Goodness, Economic Welfare and the National Dividend—the Pigouvian Triad

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Abstract

Goodness, economic welfare and the national dividend are the keynotes of Pigou’s welfare treatises—Wealth and Welfare (1912) and The Economics of Welfare (1920). The treatises are remembered for applying utilitarian principles to the evaluation of economic policies and yet Pigou’s goodness was not utilitarian. This paper examines Pigou’s conception of ethics and of the relationship between ethics and the economics of welfare as expressed in a half-century of his writing.

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Introduction

A. C. Pigou opens *Wealth and Welfare* (1912: 3) by declaring that “welfare means the same thing as good” and that *economic* welfare is “welfare arising in connection with the earning and spending of the national dividend.” Part I continues with “important propositions” (20ff) on how economic welfare is affected by the size, distribution and variability of the dividend with later parts detailing the action of policy along these dimensions. For Pigou the triad of goodness, economic welfare and dividend became a fixture: it underpins Part I of his definitive welfare treatise, *The Economics of Welfare* (1920), his reprise of “fundamental issues” in the *American Economic Review* of 1951 and his remarks on “Some aspects of the Welfare State” where he (1954: 3) states that the Welfare State “endeavours to promote the economic satisfaction of its citizens” by acting—in effect—in accordance with the propositions of 1912.

Hicks (1959: ix), like other careful readers of the welfare treatises, recognised that Pigou’s welfare covered more than economic welfare though his one-sentence characterisation—that it includes “everything which any reasonable person might think to be of value”—hardly reflects the complexity of Pigou’s thought. The present paper follows the triad from its beginnings into the later, celebrated works. Elements of the triad were identified and tentatively combined in Pigou’s writings of 1906-8 on moral philosophy and on commercial and Poor Law policy. These were not major works and indeed the writings on ethics have only recently been noticed by scholars; see, inter alia, Shionoya (1993) and Yamazaki (2003). The investigation will throw light on such seeming paradoxes of an “economic welfarism,” finding “the ends of economic life within economics” (Hicks (viii-ix)), created by one who was not a welfarist and of a
utilitarian economics of welfare created by one who was not a utilitarian.¹ It will support Myint’s (1948: 201-2) inclusion of Pigou in his generalisation that English economic thought was “permeated with the broader tradition of the Humanities”—the thought of writers “like Carlyle, Ruskin and William Morris”—and will suggest that the opposition between “Cambridge” and “Oxford” thought on welfare, a subterranean theme of Backhouse and Nishizawa’s (2010a) volume, can be exaggerated.

Pigou’s life saw two world wars, the rise of Soviet communism, the Depression, the development of the British welfare state and major changes in the position of economists and in the way economics was done.² Arthur Cecil Pigou (1877-1959) entered King’s College, Cambridge in 1896 and took a first in the Historical Tripos in 1899. He proceeded to Part 2 of the Moral Sciences Tripos (ethics, political philosophy and economics) taking another first in 1900. The prizes he won reflect interests in poetry, philosophy and economics: the Chancellor’s Medal for English Verse for the poem “Alfred the Great” in 1899, the Burney Prize for an essay on “Robert Browning as a Religious Teacher” in 1900 and the Cobden Prize for “The Causes and Effects of Changes in the Relative Values of Agricultural Produce in the United Kingdom during the Last Fifty Years” in 1901. His economics career was under way in 1901 when he first

¹ Contrast “The good which philanthropy and statesmanship should seek to realise is defined by [Pigou] in accordance with Sidgwick’s utilitarian philosophy” (Edgeworth (1913: 62)) with “[Pigou] does not appear to have accepted ethical utilitarianism” (Little (1950: 8)).

² For a biographical sketch see Collard (1981); for details and biographical counterpoint to the writings discussed below see Aslanbeigui and Oakes (2015), Kumekawa (2017) and Knight (2018); for the changing economic scene see Middleton (1998); for Pigou’s changing method see Aldrich (2018).
gave the lectures for the general economics course. In 1902 he was elected a fellow of
King’s—with the Cobden essay after failing with the Burney—and in 1908 he succeeded
to Alfred Marshall’s chair. Pigou was a prodigious publisher: already by 1908 his
publications in economics included three books and nearly thirty contributions to the
Economic Journal. As a young man he wrote on matters of the day and fray but later he
confined himself to more official roles. The economics of welfare was a major
occupation for him until the early 30s: his later big books were works of economic theory
without immediate application to policy. He retired from the chair in 1943 but went on
writing until his death; he wrote in all fields and genres—except popular journalism.

1 The economist as social improver

Practice, for Pigou (1908b: 13), was “the impulse to the economist’s work” and early
books on commercial policy (1903a, -06) and industrial relations policy (1905a) attest to
its power in his own case. He described the relation between practice and economic
science on several occasions, most fully in his inaugural lecture (1908b) and at the start
of The Economics of Welfare.

For Pigou (1908b: 8-13; 1920: 3; 1952: 3) the object of research may be “light or
fruit—either knowledge for its own sake or knowledge for the sake of good things to
which it leads.”3 The main motive of economic study is the “betterment of social life”
(1912: 4) or to “help social improvement” (1920: ix; 1952: ix). While he was not
unsusceptible to puzzles “of academic rather than of practical interest” (see Section 7

3 I write references to The Economics of Welfare on the pattern (1920: 3: 1952: 3) to locate the
first appearance of the passage (in 1920) and its final formulation (in 1952).
below), Pigou (1908b: 12) told the audience at his inaugural that, while there were valid intellectual reasons why “a man” might come to economics,

I shall be far more glad if he comes to it because he has walked through the slums of London and is stirred to make some effort to help his fellow. […] Social enthusiasm is the beginning of economic science.

Pigou would have seen no conflict between being a “human being” and being an economist: being an economist was one way of being human.⁴

Social improvement rests on a combination of values and science as Pigou (1907a: 359) explained in his “Social improvement in the light of modern biology”⁵:

It involves the questions: both what kind of society is good, either absolutely or relatively, and by what means is the desired kind of society most likely to be brought about. The former of these questions is wholly ethical. It turns exclusively upon the determination of values. […] Positive science tells us what effects given causes tend to produce; it does not tell us what effects are good.

This conception of the logic of practice was in the tradition of J. S. Mill, Cairnes and Neville Keynes. Yet in terms of Keynes’s (1891: chapter 1) national caricatures—English political economy as “positive, abstract and deductive” and German as “ethical, realistic and inductive”—Pigou’s emphasis on social improvement puts him somewhere in the North Sea. The caricatures did not tell the whole truth for amongst English textbooks

⁴ Winch (2009) examines the course of this conflict in Britain 1848-1914 but does not consider Pigou’s position.

⁵ Pigou contended that discoveries in biology had not made social improvement irrelevant. The eugenics movement and Pigou’s involvement with it are reviewed in Aldrich (2019).
only Sidgwick’s *Principles* was the only one that separated discussion of the art from that of the science rather than mixing the two in the treatment of particular topics.

Pigou’s economics of welfare would privilege a particular end and consider how different policies could further it but in some early works he noticed a way of avoiding choosing between ends. In his first substantial piece on social improvement, “Some aspects of the problem of charity” Pigou (1901b: 239) recognised conflicting views of the “all-important thing”—viz., “happiness” versus “character”—but contended, “it is unnecessary for any one engaged in the practical work of charity to decide between these two views, because his course of action would have to be very much the same whichever he adopted.” The essay was a contribution to *The Heart of the Empire*, a volume edited by Charles Masterman a spokesman for the New Liberalism which envisaged more of a role for state intervention than had the liberalism of Gladstone; see Freeden (1978).6

The consideration re-appears in *Principles and Methods of Industrial Peace* where Pigou (1905a: 3-4) asks, “What *ought* [arbitration and conciliation] to do, and how *ought* they to do it?” This admittedly ethical inquiry “can, for the most part, be conducted without reference to those fundamental controversies in which the science of the ‘good’ is involved” for the question, whether or not a particular change would be an improvement is “often answered in the same way by thinkers whose fundamental doctrines are quite irreconcilable with one another.” Pigou (4) instances parties concurring on the value of industrial peace but disputing “whether it is good because it makes men happier, or because it is a step towards the moral union of the Kingdom of

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6 Kadish (1989:191-6) and Aldrich (2019: section 3) discuss other aspects of Pigou’s article.
God.” Later in the work he (32) mentioned conflicts and the need to “weigh” considerations—without indicating how.

Pigou did not elevate robustness to difference in values into a guiding principle, nor did he stand back from the “fundamental controversies” in the science of the good. His inaugural (1908b:14) contended that it was “an urgent need for the economist that he be also a student of Ethics” and he was one himself; what was available to such a student in late or post-Victorian Cambridge is described in Knight (2018: ch. 5). Pigou was not alone: other economists formed in the same philosophical milieu included Ralph Hawtrey (1879-1975), Maynard Keynes (1883-1946) and Gerald Shove (1887-1947). Political philosophy had no such hold on Pigou and, while appeals to rights, freedom and justice, can be found in his writings, he gave no systematic attention to such concepts. The younger Pigou enjoyed political controversy but the older avoided “partisan political debate”, warning (1935: 10) the beginner against the “intellectual crime” of adjusting his views so that they conform to the policy of a political party.

2 The student of Ethics

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7 See Section 9 below for Hawtrey; for Keynes and Shove, see, inter alia, Shionoya (1991) and Macciò (2011).

8 Thus Pigou (1901b: 245 and 1951: 288) acknowledged liberty as a good, his case for a “national minimum” (1920: 787ff; 1952: 758ff) appealed to justice and his (1955) dissection of the formula “fair shares for all” rested on a notion of fairness; for these discussions see Aldrich (2019; Sect. 5), Yamazaki (2005) and KumeKawa (2017: 204ff) respectively.

9 Takami (2015) analyses the political atmosphere breathed by the young Pigou.
For the student of ethics—see Pigou (1908c: 344 & 349; 1908c: 110 & 117)—the science of the good had two branches: practical ethics where “our ultimate goal, of course, is to promote the greatest possible amount of goodness in itself” and theoretical ethics where the fundamental problem is “of determining what things are good in themselves.” As an economist Pigou engaged in a form of practical ethics, as a moral philosopher he investigated goodness in itself and reflected on the scope and method of the science. The problems Pigou worked on belonged to general ethics and were not generated by the special features of the element of the good that became economic welfare.

There was a sense of “good” that Pigou (1907d: 99; 1908a: 117) distinguished from “good in itself”: this was “useful as a means to promote something thus absolutely good.” Goodness of this derivative kind did not occupy Pigou in his ethical writings but he was alive to the distinction when he contemplated the value of knowledge—“light” or “fruit”—or the value of different kinds of people. His first essay on eugenics contains this comment (1907a: 365) on those who had risen from a poor environment:

> Among the original properties of these relatively rich presumably there are qualities which account for their rise. [...] How far the qualities based on these original properties are good in themselves seems to me doubtful. But they are certainly a means to good. By adding to wealth they make for happiness, and happiness is an important element in well-being.

“Means to good” would reappear in Pigou’s later writing—see Section 8 below.

Pigou’s writings on the science of the good are small in bulk: some passages in Robert Browning as a Religious Teacher and four short essays written later. The project of a philosophical study of a poet derived perhaps from Pigou’s (1905b: 104) notion that
poets have “an insight and a vision, and a hold upon concreteness, which the thinker in his study often lacks.” Pigou’s study was not unique: ten years earlier Henry Jones, the Idealist professor of philosophy at Glasgow, had “endeavoured to give a connected account of Browning’s ideas, especially of his ideas on religion and morality, and to estimate their value.” Pigou (1901a: viii) denied any competence to develop a “theory of the Universe” and thus did not estimate the value of Browning’s beliefs by comparing them with his own—“the only criticism upon which I could venture had to come, as it were, from inside his system, and to be directed towards ascertaining, not whether his beliefs are absolutely valid, but how far they are consistent with one another.” At a couple of points Pigou (1901a: 110; 126) compares or contrasts Browning’s views with the academic philosophies of Idealism and utilitarianism without, however, revealing his own position.

Pigou was an undergraduate when he wrote Browning but he continued to work on its themes of deity, optimism and ethics as he made a career as an economist: he was already a professor in 1908 when The Problem of Theism and Other Essays appeared. Three of the four essays on ethics were published in the International Journal of Ethics in 1907-8 and the fourth appeared elsewhere somewhat earlier. “The problem of good” is a general

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10 Pigou’s tone was less exalted when he remarked that a main part of Browning’s religious teaching is “simply a mixture of Green’s Ethics and sceptical metaphysics”—quoted by McLure (2013: 263). Section 2 of McLure’s paper gives a general account of Browning. Browning was reviewed in the International Journal of Ethics by Eleanor Rathbone, later famous for her “endowment of motherhood” campaign—for which see Aldrich (2019: Section 9).

11 A fact that caused him some embarrassment—see Kumekawa (2017: 59).
essay on “some points of ethical controversy” (the article’s title) while the other three are “critical expositions of important views.” The views were those of Jesus, Nietzsche, Browning and another English poet, George Meredith (1828-1909). Pigou (1908: 343-4; 1908a: 109-10) recognised two kinds of contribution to theoretical ethics: the positive work of providing “insight” into what is good and the negative task of eliminating those things that “blur and obscure insight.” Pigou saw himself as a clarifier of the original insights of others and his contribution chiefly on the negative side. Though he is the sympathetic commentator who tries to put his moralists’ views into the most coherent form, making points on method along the way, he left the reader in no doubt as to the insights, perceptions or intuitions, he judged truest.

In the Preface to Theism Pigou (1908a: viii) declares “For the general philosophical standpoint, I am chiefly indebted to the writings of the late Professor Sidgwick” and the debt is clearest in the metaphysical essay, “The nature of reality.” In ethical controversy Pigou (1907d: 99; 1908a : 80) identified three heads of disagreement: the method “by which ethical inquiry ought to be pursued” (meta-ethics), the qualities “which make up the goodness of any conscious being” and the way “in which the goodness of one being is related to that of others.” Only on method did he agree with Sidgwick.

Pigou (1907d: 99; 1908a: 80-1) identifies two ways of seeking an answer to the question, what is good? There is “the a priori method of deduction from the nature of things” and “the method of direct perception.” The method of deduction is found in the writing of the Oxford Idealist, T. H. Green (1836-1882), and the poet Tennyson and

12 Sidgwick had died in 1900. The reviewer in the International Journal of Ethics, the Idealist David Phillips (1909: 510), saw Pigou as a “disciple.”
Pigou judged it “mischievous and idle.” His criticism has echoes of the “naturalistic fallacy” in G. E. Moore’s *Principia Ethica* (1903: 10). Pigou opens his discussion of “direct perception” (the “insight” of his Nietzsche essay) with a quotation from the *Mikrokosmus* of the German philosopher Hermann Lotze (1817-1881): “What is good and evil remains just as incapable of being reached by mere thought as what is blue or sweet.” 13 Pigou goes on:

The only way to know whether anything is good is by looking at it. […] We turn the eye of the soul upon it, and we perceive some things to be good and some bad, just as we perceive that some are yellow and others red. […] The truer the eye of the percipient—not necessarily the intenser his mental power—the better the results will be.

Sidgwick and Moore also relied on the method of intuition though Pigou mentions neither in this context. Pigou remained an intuitionist: later when he wrote on the principles of taxation, he (1928: 62; 1947: 44) distinguished his own “intuitions” from Sidgwick’s.

Moving to the qualities which are good, Pigou (1907d: 101; 1907: 83) holds that the only good things are “states of conscious life.” Pigou would repeat this formula—see Sections 6 and 7 below—though what it signified changed over time: he (1907d: 101; 1908a: 83) began by protesting against Moore’s doctrine of “organic goods” which asserts that goodness applies to complexes of states of consciousness and objects but ended (1954: 2) by saying that the “welfare” of an object like Stonehenge is without meaning.

It is time to define “Sidgwick’s utilitarian philosophy.” According to The Methods of Ethics (411) utilitarianism states that the conduct which, under any given circumstances, is objectively right is that which will produce the greatest possible happiness on the whole; that is taking into account all whose happiness is affected by the conduct.

Over the years utilitarianism has meant different things but this is how it was understood by Pigou and his contemporaries.

Some later writers, following Ross (1930: 17), use the term “ideal utilitarianism” for the position that “what produces the greatest good is right” without the requirement that the only good is pleasure. Ross coined the term for Moore’s ethical position: ideal but not hedonistic utilitarianism, as he called Sidgwick’s utilitarianism. Pigou, on the strength of his declaration, “our ultimate goal, of course, is to promote the greatest possible amount of goodness in itself,” was another ideal utilitarian and, like Moore, no hedonistic utilitarian.¹⁴

Pigou (1907d: 102; 1908a: 84) lists some views about what makes a conscious state good:

The Utilitarians declare that the only element upon which the goodness of a conscious state depends is the quantity of pleasant feeling that it contains. Dr. Martineau, finding in the human consciousness a hierarchy of “springs of action,” declares that the goodness of a man at any time depends solely on whether or not he wills in accordance with that one of two conflicting springs

¹⁴ Yamazaki (2008) surveys Pigou’s ethical writings and compares them with Moore’s.
which he judges to be higher. [...] Finally, yet another school believes that the only element upon which goodness depends is the emotion of love [...] 

Green sits with James Martineau (1805-1900), while the final “school” includes Jesus and Browning. The list was *not* just of possible views for Pigou (1907d: 102; 1908a: 84) continues:

Nor are these three the only variables upon which goodness depends. I would include also the character of a man’s ideals, his attitude towards beautiful persons and things, and, so far as it is not already embraced in love and the good will, his enthusiasm for the purpose he sets before himself.

Thus Pigou’s ideal utilitarianism was a form of ethical pluralism. In giving those six “variables” independent standing, Pigou separated himself from those like utilitarians who gave primacy to one: he (1907d: 102; 1908a: 85) mentioned specifically Sidgwick who “regards the good will as *indirectly* of great importance for the contribution it makes to social order and hence to happiness.” (My italics.)

Having likened moral perception to colour and taste perception, Pigou (1907d: 102; 190a8: 87) naturally saw little scope for argument:

In defence of these opinions, I cannot offer arguments, and I cannot be presented with valid arguments to refute. For I am merely recounting perceptions; and the only answer that anyone is entitled to make is to recount divergent perceptions of his own.

Pigou had different intuitions from Sidgwick who, as Pigou (1907d: 106; 1908a: 91) noted, “intuited and recognized as of equal authority two moral imperatives, both that he

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15 See Yamazaki (2013).
ought to pursue his own good regardless of others’ good, and also that he ought to pursue
the good of the whole regardless of his own good.”

Having contended that the goodness of a conscious state is “a function of several
variables” Pigou (1907d: 103; 1908a: 87) asks whether anything further can be known as
to “the nature of this function.” He acknowledged that this is difficult territory and spends
some pages outlining possible positions. The version in *Theism* has some extra material,
including these closing remarks (1908a: 89):

> I think that it may in some circumstances be said that the greater the quantity
> present of one element A, the greater other things equal, is the addition made to
> the goodness of the whole by any given addition to a given quantity of another
> element B. I think that this relation holds between the elements happiness and
> virtue. But I doubt whether any other general proposition can be laid down.

Though hedged by two doses of “I think” these are remarkably refined intuitions on the
partial derivatives of the goodness function.

The third and final point of ethical controversy Pigou (1907d: 105; 1908a: 89)
considers is “whether the good of [person] A can compete with that of B or C.” Pigou’s
discussion takes in the views of Green, Sidgwick and Moore and the main point he
(1907d: 105; 1908: 92) wants to establish is the arcane double negative, that “to admit
that the goods of different people may compete does not involve self-contradiction.”

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16 I think Backhouse (2006: 37) misreads this discussion when he concludes that Pigou did not
“follow Moore in abandoning Sidgwick’s utilitarianism.” There is no evidence that Pigou ever
accepted Sidgwick’s utilitarianism.
Pigou’s ethical essays are extremely schematic, resembling less the text of the welfare treatises than their analytical tables of contents. Thus utilitarianism which gets tens of pages from Sidgwick gets tens of words from Pigou and these do not even go as far as stating the greatest happiness principle. Naturally Pigou’s knowledge extended further. A hinterland of knowledge is implicit in his review of Willoughby’s Social Justice when he (1901c: 76) criticised the author for overlooking Sidgwick’s utilitarianism: “The Ethics and Elements of Politics are not open to any of the strictures which he passes upon Bentham and Mill.” Pigou (75-6) also noted that many of the conclusions Willoughby had reached starting from the ethical system of Green had been reached by Sidgwick from his brand of utilitarianism. Pigou observes without opting for Green or Sidgwick, he did not need to choose and besides he found good in both.

Pigou never mentioned the ethical essays in his economic writing nor did they enter the philosophical mainstream, despite the International Journal of Ethics being a respectable publication and the essays having input from Bertrand Russell and Maynard Keynes. The latter, however, were peripheral to British moral philosophy and there are no signs that Pigou interacted with Moore or with W. R. Sorley, Sidgwick’s successor in the chair of moral philosophy. Pigou’s ethical views were formed early and while moral philosophy changed—generating entirely different points of controversy by 1935 or -50—nothing suggests he wished to revise them in any fundamental way.

17 Backhouse and Nishizawa (2010a: 10) find in the ideas of Green and Sidgwick the two roots of English welfare economics.
3 Marshallian foundations of economic welfare

Pigou’s ethical writings treat the element of good that became the welfare of the treatises but, beyond affirming that the quantity of pleasant feeling it contains is one of the variables upon which the goodness of a conscious state depends, those writings did not touch the future economic welfare. The concepts for economic welfare came from Marshall: “No one not thoroughly familiar with the concepts and technical apparatus of Marshall’s Principles will be able to read it intelligently” was Allyn Young’s (1912: 672) comment on Wealth and Welfare. Money as “measuring-rod”—a pet phrase for Pigou—came from Marshall’s demand theory and Marshall used the relationship between a person’s income and the satisfaction derived for making interpersonal comparisons.18 Another concept—the national dividend—figured in the higher level propositions discussed in the next Section.

“Some Remarks on Utility”—Pigou’s first essay on economic theory—considered divers matters bearing on the suitability of Marshall’s technical apparatus for welfare analysis. Of abiding concern for Pigou was the proposition (1903b: 67) that “the pleasure derived or expected from the satisfaction of a given desire bears some definite relation to, and can be expressed in terms of, the intensity of the desire that is satisfied.” The proposition mattered for, while Marshall had shown how the intensity of the desire could be measured, the ethical interest was in the pleasure derived. Pigou judged that Marshall “evades the difficulty by defining pleasure with reference to desire” quoting the Principles (1898: 76; 1920: 13), “Those pleasures are equal for our purposes the desires for which are equally strong incentives to action, for persons who are prima facie similar

18 For references and discussion pertaining to the concepts see Aldrich (1996).
and similarly situated.” Against Marshall, Pigou quotes Sidgwick’s *Methods of Ethics* (126), “I do not judge pleasures to be greater or less exactly in proportion as they exercise more or less influence in stimulating the will to actions tending to sustain or produce them.” Pigou took the philosopher’s side but maintained (68) that it made no practical difference to the usual applications of Marshall’s consumers’ rent:

For we may fairly expect that most material commodities, and especially those of wide consumption, that are required, as articles of food and clothing are, for direct personal use, will be wanted as a means to pleasure, and will consequently be desired with varying intensity in proportion to the pleasure they are expected to yield.

Marshall as refined by Pigou went into the welfare treatises—see Sections 6 and 7 below.

The idea of a functional relationship between income and satisfaction was not an issue for Pigou, it was part of his Marshallian stock-in-trade. Pigou (1904) used the Bernoulli functional form discussed by Marshall to evaluate the change of total satisfaction associated with a redistribution of income following the imposition of a tariff.¹⁹ The function is \( y = K \log(x/A) \) where \( x \) is the person’s income, \( A \) is the income sufficient to purchase the necessaries of life and \( y \) is the happiness derived and Pigou (1904: 47-8) used guesstimates of the income of landowners and consumers and the value of \( A \) to infer that “to subtract £1 from the average man and give it to the average landlord is to confer upon the latter an amount of satisfaction equal to one-fifth of the satisfaction lost to the average man.”²⁰ More prosaically *Industrial Peace* (1905a: 42) noted how “a sovereign

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²⁰ The calculation was unique in Pigou’s work; Aslanbeigui and Oakes (2015: 74-5) give details.
to a rich man means less than the same sum to a poor man” and thus a transfer from one to the other would increase the “general welfare of the community.” In a discussion (following the Principles) of the “famous doctrine of Maximum Satisfaction” Pigou (1906b: 380) concluded, “it cannot, therefore be argued, that, because free competition maximises apparent satisfaction in terms of money, it must maximise real satisfaction.” Pigou never repeated the Bernoulli calculations but the concavity of the function marched on as “the law of diminishing utility.”

4 The national dividend and national welfare

Pigou’s policy writings of 1906-7 contain his first attempts to integrate his views on economic policy with his views on ethics around the concepts of welfare and the national dividend, i.e. “the net aggregate of commodities, material and immaterial, available for consumption” as Marshall defined it. Having been glimpsed in Industrial Peace (1905a: 21, 63, 67) the dividend first soared in Pigou’s publications on protection.21

The Part I propositions relating economic welfare to the national dividend have ancestors in the article “Protection and the Working Classes” (1906c) though Pigou had not yet articulated the concept of economic welfare and was concerned with the effect of a particular kind of policy on part of the community.22 The “correct method of estimating the effect of Protection upon Labour” has three stages (1906c: 12), two of which involve the dividend:

21 Aslanbeigui and Oakes (2015b) discuss Pigou’s part in the tariff reform controversy.

22 Yamamoto (2008/9) has an extended account of the relationship between these writings and Pigou’s later propositions on welfare and the dividend.
[1] an inquiry into the effect of the policy upon the National Dividend, as a whole. For, prima facie, anything that enlarges that dividend is likely to be advantageous, and anything that diminishes it disadvantageous to all the agents of production in the country.

[2] an inquiry as to the effects of protection upon the distribution of the dividend among the various agents. For this may be altered in such a way that, despite the increase in the whole dividend, the share that goes to certain agents may be, not merely, proportionately, but absolutely less than it was before.

For years the prima facieness of the likelihood in (1) needed no elaboration.

The “third and final” stage involved the manner in which Labour receives its share:

This may be altered in such a way as to react on character and morale. If, for instance, Protection would lessen either the irregularities of employment, or the proportion of people engaged in sweated industries, the consequent improvement in the men might be well worth purchasing even at a cost of some reduction in their earnings.

As Pigou judged that protection would not have such effects, he did not have to weigh “improvement in the men” against loss of earnings and of national dividend.

In the ensuing book—Protective and Preferential Import Duties—the national dividend is on the first page (1906: 7) and remains in sight. The article formed the basis for Chapter II, “The National Dividend and the National Welfare,” a title anticipating future Part I. The discussion was no longer confined to labour and Pigou (1906a: 36) runs from “advantageousness” and “disadvantageousness” to “the country as a whole” to the “welfare” of the whole. The phrase “welfare of the community” had appeared in
Industrial Peace but it had no special weight either for Pigou or for other economists of the time. Pigou does not define “welfare” but his notion appears rooted in the ordinary dictionary sense of “the state or condition of doing or being well” with the twist that “well” rests on an understanding of “good.”

Pigou produces propositions about welfare, beginning (1906a: 36) with “the welfare of the whole is not dependent merely upon the wealth of the whole” where “wealth of the whole” apparently refers to the size of the national dividend; see Section 6 below. Among the other circumstances on which welfare depends “perhaps the most important is the way in which the national dividend is distributed.” Another circumstance, divorced from the dividend, sits in a footnote (1906a: 36 fn. 1):

[The welfare of the whole] is dependent, for instance, inter alia on the desirableness of desired satisfactions, and of the desires which these satisfactions stimulate. The welfare of China might, for instance, be promoted by a subtraction from its national dividend of all the opium it now consumes.

Desired satisfactions register in the national dividend but the “desirableness of desired satisfactions” refers to their goodness. A similar consideration intruded when Pigou (1906b) dissected the “fallacy” that “all men, if left free, will best advance the interests of all.” He (1906b: 379) maintained that the notion of “interest” was ambiguous:

It may be true that an individual is the best judge of his interest, when by interest is meant what he as a matter of fact does want, but it is not true that he is the best judge of what he ought to want.

There was ethical value in satisfying the desires people ought to feel.
Pigou’s focus on the size and distribution of the dividend in policy analysis had been prefigured by Sidgwick for whom (1901: 397) the art of political economy included:

(1) The art of making the proportion of output to population a maximum, taking generally as a measure the ordinary standard of exchange value […] (2) the art of rightly distributing produce among members of the community […].

Pigou replaced “output and “produce” with the “national dividend” and added “welfare” as the art’s over-arching objective.

Pigou did not find—or at least acknowledge—any inspiration in Sidgwick and gave all credit to Marshall for the dividend and for marking its significance. Reviewing the fifth edition of the *Principles* (the last to be called volume 1), Pigou (1907b: 533) insisted:

> The conception of the National Dividend is not an academic toy, but a practical instrument of great power designed for service in the concrete solution of social problems. [Italics in the original.] The unavoidable but regrettable delay in the appearance of Prof. Marshall’s second volume has obscured this fact

After detailing Marshall’s applications of the dividend—to whether Trade Union policy is anti-social, to the attitude which the State should adopt towards the poor and to innovation under Collectivism—Pigou (535) rises to:

> The dividend constitutes the kernel of economic theory because […] it is the centre of sound philanthropic endeavour. It is to an analysis of this that we are driven, when, throwing off the moral torpor of indolent optimism, we refuse, “with our modern resources and knowledge, to look contentedly at the continued destruction of all that is worth having in multitudes of human lives,” and demand from social science guidance to social reform.
The words quoted are in the *Principles* (1907: 721; 1920: 722) but were not linked to the dividend and Marshall recommended caution in social reform: “There is evil in extreme impatience, as well as in extreme patience, with social ills” warned the marginal summary.

Pigou (1907b: 532) wrote as “one who has been taught by Prof. Marshall” and so presumably cognisant of his plans. We know from Whitaker (1990) that a second volume organised around the national dividend had never been Marshall’s plan yet the belief seems to have given Pigou a warrant for his own efforts. The second volume with its “guidance to social reform” would be his own welfare treatises, beginning with *Wealth and Welfare*. In the meantime Pigou was producing an ur-treatise anticipating many of their ideas and applying them to an important department of social policy. It raised ethical considerations from the realm of footnotes and after-thoughts, identified economic well-being and defended its separate study: it offered a first sight of the triad—as well-being, economic well-being and the national dividend.

5 The ur-treatise and economic well-being

Pigou’s *Memorandum on some economic aspects and effects of Poor Law relief* was written in 1907 for the Royal Commission on the Poor Laws and published in 1910 with the Commission’s papers. The first chapter, “The Poor Law and the Elements of National Well-being,” unpacks the proposition that any policy is “likely to have

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23 Marshall was the dedicatee of *Wealth and Welfare* but what he thought of its scope or of the contents of Part I is not recorded; see Bharadawaj (1972).

24 See Aslanbeigui and Oakes (2015: 57).
considerable effect upon the well-being of the community” and is a first draft of the prolegomenon to the economics of welfare in Part I of the treatises.

The “well-being” of a nation or community is evidently the application of being good to a social entity for the following is Pigou’s (1910: 981) list of the elements upon which “national well-being” depends:

(1) The people themselves as ethical personalities.

(2) The direct social and other relations of people with one another, and the satisfactions that result therefrom.

(3) The satisfaction obtained by the people from their economic circumstances.

“Satisfaction” (in (3) and the second part of (2)) corresponds to the utilitarian “pleasant feeling” or “happiness” while (1) reflects the other five variables identified in “The problem of good.” The goodness of relations (the first part of (2)) seems to be a new consideration.

Pigou (982) sketches the effects of Poor Law policy under these heads. The effect on “the value of the people as ethical personalities” is chiefly by affecting “the qualities commonly known as ‘economic virtues’”—aspects of character which presumably include such qualities as self-control, thrift and calculation. Of them Pigou writes:

Whether [the policy] enhances or diminishes the value of the people depends on the value which various degrees of the economic virtues possess as ends in themselves, apart from their effects. Presumably, some modicum of these qualities is good, but an excess of them is likely to be bad. Up to a point an addition to economic virtue is an addition to human virtue; after a point, it is an addition to economic vice.
So when it came to the “character of a man’s ideals”—see Section 2 above—Pigou was unimpressed by the qualities responsible for economic success.

Pigou (982) used old age pensions to illustrate the second class of considerations: “some urge that they would weaken the sense of family responsibility, and would thus diminish the sum of good social relations. Others reply that the obligation to burdensome monetary support makes rather for severance than for sympathy.” Pigou did not find it necessary to offer examples of considerations under the third heading.

Having specified the elements of well-being, Pigou (982) presents a scheme for policy evaluation:

To determine accurately the influence of any line of policy upon well-being as a whole, it would be necessary to conduct a detailed investigation under each of the above three heads. […] A quantitative estimate of the amount of each of them would need to be made, and the aggregate effect obtained by combining them arithmetically with due regard for signs. If this were done, the merits of all practicable lines of policy could be compared by reference to the largeness of their aggregate positive, or the smallness of their aggregate negative, effects upon well-being.

The procedure is in accord with the goal of practical ethics—to “promote the greatest possible amount of goodness in itself”—although the implied goodness/well-being function with its additive form is different from anything contemplated in Theism.

Pigou combined enthusiasm for quantification with scepticism about what could be quantified—leaving him some way from such modern artefacts as the UN Development
Index which incorporate some of his values. He judged “there are no means of measuring the effects that fall under the first two heads” but effects under (3) were different (982): “The effects of different policies upon the satisfactions obtained by people from their economic circumstances [...] can be roughly compared.” This part of total well-being is “economic well-being” and it is brought into relation with the national dividend in Chapter IV, “Criterion for Determining the Advantages of Various Poor Law Policies.” This criterion is the “correct method” of the protection article minus the third stage of evaluating the part of total well-being that is not economic well-being. Pigou (987) indicates how to apply the criterion:

In estimating the aggregate economic influence of any Poor Law system we have therefore to examine its effects (a) upon the size of the national dividend, and (b) upon its distribution.

Economic well-being—the “satisfaction obtained by the people from their economic circumstances”—is presumably the sum of satisfactions that individuals receive from the share they receive of the goods and services annually available for consumption. Later commentators on Pigou—e.g. Bergson (1938: 324)—would express it so but Pigou never said as much until he commented on the commentators; see Section 9 below.

Pigou considered that effects under one head only could be compared and conceded that the result of such a partial comparison “need not be the one which would emerge if a

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25 After some initial efforts Pigou became more concerned with measurability than with measurement and appears not to have been associated with the efforts of Bowley & Stamp and Colin Clark to measure the dividend. In his second, more discursive, book on national income Clark (1937: ch. 1) defends its study by reference to Pigou.
complete comparison were practicable.” However, as unknown facts are as likely as not to confirm as to conflict with known facts, he (982) thought it reasonable to concentrate on (3):

Hence, if one policy is certainly superior to another in economic effect, it is probably superior to it on the whole; and, if one policy is probably superior to another in economic effect, it is probably, in a lower measure of probability, superior to it on the whole. For this reason, comparisons of the economic effect of different policies, though incomplete and one-sided, may still be valuable.

This probabilistic justification of a separate study of economic welfare went into the welfare treatises—see Sections 6 and 7 below.

While the Memorandum treated only a narrow area of policy, it had broad significance: it applied Pigou’s pluralist conception of the good to a branch of social improvement and contemplated a comprehensive policy science before concluding that only one element of the good, economic well-being, could be treated quantitatively. These lessons came to be incorporated in a volume of 500 pages which added foundations and covered the whole of economic policy.

6 The first welfare treatise: Wealth and Welfare

Pigou did not call his book The National Dividend and National Well-being but Wealth and Welfare, the euphonious coupling from 1906—see Section 4—recently (1909: 10) used to effect when urging that “the development of [the quality of patriotism and
concern for friends], which the Co-partnership principle promotes, besides leading to increased wealth, is increased welfare.”

Part I of Wealth and Welfare on “Welfare and the national dividend” organised old themes into a prolegomenon to an economics of welfare and the economics proper: the prolegomenon (my term) places economic welfare in the general study of welfare while the economics goes from foundations to propositions on how the size, distribution and variability of the dividend affect economic welfare, which are in turn linked to the applications of Parts II-IV. The perennials of Pigouvian economics, externalities, social cost etc., appear in Part II on the size of the dividend.

The prolegomenon on welfare begins (1912: 3) with a quotation from G. E. Moore:

If I am asked ‘What is good?’ my answer is that good is good, and that is the end of the matter. Or, if I am asked ‘How is good to be defined?’ my answer is that it cannot be defined.

Pigou continues, “Welfare means the same thing as good” an identification which is less arresting when we recall the transitions—being good to well-being to welfare. Naturally Pigou adds that welfare “cannot be defined, in the sense of being analysed.” These declarations, though never quite so expressed, were in accord with the ethical science of Theism and the practical applications in the Memorandum.

Regarding (total) welfare, the old “well-being as a whole,” Pigou (1912: 3) confined himself to two “propositions” transposed from his thought on the good:

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26 For a centenary estimate of Wealth and Welfare see McLure (2012).

27 See Medema (2009: ch. 3) for a recent review of these perennials.
that welfare includes states of consciousness only, and not material things or conditions: secondly, that welfare can be brought under the category of greater and less.

Only the second had a role in what followed—in the probability argument.

The probability argument (1912: 11) from the Memorandum justifies the separate study of a component of welfare:

When we have ascertained the effect of any cause on economic welfare, we may, unless, of course, we have evidence to the contrary, regard this effect as probably equivalent in direction, though not in magnitude to the effect on total welfare; [...] The burden of proof lies upon those who hold that, in any particular case, this presumption should be overruled.

This time Pigou appealed to Edgeworth on “unverified probabilities.” The argument is repeated in The Economics of Welfare but not in the re-statements of the 1950s. Whether Pigou ceased to believe in it or considered it superfluous I do not know. The argument seems not to have been picked up in the literature.

As this argument for a partial study was purely formal and did not depend on the nature of non-economic welfare, further discussion of non-economic welfare might seem superfluous for an economics of welfare. However the prolegomenon was as much a celebration of non-economic welfare as a justification of the economist’s not treating it. Instead of listing elements as in the Memorandum, Pigou (1912: 5ff) catalogues and illustrates the ways economic causes have effects “direct” and “indirect” on non-economic welfare; among the direct effects, which may be good or evil, Pigou (5-7) mentions and illustrates extensively effects on desires, on character, on occupation and on
social relations at work—effects descending from elements (1) and (2) of the *Memorandum*. Pigou (7) explains indirect effects as follows: “Causes that modify economic welfare may influence other parts of welfare, not directly, but indirectly through objective conditions of welfare other than the national dividend.”

Turning to the economics of welfare proper, the main aim is to establish the propositions relating economic welfare to the dividend (see Sections 4 and 5 above) using the theoretical tools described in Section 3. Pigou’s efforts were examined by later economists and having his thought pre-digested works for and against us. Accounts like that in Bergson’s (1938) “Reformulation of certain aspects of welfare economics” clarify Pigou’s argument by making the assumptions explicit but abandon the realistic idiom of the original. In 1912 (and -20) Pigou was tackling the “real economic world” in its “concrete actuality” and the result is a web of complications and qualifications that obscures the basic structure.28 Thus Bergson’s (1938: 324) characterisation of Pigou’s position, “the welfare of the community, stated symbolically, is an aggregate of the form [...]” came from ignoring most of Pigou’s lines. Pigou, however, lived to read the commentaries and nothing in his reaction or in the original text suggest that the commentaries misrepresented the main argument; see Section 9 below.

Economic welfare, writes Pigou (1912: 3), is “welfare arising in connection with the earning and spending of the national dividend or, in other words, of those parts of the community’s net income that enter easily into relation with the measuring rod of money.”

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28 The phrases quoted are from Pigou’s later defence of simplified models—a defence (1941b: 278) of the modelling of *Employment and Equilibrium* (1941a) and implicitly a criticism of his own earlier practice; see Aldrich (2018).
The identity suggested by “in other words” was not quite that for the measuring instrument had limitations with Pigou (3) admitting that “various good and bad qualities indirectly associated with income-getting and income–spending are excluded from it.” Economic welfare, he (4) admitted, was only “part of a part of welfare.” Of the measuring rod itself Pigou (1912: 8) maintained that it was what made an economics of welfare possible: “The methodological principle at the basis of economic science […] is the reference which it makes to a measure, namely, money.” Naturally he (1912: 8-9) noticed the old point from 1903—see Section 2 above—that the measure was of desires and aversions instead of the satisfactions and dissatisfactions of ultimate concern.

The national dividend dominates the rest of Part I and the attention given to its conceptualisation and measurement is the book’s greatest novelty. Chapter II, “Economic welfare and the national dividend” (1912: ix) opens with the claim, “For the most part economic causes act upon economic welfare, not directly, but through the national dividend,” and the statement, a cardinal point in Pigou’s welfare economics, appears in all editions of the later treatise—see (1920: x; 1952: x).

Chapter II continues with three “important propositions” relating economic welfare to the dividend, descending ultimately from Pigou’s writings on protection. The first proposition (1912: 20) is

if a cause is introduced which makes for an increase in the aggregate size of the dividend, provided that the absolute share of no group of members, in terms of the commodities which that group is accustomed chiefly to consume, decreases, the economic welfare of the community as a whole is likely to be augmented.
Apparently Pigou saw no need to demonstrate a link between dividend and satisfaction and he describes how increases in dividend, or production, come about. He (21-23) notes an additional reinforcing link, an ‘infant consumer’ channel by which tastes are affected by consumption, and an objection (23-24) to the proposition based on the consideration, that a man’s satisfaction “is, in great part derived not from the absolute, but from the comparative, magnitude of his income.” Pigou admitted the objection but contended, “It cannot well be maintained seriously that an increase in [a man’s absolute income] will add nothing whatever to the satisfactions which constitute his economic welfare.”

Pigou comes closest to a Bergson-type symbolic formulation when he (24) justifies the second important proposition, viz.,

If a cause is introduced which makes for an increase in the absolute share of relatively poor groups of persons (in terms of the commodities which these groups are accustomed chiefly to consume), provided that the magnitude of the aggregate national dividend (in terms of commodities in general) does not decrease, economic welfare is likely to be augmented.

In the supporting argument (24-5) aggregate satisfaction is made explicit: in a community of two members with similar temperament “it is easily shown that any transference from the richer to the poorer of the two […] must increase the aggregate sum of satisfaction.” Pigou (25 fn. 1) uses an additive “aggregate satisfaction” function based on the assumption of similarity of temperament to show that a diminution in the inequality of distribution “probably increases satisfaction.” Pigou (28ff) considers two objections to

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29 Pigou was long fascinated by the point: he had discussed it in 1903 and would return to it when he commented on Duesenberry’s relative income hypothesis in 1951.
redistribution inspired by the proposition: that increased wages would be spent on “worthless forms of exciting pleasure” and would stimulate population growth. He admitted that in the short-run higher wages might not lead to an increased welfare “in the widest sense” and that population growth may be encouraged but suggested that both effects would only be short-run.

When writing about protection Pigou had contemplated the effect of irregularities of employment on “morale”—an element of non-economic welfare. Irregularity—of the dividend—was the concern of the third proposition (25):

if a cause is introduced which diminishes the variability, or inequality in time, of the dividend, and especially of that part of it which accrues to the poorer classes, the economic welfare of the community as a whole is likely to be augmented.

The new argument for equalisation across moments (401-2) parallels that for people: based on applying “the law of diminishing utility”, it goes from economic welfare in the individual as the sum of the momentary contributions to the “joint economic welfare” of different people.

Chapter III on “the measurement of the dividend and its parts” begins (33) by conceding that it has been “tacitly assumed” that the concept of a change is “definite and unambiguous” which it would be were the dividend a “large parcel of one single thing.”

The task (33) then is “to find a measure for changes in a heterogeneous dividend such that the propositions laid down in the preceding chapter in the case of homogeneous

30 My treatment of Pigou’s analysis of the dividend here and in Section 7 is sketchy. An adequate treatment would need another article; Samuelson (1950) has a useful appendix on the subject.
dividend remain true” though both here and in *The Economics of Welfare* it was the truth of the first proposition that mattered. The discussion (32-51), which Staehle (1935: 165) considered “the first statement of the economic theory of price index numbers,” concentrates on judging from data on prices and quantities consumed whether the satisfaction of the “representative man” has increased. There was no appeal, tacit or otherwise, to cardinal and interpersonally comparable utility as there had been in the defence of the second and third propositions.

The final chapter of Part I considers “The national dividend and the quality of the people.” In 1912 the eugenics vogue was at its height in Britain and Pigou considered whether eugenic complications upset the propositions on economic welfare, concluding that they did not; the chapter and conclusion reappeared in *The Economics of Welfare*.31

7 The second treatise: The Economics of Welfare

*The Economics of Welfare* (1920) originated as “a rewritten and revised edition” of *Wealth and Welfare* but additional Parts on the dividend & labour and on the dividend & government finance more than doubled its length and obscured the fundamental triad. The extra Parts gave the work encyclopaedic scope but destroyed the scheme of a part for each of the propositions of Part I. In the second edition (1924) the material on variability and public finance was removed to be developed into separate books ((1927) and (1928)) but dividend & labour remained, filling more than a quarter of the contracted—though

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31 Pigou’s reasoning, which involved the effect of enriching the poor on the differential birth-rate, is discussed in Aldrich (2019: Section 8).
still large—work. Further editions appeared in 1929 and -32 and there was a reprint with additional material in 1952. For all the reorganisation this leviathan of sixty odd chapters never regained the tightness of the original.

The new title with its dropping of (general) welfare suggests a change of emphasis but Part I retained its function, though, apart from the chapter on the quality of the people, it was thoroughly rewritten with new elaborations, digressions and references. The War left its mark in reflections on Germany—see Section 8 below—and in a new section on defence (1920: 18; 1952: 18): “Lack of security against successful hostile attack may involve ‘dissatisfactions’ of a very terrible kind. These things lie outside the economic sphere, but the risk of them may easily be affected by economic policy.”

Part I still divides into a prolegomenon and the economics proper. The prolegomenon takes up Chapter 1, still called “Welfare and economic welfare” and still largely about non-economic welfare and whether a separate study of economic welfare is worthwhile. The prolegomenon now opened with a discourse (1920: 3-10; 1952: 3-10) on economic science—see Section 1 above. The “methods of science” require measurability and economic welfare is introduced (1920: 11; 1952: 11) as the part of welfare on which those methods can operate: “The one obvious instrument of measurement available in social life is money. Hence, the range of our inquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring-rod of money.”

General welfare slips in without ethical fanfare and it is understood that welfare—like goodness—should be promoted: the object of the book (1920: 10; 1952: 10) is “to make

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more easy practical measures to promote welfare” where welfare is “a thing of very wide range.” The two propositions from *Wealth and Welfare*—about “states of consciousness” and “greater or less” are stated (1920: 10; 1952: 10) “more or less dogmatically.” Pigou (1920: 14; 1952: 14) continues to maintain that the only aspects of conscious life that can be brought into relation with a money measure are a certain limited group of satisfactions and dissatisfactions—

But conscious life […] includes […] other satisfactions and dissatisfactions, and, along with them, cognitions, emotions and desires. Environmental causes operating to change economic satisfactions may, therefore, either in the same act or as a consequence of it, alter some of these other elements.

Some pages (1920: 14-18; 1952: 14-18) detail how non-economic welfare is liable to be modified by “the manner in which income is earned” and by the manner in “which income is spent”—different occupations have different “ethical value” and “one [act of consumption] may exercise a debasing, and another an elevating, influence.”

The prolegomenon—and Chapter I—concludes by asking whether economic welfare is worth studying when the true objective is total welfare and whether it can be studied by economic science working alone. For the first Pigou (1920: 20; 1952: 20) restates the probability argument and, for the second, gives (1920: 20-22; 1952: 20-22) a new argument deriving from Mill’s *Logic* to support the claim that economic science, despite its “partial and limited character” is competent to obtain “reasonably adequate conclusions” about effects on economic welfare.

Turning to the economics of welfare proper, this is enlarged and sub-divided. The new Chapter II expands the discussion of the link between desires and satisfactions—a
potential weak-point in Pigou’s project. The old Chapter II, “Economic welfare and the national dividend,” divides into an introduction to “The national dividend” (Chapter III) and an account of “The relation of economic welfare to the national dividend” (Chapter IV). More straightforwardly the old Chapter III on “The measurement of the dividend and its parts” becomes Chapter V on “The measurement of changes in the magnitude of the national dividend and its parts.”

There is a new topic in Chapter II on desires and satisfactions (1920: 24-29: 1952: 24-30): “our telescopic faculty” is defective so that “generally speaking, everybody prefers present pleasures or satisfactions of given magnitude to future pleasures or satisfactions of equal magnitude, even when the latter are perfectly certain to occur.” The observation leads to a discussion of (under-)investment and a governmental role in conserving the environment.33

The importance of the propositions is underlined by devoting a chapter—“The relation of economic welfare to the national dividend”—to them. The tenor was unchanged but the formulations were tightened to accommodate possible difficulties; the statement of the four “main propositions” (variability now involves two) in the analytical table of contents (1920: x) indicates the nature of the difficulties Pigou contemplated:

[1] Any cause which, without the exercise of compulsion or pressure upon people to make them work more than their wishes and interests dictate, increases productive efficiency and, therewith, the average volume of the national dividend, provided that it neither injures the distribution nor augments

33 Collard (1996) has more on this “Cambridge” argument.
the variability of the country’s consumable income, will, in general, increase economic welfare. […]

[2] Any cause which increases the proportion of the national dividend received by poor persons, provided that it does not lead to a contraction of the dividend and does not injuriously affect its variability, will, in general, increase economic welfare. […]

[3] Any cause which diminishes the variability of the national dividend, provided that it neither diminishes its volume nor injures its distribution, will, in general, increase economic welfare. […]

[4] Any cause which diminishes the variability of the part of the national dividend accruing to the poor, even though it increases in corresponding measure the variability of the part accruing to the rich, will, other things being equal, increase economic welfare. […]

The last proposition is included more for “analytical completeness” than for “practical importance.”

The prolegomenon changed little in later editions—unlike the rest of Part I. In the second edition variability was removed to the new Industrial Fluctuations (1927) and the variability propositions departed to be covered there (1927: 217) by a sentence. The pivotal chapter on the relation of economic welfare to the national dividend became three: one on reactions through population and one for each of the remaining propositions. Surprisingly the propositions became less visible: the first survived (un-billed) in the analytical table of contents (1924: x: 1952: x) but the discussion in the text
(1924: 72-5; 1952: 82-6) was much reduced. The second main proposition also received less emphasis: in the contents (1924: xi; 1952: xi) it appeared as, “Except in very special circumstances such transferences [in favour of the poor] must increase economic welfare.” However the Preface to the third edition (1929: v; 1952: v) restored some of their glory when it re-instated the statement from the first edition summarising the argument of Part I, viz., “that the economic welfare of a community of given size is likely to be greater (1) the larger is the volume of the national dividend, and (2) the larger is the absolute share of that dividend that accrues to the poor.”

Changes to the treatment of the national dividend had more direction. Comparing Parts Is across treatises and editions of the second treatise, the dynamic was in the increasingly close attention paid to the dividend. In the Preface to the second edition Pigou (1924: v) mentioned puzzles associated with the concept: “[They] are, no doubt, of academic rather than of practical interest. But it is none the less important to resolve them if we can, and the difficulty of doing so is great.” These words would make a fitting epigraph for, what was from 1929, a self-contained monograph of 4 chapters and 50 pages—what Samuelson (1950: 21) called a “classic discussion” making “substantial contributions to the modern theory of economic index numbers.”

8 Making good men

In the 1920s Pigou revisited goodness and other themes from his early ethical writings (see Section 2 above). He had always distinguished good as a means from good in itself and after the War he applied the distinction to people. In The Economics of Welfare he (1920: 12-14; 1952: 12-14) argued that people have qualities that are good in themselves
and more instrumental qualities, contrasting the modern Germany of engineers and businessmen with the old Germany of poets and philosophers, the materialist West with the spiritual East. The moral of the contrasts was that “efforts devoted to the production of people who are good instruments may involve a failure to produce people who are good men.” Pigou’s (1920: 12; 1952: 12) larger point was that “an economic cause may affect non-economic welfare in ways that cancel its effect on economic welfare.”

In his Galton Lecture for the Eugenics Education Society Pigou used the same distinction when considering the ‘production’ of people by biological rather than cultural means. Social improvement had always been Pigou’s goal but now he considered the fundamental question, what do we mean by a good society? He (1923b: 305) interpreted the question as what do we mean by *good in society*, proceeding as follows:

A society is a group of persons. If then we are to settle what we mean by good in society, we must decide first what we mean by good in a single man. Pigou had faced the issue of goodness in a single man long before—abstractly in “The problem of good” and concretely in the *Memorandum*. He now wrote

What we aim at is a society that is in the highest possible degree good in itself; containing persons whose qualities are good in themselves; who are happy—for happiness is clearly a good; whose mutual relations are intimate and friendly—for sympathy is clearly among the greater goods: the sort of society perhaps that Morris has conceived in his dream of John Ball.

However, Pigou (306) reminded his audience that “the artists and poets of Athens could not have adorned the world if there were not available somewhere the qualities that are
necessary to provide the means of subsistence and defence from danger.” Such considerations led to a formula (1923b: 306):

To secure the greatest sum of ultimate good, we need a balance: alongside of the qualities that directly contribute to that sum, we need also those that indirectly as means contribute to it and make it possible.

Pigou’s present concern was the eugenics project and applying the formula to it and writing as an economist, he (1923b: 307) asked:

Is there reason to expect that children born in the lower economic strata of society will, when account is taken both of goodness in itself and of capacity to fill an essential place in the economic organism, possess inherent qualities (1) less good in themselves and (2) less efficient as means to the good of the whole, than children born in the higher strata?

Pigou attended only to the efficiency aspect of the question, concluding (308) with some diffidence that “the true welfare of society is likely to suffer […] if the proportion of children born among the lower social strata exceeds substantially the proportion born among the higher.”

Pigou returned to the cultural production of people when he reviewed the Webbs’ Soviet Communism: A New Civilisation? Responding to their notion of the “remaking of men” Pigou (1936: 93-4) said this in praise of the Soviet Union:

to have enshrined in the policy of a great country the doctrine that it is life, not machinery that matters, which matters in the end, that the supreme commodity

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34 For further discussion of the paper’s eugenic message see Aldrich (2019: section 3).
is man itself, and that the approaches to civilisation should be free to all and not
the privilege of a few, is to have made a unique contribution to history..

In the conclusion to his own Socialism versus Capitalism Pigou (1937: 138) wrote that he
“would take a leaf from the book of Soviet Russia and remember that the most important
investment of all is investment in the health, intelligence and character of the people.” In
his review of The Road to Serfdom—Hayek’s “earnest and admirably written plea”—
Pigou (1943: 218) identified with the values of the “ordinary English socialist.”

The reference to William Morris’s Dream of John Ball in the Galton Lecture is the only
explicit reference I have found in Pigou’s writings to any author in Myint’s “broader
tradition of the Humanities” (see the Introduction above). Yet Pigou’s distaste for
commercial values and admiration for the ideals of co-partnership and guild socialism
seem to put him in that tradition. Of course professional duty led him to add concern with
the means of realising its ideals: cf. his (1920: 17; 1952: 17) remark on guild socialism:
“The fact that schemes of industrial reorganisation on these lines are exposed to serious
practical difficulties, which their authors do not as yet seem fully to have faced, does not
render any less admirable the spirit of this ideal.” Marshall was actually more likely to
refer to authors in the tradition but Winch (2009: 256) considers his compliments to be
“double-edged” and designed to undermine the position of those authors. Pigou was more
straightforward and had only one (softer) edge. Pigou was exercised by the question, can
economics for its narrowness do good? He asked on behalf of himself and the student
contemplating ways of improving the world, telling (1920: vii; 1952: vii) the latter that
the search for the knowledge by which social evils may be restrained “is the task, to find
it perhaps the prize, which the ‘dismal science of Political Economy’ offers to those who
face its discipline.” Carlyle, it seems, had scorned a powerful but demanding method for doing good. Joan Robinson’s tag “the first serious optimist”—see Kumekawa (2017: 131; 145)—might have been chosen by Pigou himself.⁴⁵

### 9 Placing the economics of welfare

Marshall’s *Principles* lacked a volume 2 and I have cast Pigou’s welfare treatises as trying to make good the deficiency by applying Marshall’s positive science to social improvement in a wide range of economic settings; the ethical input, however, was not from Marshall (or Sidgwick) but was of Pigou’s own devising. This is my construction for Pigou never placed his ideas in the stream of ideas, his own or others’—the treatises’ many references are for illustrations and details, not for perspective. When Young (1912: 673) found a “sophisticated sort of utilitarianism” in *Wealth and Welfare* or when Edgeworth (1913: 62) mentioned the connection with Sidgwick, they were construing for Pigou does not mention Sidgwick, utilitarianism or the greatest happiness principle. The spectators forgave the unspoken dependence on Marshall’s *Principles* but Nicholson (1913: 420) criticised the “economy of reference to Sidgwick.”⁴⁶ Perhaps because they were part of the atmosphere, Pigou made no reference to the New Liberalism or to the

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⁴⁵ Actually, as Aslanbeigui and Oakes (2018) point out, Robinson’s (1932) meant something quite different by “serious optimist”—a position on the methodology of positive economics—and her piece was tacitly critical of the welfare impulse in Pigou’s work.

⁴⁶ Later commentators, including O’Donnell (1979), Backhouse (2006) and Tribe (2011), have taken up the connection with Sidgwick.
broader tradition of the Humanities and contemporary economist readers did not care to
mention any. The welfare treatises and their commentators were equally reticent about
discontinuities: the silent uncoupling from Marshall’s “character” and evolutionism—see
Winch (2009: passim), Dardi (2010) and Aldrich (2019)—went unremarked and was
probably un-mourned. To all appearances the Part Is contain nothing controversial: Pigou
does not present his own views as different and the only disagreement he registers is that
between Sidgwick and Marshall on the matter of desire and satisfaction.

There was very little published discussion of Part I before the 1930s and between them
the reviews by Young and Cannan may indicate why. Young (1913: 673) noted points of
disagreement with the philosophical position of Wealth and Welfare but did not develop
them because Pigou “hedges his doctrines about with so many safeguards that the really
vulnerable points are, at most, few; and, secondly, because these debatable points play
but a small role in the general argument and conclusions of the book.” The more
impatient Cannan (1921: 207) judged Part I of The Economics of Welfare unnecessary or
unnecessarily prolix: “Must we read 108 pages to make sure that we are right in
believing” that “a big, well-distributed and steady income is better than a small, ill-
distributed and violently fluctuating income, especially if the fluctuations fall chiefly on
the poor.”

There was little criticism to answer but two fundamental objections were answered in
the revisions of 1929 and -32. In The Economic Problem Hawtrey (1926: 189) proposed
enlarging the scope of economics to include ethics. This involved a conception of welfare
as comprising “all those experiences which possess ethical value in themselves.” 37 As this was his own conception, Pigou (1929: 17 fn3; 1952: 17 fn3) was unmoved:

Mr. Hawtrey has criticised my analysis upon the ground that it implicitly makes equal satisfactions embody equal amounts of welfare, whereas, in fact, satisfactions are of various degrees of goodness and badness. [...] There is, however, no difference in substance between Mr. Hawtrey and myself. We both take account of those variations of quality. Whether it is better to say, of two equal satisfactions, that one may in itself contain more good than the other, or to say that in themselves, qua satisfactions, they are equally good, but that their reactions upon the quality of the people enjoying them may differ in goodness, is chiefly a matter of words.

Both would have condemned opium eating—see Section 4 above—using different words.

The first of the welfare/dividend propositions was criticised by Georges-Henri Bousquet (1929), and in the 1932 edition Pigou (1932: 84n; 1952: 84n) answered him:

Bousquet argues that economic welfare depends on the relation between incomes and needs, and that an increase in income involves, after time for adjustment has been allowed, such an increase of needs that the original relation between income and needs is re-established.

37 See Backhouse and Nishizawa (2010c; 227) for a useful brief account of Hawtrey’s position. However their claim that “his views on welfare were very different from those of Marshall and Pigou” is misleading. Hawtrey’s proposed enlargement was criticised by Robbins (1926)—see Backhouse (2009)—and, in a later formulation, by Robertson (1949).
Pigou saw something in the point but, given current levels of poverty, had to disagree: “The goal of economic betterment is not a mere illusion” he declared.

After 1932 criticisms began to accumulate, disputing not so much the propositions or prolegomenon as Pigou’s understanding of economic welfare. Pigou returned to the economics of welfare around 1950, after another war and much unrelated theoretical work. He wrote two articles on the themes of Part I—extracts became Appendices VI and XI in the 1952 reprint of *The Economics of Welfare*—and published related material in *Alfred Marshall and Current Thought* (1953) and “Some aspects of the Welfare State” (1954).

Pigou wrote “Some aspects of welfare economics” for the *American Economic Review*. The new Welfare Economics, “as it likes to be named” was, he (1951a: 287) judged, exercised by “some semiphilosophical questions about utility” and “some significant logical problems which arise out of the fact that real income is made up of a number of different things, the quantities of which vary in different proportions.” The logical problems were treated elsewhere and his response—to unnamed critics—was a general statement confined to “fundamental issues” including an abridged prolegomenon. While welfare in general was outside the scope of the new welfare economics, Pigou (1951a: 288) found it necessary to insist:

As it seems to me, welfare must be taken to refer either to the goodness of a man’s state of mind or to the satisfactions embodied in it. [...] it is generally felt, in a vague way, that some sorts of satisfaction are in their nature better than others, and that quite irrespective of whether or not they entail dissatisfactions.

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38 Aslanbeigui and Oakes (2015a: ch. 6) discuss the Robbins critique.
later on. If this is right, a situation containing more satisfaction is not necessarily “better” than one containing less.

Pigou did not re-state his argument that a separate study of economic welfare could coexist with a larger concern with welfare—perhaps because the new welfare economists needed no convincing.

Regarding economic welfare, Pigou (288) insisted we have
to decide whether or not it is the sort of thing to which the notions of greater or less and increase or decrease can properly be applied. For, if they cannot, Welfare Economics, every part and aspect of it, vanishes and leaves not a wrack behind.

In the treatises Pigou had maintained without defence that (general) welfare was just such a thing but for economic welfare he had to make a case.

The (im-)possibility of interpersonal comparisons raised by Robbins (1938) was one of the “semiphilosophical questions” that Pigou had not seen coming and which he (1953: 45) half-suspected of being frivolous: “it has been maintained, with what degree of seriousness I cannot say, that utilities enjoyed by different persons are not comparable.”

His (1951a: 292) defence was:

On the basis of analogy, observation and intercourse, interpersonal comparisons can, as I think, properly be made; and, moreover, unless we have a special reason to believe the contrary, a given amount of stuff may be presumed to yield a similar amount of satisfaction, not indeed as between any one man and any other, but as between representative members of groups of individuals, such as the citizens of Birmingham and the citizens of Leeds.
Pigou had long taken the logical problems associated with the measurement of real income seriously and they were the subject of “Real Income and Economic Welfare” (1951b), a reply specifically to Paul Samuelson’s (1950) “Evaluation of Real National Income.” Pigou (1951b: 16) acknowledged that “serious defects” had been found in his analysis and he wanted to say “in my own language […] how these things seem to me to stand now.” They did not stand at all well for his analysis of the relationship between price/quantity data and economic welfare led him (20) to conclude:

Thus it is only […] where quantity of resources and technical conditions have changed and tastes and the purchasing power are alike for all purchasers and have not changed, that inferences about economic welfare are possible.

For the profession Samuelson (1950: 28) offered a consolation: “Lucky it is that the remaining fifty-odd chapters of the Economics of Welfare do not depend in an essential way upon the results of the early chapters of Part I dealing with the national dividend.” It can’t have seemed so lucky to Pigou for whom the dependence gave the economics of welfare its coherence.

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