



ЭКОНОМИЧЕСКИЕ И СОЦИАЛЬНЫЕ ТРЕНДЫ ECONOMIC AND SOCIAL TRENDS

DOI 10.22363/2313-2329-2021-29-3-587-594

UDC 331

Research article / Научная статья

Contribution of Lionel Robbins' essay to economic psychology

Ivet Tileva

University of National and World Economy,
19 8-mi Dekemvri St, Sofia, 1700, Republic of Bulgaria
✉ itileva@unwe.bg

Abstract. Nowadays economic psychology is a field of science that has serious potential to compete classical economic theories. Many contemporary authors are interested in the discipline which is proved by the variety of emerging branches of economic psychology. Some of them are economists, other psychologists, but a small percentage of them have both economic and psychological education. This pattern explains some serious misunderstandings in the scientific literature in the field. The lack of understanding of both sciences at the same time leads to extremes in the conclusions, which in turn are not accepted as universally valid by economists and psychologists. Moreover, the literature on the subject written by economists and psychologists seems very different. Economists attach more importance to the results of economic choice, while psychologists analyze primarily the causes for it. However, the connection between the two disciplines is indisputable. Despite the variety of branches of economic psychology, it is worth paying attention to the first work in the field written by an economist, which gives fundamental answers that modern scientists seem to miss. Lionel Robbins' essay represents an extraordinary balance between the economic and the psychological issues, united in an ideal symbiosis.

Keywords: Lionel Robbins' essay, economic psychology, choice, decision-making process, irrational

Article history: received 18 March 2021; revised 28 April 2021; accepted 10.05.2021.

For citation: Tileva, I. (2021). Contribution of Lionel Robbins' essay to economic psychology. *RUDN Journal of Economics*, 29(3), 587–594. <http://dx.doi.org/10.22363/2313-2329-2021-29-3-587-594>

Вклад эссе Лайонела Роббинса в экономическую психологию

И. Тилева

Университет национального и мирового хозяйства,
Республика Болгария, 1700, София, ул. 8-ми декември, д. 19
✉ itileva@unwe.bg

Аннотация. В настоящее время экономическая психология – это область науки, имеющая серьезный потенциал для конкуренции с классическими экономическими теориями. Многие современные ученые интересуются данной дисциплиной и это подтвер-

© Tileva I., 2021



This work is licensed under a Creative Commons Attribution 4.0 International License
<https://creativecommons.org/licenses/by/4.0/>

ждается множеством новых направлений в экономической психологии. Некоторые из них экономисты, другие психологи, но небольшая часть из них имеет как экономическое, так и психологическое образование. Этим фактом объясняется наличие недоразумения в научной литературе данной области. Недостаток знаний в обеих науках приводит к крайностям в выводах, которые, в свою очередь, не признаются экономистами и психологами как универсально действительными. Более того, научная литература в этой области, написанная экономистами и психологами, кажется очень разной. Экономисты придают большее значение результатам экономического выбора, а психологи анализируют в первую очередь его причины. Однако связь между двумя науками бесспорна. Несмотря на множество направлений в экономической психологии, следует обратить внимание на первое научное исследование в данной области, написанное экономистом. Оно дает фундаментальные ответы на вопросы, которые современные ученые, похоже, упускают. Эссе Лайонела Роббинса представляет собой сбалансированный анализ экономических и психологическими проблем, объединенных в идеальный симбиоз.

Ключевые слова: эссе Лайонела Роббинса, экономическая психология, выбор, процесс принятия решений, иррациональность

История статьи: поступила в редакцию 18 марта 2021 г.; проверена 28 апреля 2021 г.; принята к публикации 10 мая 2021 г.

Для цитирования: *Tileva I. Contribution of Lionel Robbins' essay to economic psychology // Вестник Российского университета дружбы народов. Серия: Экономика. 2021. Т. 29. № 3. С. 587–594. <http://dx.doi.org/10.22363/2313-2329-2021-29-3-587-594>*

Introduction

Decades ago, people were not faced to so many everyday decisions like modern man. Today's dynamics require people to make constant choices in every plan: life, professional and even economic. For this reason, the decision-making process acquired economic significance at the beginning of the 20th century when the issue on the topic began to be studied more seriously. It can also be said that this was first steps in the development of economic psychology science. At that time, the relationship between economics and psychology was still not very clear and according to some scientists it does not even exist. However, even in classical economic theories the role of choice in production is mentioned, which is redefined by the scarcity of resources. Despite the fact that classical economists accept the understanding that man in economics is rational, in modern economic life there is practical evidence that the individual acts irrationally in certain situations. The role of economic psychology is to explain why there are discrepancies in the understanding of rationality in classical economic theories in comparison with the real practice. Although this paradigm is rejected by a number of economists, gradually, it is assumed that psychology is able to help in explaining some economic phenomena that are considered irrational by traditional economic theory.

Literature review

Several types of literature have been used for the purposes of the article, though larger volume of interdisciplinary knowledge contributes to its conclusions. The scientific literature on which the article is based can be divided into three main types: psychological, economic and literature related to economic psychology. Psychological literature includes classical and modern authors explaining basic terms and concepts in psychology. This overview is important in order to make a reference to the economy. The economic part of the article is based on classical under-

standings of economics during the years, which often rely on a sterile framework to draw conclusions. The third type of scientific literature is used for two purposes. First, an analysis of Lionel Robbins' essay is made, emphasizing on the psychological contributions to the economic science. Second, a connection between the works of important contemporary authors in the field of economic psychology and the reflections from Robbins' essay is made. This is an important part of the article because it reveals, on the one hand, the foundation that Robbins laid as an economist. On the other hand, it also presents the upgrade of economic psychology until nowadays and what is its significance in the real business practice.

Methodology

The main objective of the article is to present the early understandings of the relationship between economics and psychology, which Lionel Robbins presented in his essay in the 30s of the XX century. This is achieved through the method of analysis and synthesis of the psychological understandings underlying in the essay. To make the relations between economics and psychology significant theories in both disciplines are summarized. Hence, through logical connections, the psychological aspects which can be an influencing factor in the economy are presented. In order to trace the development of economic psychology in the modern world, the article includes a comparative analysis of contemporary trends in the field and distinguishes on which psychological approach their experiments rest. The aim is to present the development of economic psychology from the time of Robbins to the present days.

Theoretical interdisciplinary analysis

Though economic psychology is considered a relatively modern science, the problem of excluding human choice as a factor in economics has been noticed since the last century. Lionel Robbins was the first economist to analyze the relationship between economics and psychology in 1934. Until this moment, the topic is not relevant in economic communities and it is viewed with skepticism. The relationship between the two sciences has been poorly studied mainly by non-economists.

Studying the correlation between two sciences requires interdisciplinary knowledge and approach. In an essay entitled "*Remarks on the Relationship Between Economics and Psychology*", Robbins sets out his views on the subject from which several important conclusions can be drawn. The British economist believes that due to ignorance and misunderstanding of basic ideas in economics, non-economist authors hastily reject the conclusions of economics. In order to understand the opinion of the great economists for the connection between economics and psychology, Robbins reckon it is necessary to analyze their practical work and sporadic statements on the subject, rather than their systematic works (Robbins, 1934).

For this reason, a lot of studies aim to determine how rational man is in his behaviour. On the one hand, some scientist believe that rationalism is a sterile theory. On the other hand, researches are being conducted by supporters of the *rational choice theory*, which prove that any logical and consistent human be-

behaviour leads to maximizing utility. However, the question about the psychological mechanism that underlies their choice remains.

There is currently no specific definition of the relationship between economics and psychology. On the other hand, the significance of most hypotheses depends on the correct definition of the relationship. According to L. Robbins, economists avoid introducing new statements in the analysis due to the lack of interdisciplinary knowledge, which in turn blocks their work. Meanwhile, scientists who are interested in studying the relationship between economics and psychology have a different type of scientific views and interests (psychological, sociological, etc.) than scientific and economic. The misunderstanding between the scientists specialized in different fields creates a division between the two sciences and skepticism towards their hypothetical correlation (Robbins, 1934).

Lionel Robbins is the first economist who comments the undoubted connection between economics and psychology. Despite all the claims that economics is an independent science, Robbins believes that there are processes in it that can be described as psychological or, more precisely, psychical. The distinction between psychological and psychical process is made by L. Robbins after a terminological correction by the English philosopher Horace Joseph. This terminological clarification, voluntarily or involuntarily, becomes one of the most valuable things in Robbins' work and lays the foundations of different branches in economic psychology.

Joseph's remark on the terminological distinction between the concepts of psychical and psychological process (Robbins, 1934) is extremely appropriate and even necessary. Often the two terms are used as analogous, probably because of the identical root *psyche*, which comes from ancient Greek and means soul, spirit (ψυχή). *Psychically* and *psychologically*, however, are not synonymous. It is therefore important to present the difference in terms' meaning. In fact, **psychical** are those processes which take place in mind or, more precisely, in the psychical apparatus of human being (Freud, 1926). The *psychic apparatus* is a term coined by Freud and is sometimes translated as the *mental apparatus*. While, **psychological processes** are psychical processes that are already a subject of analysis by science. Therefore, psychical processes acquire the meaning of psychological when they become a subject of scientific research (Danov, 2002).

The first major task of Robbins' essay is to define what he calls **psychological elements** in economics. The main object of analysis in economics (both in theory and in practical aspect) are the limited resources that in the production process should be allocated optimally. The complete realization of the set goals is impossible with the materials that humanity has at its disposal. For this reason, people are forced to make choices – what to produce in larger quantities and what to sacrifice at the expense of more efficient production. Meanwhile, the main objects of analysis for economists are: interest rates, market prices, exchange rates, cyclical deviations, etc., and their theoretical views on these issues are abstract. Models that are not constant have been adopted. Over time, they are rejected due to the process of development of economic thought. Change in the understanding of psychological factors has a major contribution to this development (Robbins, 1934).

In his essay, Lionel Robbins makes a brief retrospective of the development stages of economic thought. This retrospection is probably provoked by the state-

ment that economics is an independent from psychology science and at the same time the main question it should solve is related to the choice: what a country should specialize in; where, how and how much to produce; at what price to sell its goods. The author does not pay much attention to the theory of Malthus and the theory of physiocrats, because they do not have psychological aspects, unlike the classical school of thought. Even in Ricardo's works, there are thoughts related to the decision-making process. In Ricardo's paradigm this process is strictly framed. He assumes that price is the major factor for purchase and man in economy always chooses the cheapest product and sells it at the highest price. This statement is the foundation of classical economic theory. According to Robbins, in Adam Smith's works, the opposite trend can be observed – towards equalization. Smith reckons that receiving money is not the only incentive to trade, but only part of it. In his theory, the absolute advantages are important, which predetermine the choice of what production a country should focus on in its international industry specialization. It is important to emphasize that in Smith's works, choice does not have this liberated nature set in the content of the word.

The classics focus on technical issues, which are undoubtedly important, but in modern economic dynamics, are not entirely decisive. Economic theories draw conclusions based on strictly defined assumptions and conditions in which the analysis of the economic situation is made. In the real world, such conditionalities cannot be defined. For this reason, as a serious omission, Robbins notes that the “demand” factor, which has a major influence on the economic system, is in no way taken into account in the works of the classics. According to the author, “demand” is a key element of economic relations and cannot be ignored. This is the element that contains the psychological aspects that affect the economic system. Focusing only on technical processes in the economy could be extremely misleading. In practice, this helps to describe the conditions of equilibrium, but does not explain how equilibrium can be made up of the supply of units of goods that are not equally attractive to the buyer and therefore their significance may vary in descending order (Robbins, 1934).

In the early days of new theories, William Jevons, among other economists, assumes that the economic benefits that are the subject of analysis of their own work are measurable. This is a statement that, according to Robbins, is somewhat true, but contradicts philosophical thinking.

One of the works that Robbins includes in his retrospective is the so-called Pareto efficiency. Pareto's theory states that: “A system is not able to produce more than one product at the same level of investment without reducing the production of another type of product – by transferring part of the investment between products or by improving production technology” (Hansson, 2004). The comparison of the benefits of different goods is often criticized by modern economists, as there is no precise definition to frame the concept of utility. In today's world, where new products are constantly entering the market, utility is becoming increasingly difficult to define because its subjective nature. Through these reflections in the essay, Robbins raises the important question of where the connection between economics and psychology is.

Robbins believes that the utility of a commodity becomes a subjective concept. In more modern economic developments, value theory is based on the assumption that benefits can be compared, not measured. For one economic entity a good could have much greater benefits than for another economic entity. On the one hand, Jevons' design assumes that the benefit of each commodity can be replaced by the use of a certain quantity of another commodity (Donzelli, 2009). On the other hand, nowadays the claim that most identical goods are interchangeable sounds implausible because the consumer has become too demanding. As a result of Pareto's work and the early Austrian school of thought, it was concluded that the claim of commensurability of benefits is unnecessary and useless. Nowadays, the saturation of the market with different types of goods and services, creates rather impossibility of commensurability, due to the growing specifics of each individual product.

Relation between Robbins' essay and contemporary theories

Subsequently, over the years economic psychology has developed many branches (Lewis et al., 1995) based on different psychological approaches: *psychoanalytic*, *cognitive* and *behavioural*. The three main approaches in psychology cannot exist in symbiosis, as their understandings are mutually exclusive (Martin, 2006). However, the similarity between them is related to the idea of existence of *conscious* and *unconscious*. The father of psychoanalytic theory, Sigmund Freud, compared human consciousness to an iceberg – a small part of the iceberg is what is seen above the water or the so called conscious. The much larger part that is hidden underwater is the unconscious (Freud, 2013). Behaviour is a function of a person's inner world. In the conscious part of the human psyche, behaviour is a consequence of thoughts and impulses that the individual understands. The person realizes why is taking a specific action. The rest of the unconscious leads to certain behaviours that may be within normal behaviour. They may also be abnormal, but it is a matter of pathology, which is out of the framework of the article. Manifestation of unconscious mental processes is inexplicable for non-specialists. They have no clear idea, and often do not even realize, why a certain action occurs. According to Freud, human behaviour is mainly determined by the unconscious processes that occur in the human mind (Freud, 2014). Carl Jung introduced the term "*collective unconscious*", which concerns all the minimal experience of humanity. According to Jung, the collective unconscious influences people's behaviour, because it is inherited and contains archetypes (Jung, 2016).

However, branches of contemporary economic psychology differ from Robbins' work, but they are nonetheless related to the choice and the irrationality he analyzes. These trends arise because of the sterile environment that classical economists use in their analyzes. Underestimation of the human factor leads to conclusions that are valid theoretically but not always practically. Basically, the branches of economic psychology analyze human choice and the decision-making process. Among the most cited works is the so called "Prospect Theory" of Daniel Kahneman and Amos Tversky (1979). It develops the idea of how a person makes a decision in situation of risk, taking into account the serious influence of emotionality in the choice and in particular the fear of loss. Kahneman and Tversky

also believe that *The framing effect* is of great importance for the human choice (Tversky, Kahneman, 1981, 1986). A similar theory is developed by Richard Thaler, who reckons that people's choices can be managed in a better direction by nudging and develops the idea of choice architecture (Thaler, Sunstein, 2008). As with Kahneman and Tversky, Thaler's experiments are based on the behavioural approach in psychology. Another notable scientist, Barry Schwartz, analyzes the effect of too many options for purchase that modern man is faced. Schwartz's theory claims that too many alternatives can lead to serious confusion and exhaustion. Instead of the purchase bringing satisfaction, the effect is a bad emotional state. This phenomenon occurs because the individual asks itself questions such as, "Did I buy the best product?" or "Did I make a sufficiently informed choice?" (Schwartz, 2009). Dan Ariely is another contemporary scientist who deals with practical aspects of economic psychology and its implementation in real business. Ariely supports the understanding that man presumably makes irrational choices and this is not difficult to predict (Ariely, 2018). David Thackett is the one who uses a different method in comparison with the other mentioned scientists to analyze the behaviour of financial market players. He conducts interviews based on the psychoanalytic approach, through which he explains the behaviour of brokers in the financial markets (Thackett, 2011).

As can be seen, all modern trends in economic psychology have taken into account the importance of human factor, something that Lionel Robbins has already discussed in his essay. All these scientists are one of the most significant modern names in economic psychology with very different points of view. They further developed the idea of Robbins' essay so that their theoretical analyzes could be applied in the modern economic practice. As can be seen, all contemporary trends in economic psychology have taken into account the importance of human factor, something that Lionel Robbins has already discussed in his essay decades ago.

Conclusion

In conclusion, a huge contribution to science would be to overcome the distinctions between economics and psychology. This in turn will change the vision of some already accepted hypotheses, which will avoid misunderstandings in future analyzes. Lionel Robbins' views and achievements in this area are relatively poorly studied compared to modern theories of economic psychology. However, Robbins lays a conceptual foundation on which many scientists step on and develop in the context of the modern economic system. Due to the fact that Robbins is the first economist to draw a correlation between economics and psychology and because of his more in-depth analysis, which rests on interdisciplinary knowledge, he can boldly be defined as the father of economic psychology.

From the theoretical exposition it is clear that the analysis of the decision-making process from the time of Robbins to the present day has undoubtedly changed. With increasing consumption, the focus of scientific interest has shifted from choices connected with allocation of resources for optimized production to choices connected with purchase that the individual makes. The direction in which economic psychology is possible to develop is to deepen the analysis of psycho-

logical factors influencing business decisions in choosing an international partner or supplier, viewed by individual psychological analyzes of the behaviour in particular companies

References

- Ariely, D. (2018). *Predictably irrational: The hidden forces that shape our decisions*. Harper Collins Publishers Ltd.
- Danov, D. (2002). *Physiologic factors in global economy*. 1st ed. UNSS. (In Bulg.)
- Donzelli, F. (2009). Jevons, Jenkin, and Walras on demand-and-supply analysis in the theory of exchange. *Departmental Working Papers 2009-39*. Department of Economics, Management and Quantitative Methods, Università degli Studi di Milano..
- Freud, S. (1926). *The Question of Lay Analysis. The Standard Edition of the Complete Psychological Works of Sigmund Freud. Vol. XX (1925–1926): An Autobiographical Study, Inhibitions, Symptoms and Anxiety, The Question of Lay Analysis and Other Works* (pp. 177–258). The Hogarth Press, Institute of Psycho-Analysis.
- Freud, S. (2013). *Introductory lectures on psychoanalysis*. Colibri. (In Bulg.)
- Freud, S. (2014). *Psychology of the unconscious*. Colibri. (In Bulg.)
- Hansson, S. (2004). Welfare, justice, and Pareto efficiency. *Ethical Theory and Moral Practice*, 7(4), 361–380.
- Jung, C.G. (2016). *Archetypes and the collective unconscious*. Lege Artis. (In Bulg.)
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263–291.
- Lewis, A., & Webley, P., & Furnhman, A. (1995). *The new economic mind: The social psychology of economic behaviour*. 2nd ed. Harvester Wheatsheaf.
- Martin, D. (2006). *Psychology of human behavior*. The Teaching Company.
- Robbins, L. (1934). *Remarks on the relationship between economics and psychology. The Manchester School*, 5, 89–101.
- Schwartz, B. (2009). *The paradox of choice: Why more is less*. Revised ed. Harper Collins eBooks.
- Thaler, R., & Sunstein, C. (2008). *Nudge: Improving decisions about health, wealth, and happiness*. Yale University Press.
- Tuckett, D. (2011). *Minding the markets: An emotional finance view of financial instability*. Palgrave Macmillan.
- Tversky, A., & Kahneman, D. (1981). *The framing of decisions and the psychology of choice. Science*, 211, 453–458.
- Tversky, A., & Kahneman, D. (1986). Rational choice and the framing of decisions. *Journal of Business*, 59, S251–S278.

Сведения об авторе / Bio note

Тилева Ивет Георгиева, PhD, лектор кафедры международных отношений и бизнеса, Университет национальной и мировой экономики. E-mail: itileva@unwe.bg

Ivet Tileva, PhD, lecturer at the Department of International Economic Relations and Business, University of National and World Economy. E-mail: itileva@unwe.bg