

income be spent and what saved? Why a doctor earns more than a mason? Why Pakistan exports garments and not cars? All these questions relate to the way people make choices to cope with scarcity.²⁰

- **Scarcity creates conflicts** Because of scarcity, all types of conflicts arise—between people, families and countries.

DEFINING ECONOMICS

By studying the history of various subjects, we come to know that the problem of definition and scope of a subject arises only when it has attained a certain stage in its development i.e. applied side of the subject precedes theoretical study. Thus, poetry came first and then came the books to describe poetry. Similarly, lot of progress and work had been done in Chemistry when need was felt to define it. This happened in economics too. The tradition of defining economics and search for answer to the question 'What is economic problem' is not very old. At the same time, we also realize that formulating a good definition has not been an easy task.

After two centuries of academic struggle, the economists are still not unanimous about the exact nature and scope of economics. Various writers have defined economics in their own way. This situation led Keynes to say that economics has strangled itself with definitions. On the other hand there are economists who look at the whole exercise of defining it as futile and fruitless. They think that there is no need to define economics at all. In spite of these extreme viewpoints, however, we feel that a definition of economics is needed in the beginning to give some idea of the nature of this subject and its broad limits.

DEFINITION

There is no single definition of economics on which all economists agree. This subject which is so vast and has so many branches that it is difficult to describe it in few exact words. However after examining the views of various writers we can classify them into three broad groups.

- | | |
|-------------------------------|---------------------------------|
| (i) Classical view ----- | Science ²¹ of wealth |
| (ii) Neo-classical view ----- | Science of material welfare |
| (iii) Modern view ----- | Science of scarcity |

ECONOMICS AS SCIENCE OF WEALTH —— Classical View

Adam Smith is the pioneer of classical economists. By classical economists we mean the group of earlier economists, which include Adam Smith and his followers of 19th century. Adam Smith considered that 'Economics is a science of wealth'. He is called the *founder of modern economics*. In 1776 he named his book on economics as "*An Enquiry into the Nature and Causes of the Wealth of Nations*." Many other economists followed Adam Smith and defined economics as a study of wealth.

Evaluation *of Explanation*

The classical definitions given by Adam Smith and others had one common feature; that '*wealth is the centre of study of economics*'. Adam Smith mentioned four aspects of wealth which form the basis of study of economics; **Production of wealth, consumption of wealth, distribution of wealth and exchange of wealth**. This over stress on wealth ignoring human role in activities about wealth caused misunderstanding about the subject. Since wealth was viewed only as richness, stocks of gold and money, it was

²⁰ Scarcity prevails because of two underlying conditions (a) physical condition, that is, limited productive resources and (b) a mental condition that is unlimited wants. If either of these conditions did not hold, scarcity may disappear (and economics would not exist).

²¹ Science means a systematic study of a subject.

assumed that study of economics would encourage selfishness and greediness. So many reformers of that period, like Carlyle and Ruskin, condemned the study of economics as a worship of Mammon (Satan). At the same time, theories like Malthus' population theory and law of diminishing returns were put forward which convinced people thought that the economists preached pessimism and dark future for mankind.²² They called it a "Dismal Science". A negative view about economics developed that it ignores higher human values and makes wealth the centre of human thought.²³

If we deeply study the criticism against the definition in terms of wealth, we find that this **criticism is unjustified**. It was only due to misunderstanding about the real meaning of wealth. Wealth includes not only money and gold, but also goods and services which are more important and essential for human life. **Wealth is not bad in itself.** Moreover there is nothing in economics which can be called preaching of selfishness. In fact, the **real objection against this definition is that it is too wide**. Economics does not study every aspect of wealth. For example, it has nothing to do with the role of an engineer in the production of wealth²⁴.

ECONOMICS AS SCIENCE OF MATERIAL WELFARE—Neo-Classical View

~~Definition~~
According to Marshall: Economics is the study of mankind in ordinary business of life; how to get income and use it. It examines the material aspects of human wellbeing.

~~Background~~
all Physical things that give some satisfaction to humans

Adam Smith and other classical writers had defined economics as a study of wealth. This view of economics gave rise to serious controversy. A large number of economists and social thinkers did not agree with his view. Then Prof. Marshall²⁵ came out with a different view of economics. He looked at economics as a **study of human material welfare**. Thus he shifted the stress from wealth to welfare as subject matter of economics.

~~Marshall give definition~~
"Study of mankind in the ordinary business of life. It enquires how he gets his income and how he uses it. It examines that part of individual and social action, which is most closely connected with the attainment and with the use of material requisites of well-being. It is on the one side a study of wealth and on the other and more important side is a part of the study of man."

The economists who agreed with his viewpoint are called '*Welfare School*' of economics

Basic Points

Marshall's definition clarified four basic points about the nature and subject matter of economics.

²² During first half of nineteenth century, theories of Malthus had made the world fearful of rising population. Ricardo gave the theory that soon economic development would come to a halt, wage rate would again fall to subsistence level and the economy would enter a 'steady state' with no further expansion. Most economists also upheld the theory of 'Iron law of wages' i.e. wages cannot be increased above subsistence level permanently. In the long run wages have to fall to subsistence level. These gloomy and pessimistic views of the economists earned economics the reputation of the "dismal science".

²³ Some critics called it a science of bread and butter.

²⁴ A car and a house are forms of wealth. But their designing or construction style is not a topic of economics.

²⁵ He wrote the book "Principles of economics" in 1890.

Study of ordinary man

Firstly. Basic aim of economics is not to study richness of a few people²⁶ but to study their ordinary business life. Its subject matter is a particular aspect of human behaviour i.e. earning and spending of incomes to fulfil material needs.²⁷

Study of material welfare

Secondly, economics is not a useless study of wealth or time wasting exercise. It has an aim i.e. to analyse and promote material prosperity of people.)

Study of human action

Thirdly. the object of study of economics is not wealth but human actions about production and consumption of goods and services. Wealth is not an end (final aim) but only a means to promote human welfare.

It does not study all activities

Fourthly, economics is a social science. It is not concerned with the behaviour of isolated individuals but the actions of persons living in society who interact and co-operate at farms, factories, markets and homes to produce and exchange goods or services

Study of human behaviour

Marshall's definition is comprehensive and purposeful. It removed many objections raised against some earlier definitions. Instead of wealth, 'human behaviour' to provide material requirements of life takes the central place in the study of Economics. Marshall's views make economics a social study.²⁸

Drawbacks (Criticism)

The viewpoint of Marshall and his definition of economics in terms of welfare is an improvement over the earlier ones, yet it is not without drawbacks. Prof. Robbins has strongly criticised this definition on the following points.

Narrow down the scope of Economics

1. It does not cover all economic problems Economics is not limited to study of only 'material' welfare. As a matter of fact, economics studies 'both aspects of welfare—use of material goods like food and use of non-material services like education.

Services of doctors, lawyers, teachers and musicians have nothing 'material' in them. Yet these are as important a part of economics as the services of a farmer and a mason. Similarly, purchase of a material good such as mango and or a ticket to enjoy an evening with a popular singer are both part of study of economics. So by 'material' we would take whatever can be measured in money

Economics is about the people and for the people. Material things become wealth only when human beings come into contact with them. Suppose some valley is rich in land, water and mineral resources but has no population. So no economic problem. The resources of the valley cannot be called wealth. Economics originates only when some people intend to avail of the resources there. People's activities to make a living will give rise to economic problems like prices, markets, profits, rents, etc.¹

²⁶ Economic man economists of Marshall's era based their studies on the assumption of 'economic man'. see explanatory notes at the end of the chapter

²⁷ What about William Wordsworth—the great English poet of eighteenth century —the Poet of Nature — who said, 'Getting and spending, we lay waste our powers.'

²⁸ Material Welfare When Robbins criticised the vagueness and subjective nature of the concept of welfare, Pigozzi, a renowned economist, tried to give it a measurable basis. He says, "material welfare is that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money".

not clear

2. **Welfare is a vague idea.** Everybody has his own idea of 'welfare'. It is difficult to decide what it exactly means.²⁹ Moreover, economics studies many human activities, which do not promote human welfare e.g. pricing of harmful things like tobacco and expenditure on wars.

3. **Welfare is not measurable.** Welfare is a subjective concept and depends upon the thinking of a person.³⁰ We have no units to measure it. Robbins argues that if economics is to be called a science, we 'should not talk of welfare at all'.³¹

4. **Question of moral judgement arises.** If welfare is the basis of study of economics, it cannot be neutral science. Problem of like and dislike arises.³² Economists will give value (moral) judgements and personal opinions about what is good and what is bad in economic activities. In pure sciences, there is no place for moral judgements or personal liking e.g. in physics it is never said that water *should* boil at 100°.

On the one hand, Robbins criticises Marshall because of use of word 'welfare', and on the other, he himself calls economics a science which studies how to make 'best' use of our resources. Now without having some idea of human welfare how can we decide the 'best use'. Thus talking of welfare as basis of economic studies is not as objectionable as Robbins tries to prove.

Conclusion

In spite of criticism, we cannot deny that the **final aim of all economic studies is promotion of human welfare**. Economics is a **behavioural and social science** where difference of opinion is a common feature. It should not be treated like physical sciences; physics or chemistry. In practice, every branch of modern economics tries to link it to human welfare in one way or the other.³³ So Marshall's view cannot be totally rejected.

ECONOMICS AS SCIENCE OF SCARCITY — Robbins' View

In 1932, Lionel Robbins challenged the welfare view of the nature of economic science.³⁴ He rejected Marshall's definition as unscientific and unsatisfactory because it attaches a vague idea like material welfare to economics. He held the view that neither wealth nor welfare provide the true basis for economic studies. According to him, it is the problem of *scarcity of resources around which the whole of economics revolves*. In this material world scarcity of resources is the bitter fact that every society and every individual has to face.

(Robbins defined economics as:

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

more than one

²⁹ Making big cars may increase welfare of a few rich users but will be against the welfare of majority of the people who may not have even cycles. Free availability of wine may be liked in America but is undesirable in a country like Pakistan. Every society has its own notions and norms of welfare. With welfare concept, economics loses its true scientific character. In scientific studies there is agreement on the meaning of basic concepts. Scientists use only those terms and definitions which have the same meaning for everyone.

³⁰ Welfare is related to satisfaction from use of goods and services. But satisfaction and pain are personal to the individuals i.e. they vary person to person.

³¹ There is no absolute scale to measure welfare. Two thirsty persons drink two glasses of water and derive satisfaction. We are unable to compare whose welfare has increased more.

³² The definition is **classificatory** i.e. it uses a classification of human activities which are based on personal choices and arbitrary decisions and not on some scientific criteria.

³³ Beauty is not directly measurable, yet it is an important element in human life and has a close relationship with human welfare and happiness. So the fact that human welfare is not measurable does not prove that economics has no relation with it. Moreover as far as basic wants like food, housing and healthcare are concerned, all economists count these as essential ingredients of any welfare program.

³⁴ He wrote the book, "The nature and significance of economic science". (1932)

Basis of economic problem

Robbins' definition highlights the **basis of economic problem**. He points to four fundamental facts of human life that create this problem.

1. **Ends³⁵(wants) are unlimited** Everybody knows that a large number of his wants will always remain unsatisfied. What he can do is to struggle to acquire more resources and make the best use of available resources.

2. **Ends or wants are of unequal importance³⁶** People can arrange their wants in order of preference so that most urgent wants can be satisfied first. A hungry person will make efforts to get a pen only when he has arranged for food.³⁷

3. **Means³⁸ are scarce** Goods and services are not produced by magic lamps but by using resources. However compared to limitless wants, resources are always insufficient. The means include time, money³⁹, capital, natural resources and property.⁴⁰

4. **Means have alternative uses** (A piece of land may be used to grow crops or to build a house or as playground.) Similarly a given amount of money can be spent in many different ways to satisfy our wants. So resources must be used carefully to satisfy maximum wants. We must be aware that better roads may mean poor housing or more funds for health may mean neglect of education. Choice is ours for what we prefer.

According to Robbins, it is the existence of above mentioned facts of life that gives rise to economic problem and provides basis to define economics.

If human wants had been few there was the possibility that these could be satisfied easily and need for economic efforts and choices was removed. Similarly if means were not scarce and goods could be produced in unlimited quantities then everybody could get all he wanted. However, neither wants are limited nor resources are unlimited. So people are busy with the 'economic' problem i.e. **Scarcity compels them to make choices**. We can conclude that economic problem is basically the problem of choice i.e. people have to decide which goods should be produced and which resources should be used.

Merits

Robbins completely changed the line of thinking about economics. His definition is superior to earlier ones on many points.

1. **Comprehensive and clear.** Robbins has based his definition on simple observable facts of life. We daily experience the problem of 'scarcity'. Nobody can deny the hard fact of 'unlimited' ends (wants) and 'limited' means.

2. **Treats Economics as a science** Robbins, instead of vague and immeasurable idea of 'welfare', introduced a better idea of 'scarcity'. Scarcity is measurable.⁴¹

³⁵ End refers to something that we want to get or do.

³⁶ Importance of something is less natural and more a product of our own imagination. One person may give more importance to purchase of a video film than to a book while someone else may do the opposite.

³⁷ Some ends or goals are complementary i.e. achieving one helps to achieve the other as is the case of reduction in poverty and unemployment. Some goals are conflicting e.g. control of inflation may bring unemployment. Real test of wisdom of the economists or policy makers lies in solution of conflicting ends.

³⁸ Means and resources have the same meaning. Robbins used the word means. However in modern economic literature, use of the word resources is quite extensive.

³⁹ 'Time is money' is a well-known saying.

⁴⁰ Scarcity of means is a relative term. A scarce commodity does not mean that the quantity available is small. A commodity is scarce if its quantity falls of requirement. It is not free and carries a price. See goats and stray dogs. Goats out number stray dogs. Still goats are scarce while dogs are not. This is because of great demand for goats.

3. **It is neutral** Robbins considers economics a positive science. It has no normative aspect.⁴² So an economist acts as a neutral scientist. His function is not to give moral advice on any economic problem but only to analyse and explain a problem on facts. (He is not concerned whether ends and wants are good or bad.)

4. **It has universal application** because it excludes the concept of welfare, which has different meanings in different societies and situations. It applies equally to the activities of man living in society as well as isolated individual.⁴³

5. **It widens scope of Economics** because it covers both material and non-material wants. So it has extended the boundaries of economics.

Drawbacks

Most of the economists support Robbins' views. However, the definition has some weak points:

1. **Economics cannot ignore human welfare** is to promote welfare; even if people differ in its meaning and it is difficult to measure.⁴⁴ Difference of opinion exists in all social sciences, yet they are useful scientific subjects.

2. **Economics is both a Science and Art** It is the science of *management of scarce resources* with multiple choices available to use them. But to make a good choice is more an art than a science.⁴⁵

3. **Economics cannot be neutral** in real life situations. No economist is neutral in practical life and it is neither possible nor desirable for to be neutral. People expect the economists to provide expert opinion about their real economic problems.⁴⁶

4. **Scope of Economics becomes too wide** Almost everything in the world is scarce in relation to our wants. It becomes difficult to decide what should be excluded from the scope of economics. In real life, there are many situations where we feel scarcity, but still no economic problem arises⁴⁷.

Final aim of all human activities

Just to call economics a pure or positive science, we cannot support Robbins to break the link between economics and welfare. Economics is a social science and like all other such sciences its end must be promotion of human welfare. Economics cannot be a useless study. So economics and the problems of human welfare will always go hand in hand.

⁴¹ If we need one hundred houses but there are only fifty, then there is 50% scarcity.

⁴² Normative aspect means that we test the theories against some predetermined (moral) standard. Norm means a standard to judge the value of something.

⁴³ Scarcity is a fact both for the most primitive cavemen and the most modern people of affluent societies.

⁴⁴ Difference of opinion is the essence of life. There are many situations in life where people do not agree about exact meaning of something, yet their activities go on smoothly and fruitfully e.g. what is the best food, what is the best fashion in clothing, how a child should be educated, should women work in offices etc. In scores of such questions people do not agree, yet these questions need systematic study. In all human societies, there is a broad agreement about what are essential elements of welfare.

⁴⁵ To allocate a country's scarce resources, many political and social controversies are involved. Pure logic will not solve such issues. Only a skilful artistic approach will satisfy people.

If economics is treated as a positive science only, then it becomes simply a 'theory of price formation' or 'valuation of commodities' in which scarcity plays the main role. Economics attempts to increase people's choices. And to make a good choice between various alternatives is an art not a science. Price or market value of something is only one consideration in making the best choice.

⁴⁶ Compared to the politically motivated statements of their leaders, they give more weight to the comments of economists.

⁴⁷ An opposition leader in the assembly feels that his votes are limited. Similarly a person desires to study many subjects but shortage of time will not allow him to do so. A mother has one son and desires two more. So sons are scarce. These situations cannot be called economic problems

of economic development

5. **Economic development and unemployment** Robbins focuses attention on the study of allocation of currently available resources. Some people point out that his definition does not cover the process of economic development which causes expansion in existing resources. The objection is invalid since all development work needs land, labour and natural resources which are scarce. Thus scarcity remains the basic issue. Similarly labour is always scarce even if unemployed. No unemployed worker is ready to work free.⁴⁸

Conclusion

Robbins' definition is more popular. It is now universally accepted that scarcity of resources and the consequent need for choice is the essence of economic science.⁴⁹