Economics at LSE in the 1930's: A Personal View

R. H. COASE*

Robbins, Hayek, or Hicks could give a comprehensive account of economics at LSE in the 1930's. They were, after all, the main contributors to the development of economic analysis at LSE at that time. I was a student and later a junior member of the staff, not fully aware of what was going on. Furthermore, although my appointment at LSE was in the Economics Department, I had taken the B. Com degree and had worked, and continued to work, more closely with Plant than with Robbins. I can give some information about the state of economics at LSE in the 1930's but my account is inevitably very incomplete.

I was a student at LSE from 1929 to 1931, having passed the intermediate B. Com examination while still at school. I spent 1931-32 in the United States on a Cassel Travelling Scholarship, my work being supervised by Plant, the year being counted as the third year of residence at LSE (required for the award of a degree), the regulations being somewhat loosely interpreted. From 1932 to 1934, I was an assistant lecturer at the School of Economics and Commerce, Dundee and, in 1934-35, at the University of Liverpool. I was appointed an assistant lecturer at LSE in 1935. Although I was not a LSE between 1931 and 1935, in fact my association with LSE never ceased.

In the United States I worked under the supervision of Plant, and while there, I had a long and full correspondence with my friend and fellow student, Ronald Fowler, who had received an appointment in the Commerce Department, and this kept me informed of developments at LSE. While at Dundee and Liverpool I spent my vacations at LSE, collaborated with Ronald Fowler in a study of the pig cycle, and knew generally what was going on. However, I did not attend the seminars which were held at LSE during the period 1931-35. From 1935 on, of course, I had direct contact with what was happening at LSE.

In the late 1920's when I began to study economics, the analytical apparatus used by students was quite crude by modern standards, although serviceable enough for discussing many economic problems. Henderson's *Supply and Demand* or Cannan's *Wealth* give a good idea of what was offered to students at that time. However, even established economists lacked the tools to tackle many problems as was made clear by the controversies over price theory in the *Economic Journal* of the 1920's. The 1930's brought about a great improvement in the analytical tools available to economists. I can give an example. I had been taught to think of marginal cost as the cost of the marginal firm and one day in 1931 I expressed dissatisfaction with this way of looking at things to Plant. He answered that it was probably better to think in terms of the cost of additional units of output for all firms. Acting on this hint, Fowler and I constructed marginal cost schedules and worked out the relationship to average cost schedules. Then, on looking at one of the appendices to the *Economics of Welfare* we discovered that Pigou had got there first. However, though possessing marginal cost as a concept, we lacked marginal revenue.

I remember that when Fowler told me in a letter in 1932 about the lectures which Hicks was then giving at LSE and made reference to the "Harrod curve" (as the marginal revenue schedule was then called) I could not understand what he was talking about and I found the 1928 Yntema article (to which he also referred) equally puzzling. Of course all this changed with the appearance in 1933 of Mrs. Robinson's *Economics of Imperfect Competition* and Chamberlin's *Theory of Monopolistic Competition* and we were then able to cover the blackboard with the most intricate geometry. However, this tale does illustrate the relatively un-

*University of Chicago Law School.

derdeveloped state of economic analysis at the beginning of the 1930's.

At LSE in the 1930's, economists were very receptive to new ideas. For this, a good deal of credit must go to Hayek. Today, we tend to think of him as the author of such works as *The Road to Serfdom* and *The Constitution of Liberty*. But at that time these books had not appeared and the important part he played at LSE in the early 1930's was in encouraging rigor in our thinking and in enlarging our vision. Unassertive, Hayek nonetheless exerted considerable influence through his profound knowledge of economic theory, the example of his own high standards of scholarship, and the power of his ideas.

Hicks was also extremely influential. Robbins says that Hicks, appointed in 1928, "for the next three years played a useful, but not very conspicuous, part in the routine duties of undergraduate teaching."[1] This is a Robbinsian way of saying that Hicks was unsuccessful as an undergraduate teacher. As a student attending Hicks' lectures, I can attest that this was so. Today, one might jump to the conclusion that this was because his lectures were too advanced for his young students. But this was not so. Whether the subjects on which he lectured did not really interest him or for some other reason, Hicks failed to inspire his undergraduate audience. However, Hicks' standing at LSE soon underwent a dramatic change. In 1931, at Robbins' instigation, in part because he had some mathematical training, Hicks began to give lectures on advanced economic theory and his power as a theorist was immediately apparent. Hicks' first course of lectures on advanced theory was given jointly with Allen. Allen, who lectured on statistics and mathematical economics, was an accomplished mathematician who did not scorn those who were not and he played an important role in furthering the movement to theoretical rigor at LSE.

The topics dealt with by Hicks in this course were a comparison of the analysis of the Lausanne school with the methods of Marshall and an examination of the theory of marginal productivity (obviously a presentation of the ideas which were later to appear in *The Theory of Wages*). Hicks in the next few years lectured on monopoly theory, the economics of disequilibrium, the foreign exchanges, the theory of risk and insurance, the theory of value, and economic dynamics, as well as giving a general course on advanced economic theory, described as a non-mathematical treatment of the general equilibrium theories of Walras and Pareto.

Robbins says that if "Hayek must be credited with bringing Austrian and Wicksellian thought to the School, the introduction of Walras and Pareto must be chiefly attributed to Hicks."[2] The failure of LSE to promote Hicks and prevent his leaving for Cambridge in 1935 was a major mistake and, according to Robbins, was due "to Beveridge's insensate hostility to pure theory."[3] After Hicks's departure, lectures on advanced theory were given by Robbins and Hayek, as well as by Lerner and Kaldor, but a major force had been lost.

I now come to the most influential figure of all, Lionel Robbins. Edwin Cannan had resigned as Professor of Political Economy in 1927 and Allyn Young, who had been appointed in his place, died suddenly in 1929. Robbins was appointed to fill the gap, with the active,and perhaps crucial, support of Hugh Dalton, and so became Professor at LSE in 1929, the same year I came to LSE as a student. Robbins's appointment encountered opposition because of his age—he was then 30. Hayek is slightly younger than Robbins, while Hicks was 26 at that time. What was accomplished at LSE in the 1930's was the product of a very young group of economists.

It is unfortunate that Robbins in his autobiography says so little about the development of his own views on economics, although the little he says is very significant. Robbins had been a student of Cannan's at LSE, but he was early attracted to the writings of continental and American economists. The footnotes in his writings of this period reveal how widely he had been reading. The appointment of

[1] Robbins, *Autobiography of an Economist*, London, MacMillan, 1971, p. 129.

[2] Ibid, p. 129.

[3] Ibid, p. 129.

Hayek and the encouragement of Hicks was a reflection of this interest in developments in economics originating outside the British Isles.

Robbins' own contribution to economics at LSE was made through his lectures. In the years following his appointment, Robbins gave many courses of lectures on economic analysis, on methodology, and on the history of economics. Robbins' description in the School Calendar of the contents and purpose of a course on Comparative Economic Theory reveals much about his own attitude:

> "This course will deal mainly with the economic theories of earlier generations, but it will attempt to exhibit these theories, not as so much antiquarian data but as the raw material out of which by a process of refinement and elimination the economic theories of today have been evolved. That is to say, its ultimate purpose will be to provide a negative preparation for modern analysis."

That is, in this course, Robbins examined the work of earlier economists not so much to learn from them as to understand what had to be given up or changed in order to reach the economic analysis of today. The latest was the best.

Robbins' direct influence on the views of young economists at LSE came, however, through his course, General Principles of Economic Analysis, mainly devoted to what was then called Value and Distribution and is now called price theory or microeconomics. It seems to have been Robbins' intention to publish these lectures but unfortunately this was never done. Of their contents and character, Robbins says next to nothing in his autobiography. Not being an economics student I did not attend his lectures, apart from one or two, to which I went mainly to observe the expository skills of the lecturer. I did, however, copy out the lecture notes of this course taken by Vera Smith (later Vera Lutz) and so was familiar with Robbins' treatment. Unfortunately, my notes have been lost but no doubt those of some more careful student have survived and the contents of these very important lectures will ultimately be made available.

My recollection is that these lectures were not so much a statement of Robbins' own position, as an exposition, carried out with care and elegance, and in a very systematic way, of the ideas (of other economists) that Robbins considered important. The description of the course in the School Calendar indicates that after an introduction dealing with the evolution of economics and the character of economic analysis. Robbins first dealt with statics, the theory of valuation and exchange, followed by the theory of production and distribution, then with comparative statics and finally with dynamics.

The structure of the course was apparently much influenced by Knight's *Risk Uncertainty and Profit,* although Robbins discussed, of course, the work of a wider range of economists than did Knight.

It is noteworthy that the two books which Robbins recommended that we all read were Wicksteed's *Commonsense of Political Economy* and Knight's *Risk Uncertainty and Profit,* a very unusual choice which demonstrates both Robbins' independence of mind and his fine judgment. These two books provided an excellent training for the young economists at LSE and it was, I believe, our close study of them which gave us such a firm hold on cost theory, leaving aside whether what emerged should be considered, as Buchanan contends, as a view special to LSE.

I now turn to the contribution of Plant, about which, as one of his students, I can speak with some assurance. Plant had been a student of Cannan's, contemporary with Robbins, but did not share Robbins' delight in high theory. Plant was an applied economist and his main field of interest was what is called today, industrial organization. Those of us who were associated with him were greatly interested in economic theory and, therefore, the new analysis then being developed at LSE which we discussed with the economics specialists and among ourselves. But our interest was in using this analysis to understand the working of the real economic system. Because of this, Plant, it seems to me, retained in his teaching Cannan's interest in institutions and his commonsense approach, whereas Robbins was largely working along lines which owed little or nothing directly to Cannan.

Plant was interested in the subject of property and did important work on the economics of patents and copyright.[4] So far as I was concerned, perhaps his main influence was in bringing me to see that there were many problems concerning business practices to which we had no satisfactory answer. Plant had many able students, among them Ronald Fowler, Ronald Edwards, Arthur Lewis, Arthur Seldon, and Basil Yamey and his influence has been greater than might be apparent from his own writings or the work at LSE of his contemporaries. Nonetheless, it is the case that the main thrust of the work in economics at LSE was the development of pure theory and did not reflect Plant's interests.

What characterized LSE in the 1930's was that, despite the holding of firm views, there was a lack of doctrinal commitment, which resulted in an openness to new ideas. The main new ideas came from America and the continent. Not that their provenance mattered. Ideas were quickly absorbed and they became the basis for further work without much regard for their source. Economists at LSE were not self-consciously Austrians or Paretians or Walrasians, and certainly not Marshallians. In the United States I have heard it said that, until the late 1930's, English economics was largely confined to a study of Marshall. This was not true at LSE. Marshall was in the calendar of saints but few of us prayed exclusively to him. Marshall was one among many economists studied.

As a student of Plant's, I studied *Industry and Trade* rather than the *Principles* but we did not slavisly adopt Marshall's views. In fact, we thought his views on cost confused and his analysis of business practices questionnable. What was done by the economists at LSE, principally by Robbins, Hayek and Hicks, was to play a leading role in what we can now see was an international movement which brought into being, for good or ill, the modern age in economics.

At LSE we were a community of scholars. The intellectual atmosphere was extremely agreeable. Although the effect of the teaching of Robbins, Hayek, and Plant was to make students look to private enterprise for solutions to economic problems, very different views were also held in the economics department, expressed, for example, by Abba Lerner, Brinley Thomas, and Evan Durbin (Kaldor had not, I think, shown his colors at that time). In general, differing political views did not impede economic discussion. And so, in the 1930's, with its mass unemployment, its horrors in Russia, Germany, China and elsewhere, and with worse to come, we spent our time working on, and, we thought, improving our economics.

[4] For a selection of Plant's papers, including those on patents and copyright, see Sir Arnold Plant, *Selected Economic Essays and Addresses,* London, 1974.