed almost beyond belief by those who should have been its intellectual leaders, that there have arisen those who would uphold this ultimate negation, this escape from the tragic necessities of choice which has become conscious. With all such there can be no argument. The revolt against reason is essentially a revolt against life itself. But, for all those who still affirm more positive values, that branch of knowledge which, above all others, is the symbol and safeguard of rationality in social arrangements, must, in the anxious days which are to come, by very reason of this menace to that for which it stands, possess a peculiar and a heightened significance.' (Robbins 1935: 157-158, the underlined emphasis added is mine).

From the text presented above, it is apparent that Robbins recognized the rationality and ability based on the necessity of an individual's choice as the ultimate value judgment. Consequently, his economics should not be understood as "wertfreihiet" or "value-neutral" a la Max Weber. In that statement, Robbins protected a reasonable choice based on a rational individual and freedom of choice —remember Robbins's definition of economics and his economic theory. Moreover, his economics is independent of ideologies such as those of socialism, nationalism, and economic planning. This idea is related to criticism not only of income distribution policy based on the interpersonal comparison of utility such as Pigou's welfare economics, but also of the effectiveness of planning of economic policy by the agent.

Therefore, as Robbins insisted on 'the neutrality of economics', his idea of protection of individual free choice against economic planning was hidden in his economics. Furthermore, Robbins has a coherent system of economic theory and policy based on Laissez- faire. Its outline is clarified if we correspond this argument to Robbins economic policies in *The Great Depression*.

> 'All over the world, Governments to-day are actively engaged, on a scale unprecedented in history, in restricting trade and enterprise and undermining the basis of capitalism. Such a policy is not confined to the Socialists. Indeed the political power of the socialist parties in many parts of the world may be said to be waning. But, their opponents, the dictators and the reactionaries, are inspired by the same ideas. It is a complete misapprehension to suppose that the victory of the Nazis and the Fascists is a defeat for the forces making for the destruction of capitalism. They have the same fanatical hatred of economic liberalism, the same hopes of a planned society. The differences are hierarchical'.(Robbins 1934: 197).

Consequently, Robbins's suggestion of neutral economics without value judgments advocated 'liberalist economics' or 'Laissez- faire philosophy'. Additionally, it resisted ideas such as purported by Nazism, Socialism, Nationalism, and Economic planning[19]. Economics in the 'Robbins Circle' excluded value judgments on the surface, but in fact it protected the ultimate value judgment. In other words, their economics was based on a 'Laissez-faire philosophy'.

The economic theories and economic policies in the 'Robbins Circle' were coherent. Keynes said the following about Robbins: 'It is the distinction of Prof. Robbins that he, almost alone, continues to maintain a consistent scheme of thought, his practical recommendations belonging to the same system as his theory'(Keynes 1936: 20). Keynes's insistence on criticizing Pigou, whose arguments did not coordinate his theory to his policy, was strongly ironic to Robbins, but Robbins' theory and policy do suggest a coherent system[20].

5. Some Conclusions: including the relation with Cambridge

To sum up, the 'Robbins Circle' was the group at LSE in which Robbins and Hayek strongly led many young economists such as Kaldor, Hicks and Lerner from all over the world. They promoted an intellectual exchange between LSE and Cambridge. They searched not only British economics but also the Austrian school and the Lausanne school. The LSE had an ideal environment to accept continental economics because it was located in such a cosmopolitan city—London—which differed from Cambridge with its strong local heritage. They challenged Marshall's economics and that of the

‘Cambridge school’. Therefore, they sought an ‘intellectual independence’ of the ‘Robbins Circle’ in LSE and ‘the pursuit of excellence’ of the continental economics. The ‘Robbins Circle’ might not be a firm school, earning it the moniker of a ‘London school’ or the appellation of a ‘Vienna School combined with the Lausanne school in Britain’. Nevertheless, from the perspective of the ‘continental economics’ we can call the ‘Robbins Circle’ as the ‘Robbins’s school’, which explored the pure theories. The economics that Robbins insisted upon is ‘neutral’, but it was based on ‘Laissez- faire’ philosophy, which protected the ultimate value judgment as the rationality of the individual free choice. Therefore, the ‘Robbins Circle’ was more or less a ‘liberal academic group’, although some members, such as Lerner, suggested market socialism or the control of economics against Laissez- faire.

Lastly, we refer to the relation between the ‘Robbins Circle’ and the Cambridge school. The ‘Robbins Circle’ lost influence in the late 1930s. The causes are as follows: The intellectual exchange among LSE and Cambridge, Keynesian economics, and Keynesian Revolution, LSE’s evacuation to Cambridge, Robbins’s participation in the war cabinet office.

Joan Robinson referred to it in the following manner:

> ‘A delegation led by Abba Lerner (then a graduate student at LSE) came to Cambridge to suggest that the young generation on each side should get together and settle the debate amongst themselves. The Review of Economic Studies was founded as a forum for discussion (it later evolved into something quite different) and a weekend meeting was arranged at an inn half-way between London and Cambridge. … Abba came to spend a term in Cambridge. He had been used to being the intellectual leader of his group and he very candidly admitted that he had been distressed to meet an argument that he could not answer. After passing the term in mental agony, he found out that saving is necessarily equal to investment and became for some time an only too fanatical supporter of Keynes’.(Robinson, J. 1978: p.xv).

Consequently, ‘LSE vs. Cambridge’ was gradually changed to a company through discussion among young economists at LSE and Cambridge. In addition, the ‘London and Cambridge Economic Service’ existed as a friendly meeting for monthly editing between LSE and Cambridge. Robbins remarked that “we eventually deepened into real friendship and intimate collaboration”(Robbins 1971: 135).

Lerner realized that the causal relation from saving to investment in Hayek’s *Prices and Production* did not hold true in an uncertain world. Then he changed into the thought of causal relation from investment to saving[21]. Kaldor also realized some faults of Hayek’s theories during his translation of *Geldtherie und Konjunkturtheorie*; then he grew involved with Keynes’s economics stimulated by Myrdal’s arguments of ‘ex ante and ex post’ analysis.

Kaldor said to Joan Robinson, ‘I fear that Cambridge economics is beyond me’(Kaldor 1935). Kaldor realized that the Cambridge economics was superior to the continental economics in LSE based on the following points: The problem of saving and investment, The fault of *Prices and Production*, Uncertainty, and The relation between theory and reality.

Hicks published ‘IS−LM analysis’ in ‘Mr. Keynes and the Classics’ in 1937(Hicks 1937). Lerner tried to expound Keynes’s *General Theory* geometrically(Lerner 1938). Kaldor published an essay on the interest rate and liquidity preference (Kaldor 1939b). However Hicks's analysis of 'IS−LM' was based on the theory of general equilibrium[22]. After World War II, Hicks abandoned the thought of IS−LM. Lerner's *The control of economics* was influenced partly by Keynesian economics, but most of the book was discussed at the LSE. Lerner became a true post-Keynesian when the economics of employment was published (Lerner 1951). Kaldor also genuinely understood Keynesian economics around the time that 'Alternative theories of distribution' was published in 1954-55[23].

Consequently, LSE and Cambridge were close geographically, which propinquity engendered the flowering intellectual corporation and exchange. Nevertheless, the academic gulf separating them was deep: it took them forever to figure out Keynes's economics or Cambridge economics. However, because of the existence of such an academic gap at LSE, in addition, because of the situation that 'there was indeed a substratum of "liberal" political principles' at LSE (Hicks 1984: 284), many great economists such as Kaldor, Hicks, Lerner and Coase were able to take their place on the academic stages of the world.

After World War II, LSE became one of the best world organizations for researching 'economics' and many of the social sciences. The LSE as an organization was elevated to the world level by Robbins's strong leadership and success and the 'Robbins Circle'. It has approximately that relation to the modern neo-classical economics that insisted on perfect competition if we reconsider the social philosophy in the 'Robbins Circle' from the perspective of modern economics. However, many economists at LSE, including Hicks and Kaldor, gradually came to criticize market clearance and perfect competition. Conversely, even Robbins, who had criticized public works in the 1930s, later acknowledged the value of public policies as important because of the influence of Keynes[24]. It was natural that they each remained aloof from theories that were insufficient to explain real problems by contacting with the Cambridge economics or Keynes Revolution. However, the Robbins Circle's appearance, which combined 'the efficiency allocation' with 'Laissez-faire philosophy', implies an important challenge to the Cambridge school from the standpoint that they strove to protect liberal society in the 1930s, when economic society was confronting threats posed simultaneously by fascism, the Nazis, Economic Planning, and Socialism's rise.

Notes

1) This paper was presented at the 14th annual conference of the ESHET in Amsterdam 27th March 2010. I'm very thankful to the discussants and the participants.
2) Many studies have examined each of the famous economists in LSE such as Robbins, Hayek, Hicks, and Kaldor. However, few studies explore aspects of the 'Robbins Circle' in the 1930s LSE.
3) Robbins wrote 'Economics' as 'Economic Science' in NS (Robbins 1935). Therefore, we had better use the words'economics science' directly. However, for reasons of expediency, we standardize it as 'economics' in this paper.
4) According to Kirzner, who is a neo-Austrian, Robbins does not understand Mengers's economics completely. Robbins's definition of economics is formalistic and does not address the nature of Menger's economics. However, it is not wise to emphasize the differences between Robbins's and

Menger's economics, as Kirzner observes.

5) Robbins said, 'my object has been to state, as simply as I could, propositions which are the common property of most modern economists'.(Robbins 1932(1984): p. vliii).

6) See Coase(1988), p.20.

7) The distinction between the statistics and the dynamics had already been put forth in Schumpeter's *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*(Schumpeter 1908), but it is important to consider Robbins's distinction between them if we think the development of the statistics and dynamics in the general equilibrium theories in the 'Robbins Circle'. Robbins's lectures in 1935-36 of General Principles of Economic Analysis consisted of the following subjects: A. Introduction: The nature of economic phenomena, Economic goods and their classification, The logical character of economic analysis, B. Statics: The theory of valuation and exchange, The theory of Production and distribution, C. Comparative Statics: Variations of demand and their effects on product and factor prices, Variations of factor supply: The conception of elasticity of demand and elasticity of substitution technical change, Accumulation and decumulation, D. Dynamics: Foreseen and unforeseen change, The theory of risk and uncertainty, Profit, The short period and the long quasi rents, Money and interest, Industrial Fluctuation(LSE, 1935-36).

8) According to Kaldor's recollections, 'My main contribution to this debate was the paper on "Market Imperfection and Excess Capacity" in the February 1935 issue of Economica, the purpose of which was to demonstrate that free competition in the sense of "free and unimpeded entry" into any industry or sector of the economy will only lead to a state of "perfect competition" postulated by equilibrium theory if the law of constant costs applies over the whole range of output from the infinitesimal to the indefinitely large'.(Kaldor 1986: 18-19).

9) Robbins criticized Marshall's partial economics, but he published two essays on Labour economics using Marshall's partial economics(Robbins 1929, 1930a).

10) See Robbins(1934), p.22.

11) Today's economic textbooks do not address over- investment monetary theory and the Austrian capital theory.

12) Lerner was one exception. Because Lerner discusses the control of economics against 'laissez-faire'.

13) See Robbins(1934), p.189.

14) See Robbins(1930b), p.228

15) See Robbins(1934), p.189

16) See Robbins(1934), pp.82-84.

17) See Robbins(1931, 1934).

18) See Robbins(1931, 1934).

19) For example, Robbins criticized market socialism with reference to Mises's argument(Robbins 1934: 148-155).

20) According to Robbins, The Great Depression has some theoretical faults. Nevertheless, Robbins supported free trade throughout his life. 'Indeed, I am as glad to have opposed Keynes on commercial restriction as I am sorry to have opposed him on financial reflation'(Robbins 1971: 156).

21) See Lerner (1938).

22) Hicks left LSE in 1935, at the invitation of Pigou. (Marcuzzo, M.C. et al. 2005).

23) See Kaldor (1955-56).

24) After Robbins worked at the Cabinet Office, he researched economics again along with William Baumol, Alan Peacock, William Philips, and others. (Robbins 1971: 218). This group was called the 'Second Robbins Circle'. After W.W.II, Robbins became interested in the thought of British classical economics, public works, and cultural affairs. Furthermore, Robbins insisted that we should study not only economics but also other research areas such as politics and history. 'I venture to suggest that, as teachers of the subject, our instructions will be more fruitful if, side by side, they run parallel with suitable courses in Politics and History—Politics because it deals systematically with philosophical and constitutional matters which as regards Political Economy only arise incidentally; History, because while it certainly does not lay down laws by which we can foretell the future, it does give a feeling for the possibilities of action which confining our attention to the present certainly fails to convey. I fancy that such exhortations are more at home in my own country where excessive specialization in the first- degree stage, productive of one-eyed monsters, is too frequently the order of the day. But the general principle seems to me to be sound.' (Robbins 1981: xxxi-xxxii).

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(Received March 31, 2010)
(Accepted April 16, 2010)