

Robertson's 'effort' concept and economic welfare

NAKAKITAURA Junki (Doshisha University)

1. The main question in this report

Dennis Holme Robertson (1890-1963) was regarded as one of the most prominent Cambridge economists next to A. Marshall, A. C. Pigou and J. M. Keynes. His economic thought affected monetary theory or the theory of the trade cycle, but it has received less attention, even in Cambridge (Dennison, 1992, p. viii). Robertson's monetary theory has been said to be the most important aspect of his theory, but he believed, following Pigou's instruction, that the most important cause of economic phenomena was not the monetary factors, but the 'real' factors underlying the monetary ones. That is, Robertson considered that the 'real' theory was the most important in arguing about economic phenomena. Some previous studies have mentioned the importance of Robertson's 'real' theory, but they did not demonstrate what the word 'real' means. Thus, what is the 'real' theory? The existing attempts to answer do not yet seem to be in agreement—except that the word 'real' means 'non-monetary'. It is the purpose of this report to throw new light on the question. We will discuss one of the important concepts of his economic thought—the 'effort' concept.

The reporter's answer is that Robertson's 'real' theory is the analysis of economic welfare using the 'effort' concept. In order to prove this, we will first clarify the outline of his 'effort' concept on the ground of the statements in his first book, *A study of industrial fluctuation* (1915) (hereafter *SIF*). Secondly, we will expose the utilitarian thought in his 'effort' theory, and thirdly, we will show what he thought about economic welfare by surveying the descriptions of his essay on war, to which the 'effort' concept is applied.

2. Robertson's real theory and 'effort' concept: Balance of 'sacrifice' and 'satisfaction'

SIF is dominated by particular assumptions. One is a non-monetary economy, and the other is 'co-operative groups of producers' (p. 126), which are assumed to decide the amount of their economic activities, such as production, consumption, investment and saving. That is, Robertson almost excluded money and the capital-labour conflict from his argument. Without money, price adjustment could not be achieved, and therefore, quantity adjustment must be attempted. Thus, how would decisions about economic activities be made under such assumptions? He explained this with the 'effort' concept. To understand his 'effort' concept, we should first understand the meaning of two keywords: 'sacrifice' and 'satisfaction.'

Robertson explained the factor of industrial prosperity as follows:

'An increased prosperity ... can only ... result from a rise in *the productivity, in terms of satisfaction, of the effort* expended by that group.' (*SIF*, p. 125, emphasis added).

Although a detailed discussion on this statement is not very important for the purpose of this report, it should simply be clear that the 'productivity of effort' is measured by 'satisfaction.' Increasing the 'satisfaction' obtained from a certain 'effort' means increasing 'the productivity of effort.' That is to say, Robertson thought that an economic entity would obtain 'satisfaction' by investing his or her 'effort.' Moreover, he used the word 'sacrifice' at the same time as the word 'effort,' which is the energy for economic activities, and 'sacrifice' has almost the same meaning as 'effort' (*SIF*, p. 14, p. 200, etc.). Therefore, for Robertson, economic activities are to obtain 'satisfaction' by investing 'sacrifice', which is called 'effort.' There are, of course, various forms of 'effort', but for economic entities, there is no difference, in that all 'satisfaction' inevitably requires 'sacrifice', and all economic entities are always forced to balance between 'sacrifice' and 'satisfaction.' And

Robertson described 'sacrifice', which is common to all human beings, as 'effort'¹. Moreover, the word 'effort' also always recalls the 'satisfaction' obtained from 'sacrifice.' That is, the 'effort' concept implicates not only 'sacrifice', such as labour, saving and investment, but also the 'satisfaction' obtained as the result. For Robertson, 'sacrifice' and 'satisfaction' were the two sides of one coin, and they should be caught simultaneously as human economic activities. And he described the coin as 'effort.'

As discussed above, the 'effort' concept does not merely mean the working hours or the volume of employment of labour, but includes all human economic activities². For Robertson, the 'effort' concept was the very 'real' measure, which should not be confused with any monetary effects³.

3. Utilitarian character of the 'effort' concept

How are the behaviour decisions of economic entities explained by his 'effort' concept? According to Robertson, economic entities decide their quantity of 'sacrifice' and 'satisfaction' so as to maximise their 'net satisfaction', which is obtained by deducting 'sacrifice' from 'satisfaction.'

This principle only explains the behaviour decisions of the individual. However, Robertson tried to extend this micro theory to the macro for the purpose of explaining fluctuations in the national economy. That is, he thought that, as was the case for individuals, there were also optimal behaviour decisions for certain groups (classes, industries, areas, and states). The optimal decision for groups is attained by the volume of 'effort' which maximises the *aggregate* 'net satisfaction' of

¹ This concept means the real costs for any economic activities and is much like the thought of traditional British political economy, from the 'toil and trouble' of A. Smith to the 'real cost' of A. Marshall.

² As mentioned previously, because of his assumption of 'co-operative groups of producers', there is no distinction between capitalists and labourers.

³ In *SIF*, phrases such as 'real cost' (*SIF*, p. 126, p. 165, p. 213, etc.) and 'real capital' (*SIF*, pp. 171-173, p 230, etc.), are used. The word 'real' has the implication that the value is not measured in terms of money, but in terms of 'effort', and that there are no monetary influences.

the group (*SIF*, p. 204, f.n.). Thus, Robertson thought that the decision principle of the volume of individual ‘effort’ was also applicable to the optimal volume of ‘effort’ for certain groups by aggregating individual volume.

Robertson’s assumption has the following meaning: Each economic entity can measure his or her ‘sacrifice’ and ‘satisfaction’, and can calculate them. Furthermore, they can compare and calculate the individual ‘sacrifice’ and ‘satisfaction’ with others, and they can aggregate their ‘sacrifice’ or ‘satisfaction.’ This is the same thought as that of British traditional utilitarianism, and it is the position of the so-called ‘cardinal utility theory’ of welfare economics⁴. For Robertson, who was interested in macro analysis, such as economic fluctuations, since this was required in order to regard the economy as a whole, an analysis only of the *individual* was insufficient, and he also had to explain the principle of the optimal behaviour decisions of the *group*. Therefore, Robertson could not deny the possibility of a comparison/calculation of ‘sacrifice’ and ‘satisfaction.’

4. ‘Effort’ concept and economic welfare

How did Robertson understand economic welfare in light of the ‘effort’ concept? We will discover the answer in his discussion on war. According to Robertson, in examining, with political economy, whether or not to use force, the most important thing is ‘Whether it is *in the best interests of the nation* here and now’ (Robertson, 1913b, pp. 471-472, emphasis added). And he presupposed that the analysis of war by economists should be conducted using a cost-benefit comparison. The propriety of using force ‘can only be proved by a balancing in any particular case of the certain *cost* of resistance against the probable *saving* it will effect’ (Robertson, 1914e, pp. 238-239, emphasis added). Here, the cost is the expression of the mass of ‘sacrifice’ and the saving is the one of the mass of ‘satisfaction.’ That is, he thought that force could be justified if the ‘satisfaction’ obtained by force exceeded the ‘sacrifice’

⁴ It is well known that, in later years, Robertson criticised the ‘ordinal utility theory’ of J. R. Hicks et al and persisted in ‘cardinal utility theory.’ His stance was, in fact, consistent from the beginning of his economic career.

required for it. Also here, Robertson clearly assumed that ‘satisfaction’ and ‘sacrifice’ could be calculated. However, it is not true that Robertson’s method of analysis is immoral, for he clearly distinguished between economic and ethical welfare (it can be paraphrased as the mass of ‘net satisfaction’) and thought that any economic analysis should deal only with economic welfare. Robertson believed that it was only in the analysis of the economic aspects that he could contribute to society as an economist and that an ethical consideration was outside of the range of an economic analysis, and his opinion follows such an assumption⁵. Robertson claimed that classic utilitarian economists had been misunderstood as promoting ‘pig philosophy’ because they had not emphasised the important distinction (Robertson, 1914c, p. 417).

Thus, Robertson clearly distinguished between ethical well-being and economic welfare, and regarded only the latter as an economic object, and he claimed that economists should decide whether or not to engage in war by balancing between the expected ‘sacrifice’ and ‘satisfaction.’ Also in the discussion on war, which has an exceptionally large number of ethical problems, he justified the utilitarian method by deliberately excluding the ethical points from the discussion.

Moreover, Robertson discussed whether or not something is measurable of economic welfare as follows:

‘... [O]ur whole life is of necessity a commensurating of the strictly incommensurable. ... [W]e balance sport and religion, friendship and foreign travel, almost as cold-bloodedly as Dr. Marshall’s agitated housewife with her hanks of yarn’ (Robertson, 1916, p. 67).

⁵ It will be clear that Robertson tends to distinguish economic problems and moral or ethical ones, when we look at the following statement in *SIF*: ‘The question is one of ethics, rather than of economics’ (*SIF*, p. 254). Moreover, his view did not change after experiencing war. In the book review on *The economic consequences of the peace* (1919) by J. M. Keynes, Robertson urgently used such conditional phrases as ‘[q]uestions of morality apart’ (Robertson, 1920, p. 82) or ‘always from a strictly non-moral point of view’ (Robertson, 1920, p. 82), and he emphasised that his opinions had been restricted only to the economic context.

For Robertson, in measuring welfare (the mass of 'net satisfaction'), no objective and strict measures are indispensable, and some disparate things can be measured in the same way as the choices with which we are repeatedly faced in our daily lives. Thus, Robertson did not necessarily need any criterion like 'price' in order to address economic welfare. Rather, for Robertson, it was unquestioned whether or not it could be measurable with price, and economic welfare is regarded as the 'real' value which is not unrelated to price (or money), the same as in his 'effort' concept⁶.

As mentioned, Robertson also argued on the condition of the 'effort' concept in his discussion of war. Apparently, this might seem to be an immoral way to calculate 'sacrifice' and 'satisfaction' in war, but Robertson intentionally removed moral or ethical problems from the economic analysis. He thought that it was an economist's role to analyse only the economic side of social problems. Furthermore, economic welfare does not necessarily need objective measures like price, but instead can be measured as the 'real' value, unrelated to any monetary influences.

⁶ Robertson claimed, in another essay, that the 'effort' concept should not be thrown away just because it could not be measured by any objective scales: 'To that conception we must resolutely adhere, even though we are unable for the present to measure in any common unit the diverse 'effort and sacrifices' which go to make up the great burden of the world's travail, or to express the forces which determine their ever-changing volume in terms of any simple and all-embracing law' (Robertson, 1921, p. 245).