

IAN KUMEKAWA, *The First Serious Optimist. A.C. Pigou and the Birth of Welfare Economics*, Princeton, Princeton University Press, 2017, pp. x + 332.

Arthur Cecil Pigou (1877-1959) has often been looked down by historians of economic thought as a minor conservative figure stuck between the great genius of Marshall and Keynes. This position is fading away as a surge of recent scholarship has constructed a new role for Pigou as one of the great modernisers of political economy into economics. Kumekawa's fascinating intellectual biography of Pigou builds on this recent work done by Nahid Aslanbeigui, Karen Knight and Michael Mclure—to name just a few. Drawing on extensive archival evidence, Kumekawa does not pretend to address economic issues, but is rather interested in situating Pigou's intellectual production in the English social and political context of the first half of the twentieth century. The reader will not be troubled with too much detailed textual analysis of Pigou, as Kumekawa brings her to a journey through Pigou's life. Over the years, Pigou's youthful participation in public life gave way to the recluse, and at times bitter, existence of a Cambridge don. As he was progressively rebuffed from new development in economics, he turned to new publics for his ideas, a source of comfort at the end of his life. This evolution, as Kumekawa argues, goes hand in hand with Pigou's political transition from a reform-minded Liberal to a Labour enthusiast in his old age. As Kumekawa navigates through Pigou's career, the reader learns about the role of professional economists at the time where the discipline was establishing its scientific status. I will summarise the argument of the book before discussing some of its historiographic deficiency concerning Pigou's legacy.

The first chapter describes the English upper middle-class upbringing of Pigou. The serious boy attended Harrow, a prestigious Public-school North of London, before entering King's College Cambridge in 1896. King's would become his home for more than five decades. He read history and political economy, graduating with a starred First in Part II of the Moral Science Tripos in 1900. With Marshall's support, Pigou was elected a fellow of King's at the age of 25.

The second chapter deals with the relationship between economics and ethics in the young Pigou's life. In his first years at Cambridge, Pigou was an ardent advocate of free trade. A reformist liberal, he wanted to help the masses, yet from the distant position of the economic expert. Not that he would shy away from his ethical commitments, but he maintained his professional objectivity by refraining from partisan political involvement. In the first years of the century, Pigou wrote several articles on the good life. Showing a certain affinity with Moorian philosophy, he criticised Oxford-based British idealism, at the same time as taking some distance from the utilitarian approach. Upon surveying different positions, Pigou considered that "the goodness of any conscious state is, to use a mathematical phrase, a function of several variables". (p. 54). As he was appointed Marshall's successor to the Chair in 1908, Pigou brought his philosophical writings to a

halt and devoted all his energy to developing the science of economics in the footsteps of his master.

The third chapter outlines Pigou's welfare economics. Kumekawa focuses on two elements of Pigou's welfare economics which have had a strong posterity: external economies and solutions to the problems of poverty. It must be noted that these subjects take only a part of Pigou's voluminous *Economics of Welfare*, but Kumekawa does not explain why these elements of Pigou's theory came to be more important than others (more on this below). Pigou provided a framework for thinking in terms of a tradeoff between efficiency and equity (even if the expression is not his), for balancing the role of incentives in securing an efficient allocation of resources and the role of the state in redistributing them (p. 73). For the sake of scientificity, Pigou narrowed his focus on economic welfare expressed in monetary terms, yet he was also interested in a broader conception of human welfare. Following the utilitarian tradition of Mill, Sidgwick, and Marshall, Pigou suggested that by extraordinary restraints and extraordinary encouragements, the government might reduce the discrepancy between social costs (benefits) and private costs (benefits). Pigou's distrust of the market system became even more salient within the profession as a free-market neoliberal perspective arose at the London School of Economics in the 1930s. Even if Pigou was always very critical of the politicians' ability to enact policies that would maximise societal well-being—as Kumekawa highlights in Pigou's private correspondence—he held on to an elitist and paternalistic view of the role of the state, akin to Government House Utilitarianism, to use Bernard Williams' expression.

The fourth and fifth chapters trace Pigou's growing disillusionment with public life and concomitant stabilisation of his position as the country's leading economist of the chair. A pacifist, Pigou volunteered with the Friends' Ambulance Unit during WWI. His acute sense of justice led him to advocate a capital levy to repay the war debt. After the war, Pigou served on many committees, such as the Royal Commission on the Income Tax, but he was never as involved in the London affairs as Keynes, preferring to spend time at his country-side house in the Lake District, or mountaineering in the Alps. These preoccupations were translated in one of his most influential work: *A Study in Public Finance* (1928) (on which also see Aslanbeigui and Oakes, 2016). The book reflected the increased degree of abstraction in Pigou's work.

The sixth chapter tells the story of the breaking up of the Cambridge consensus. Surely disagreements between Cambridge economists had always existed, and fissures had been growing since Marshall's retirement, but Pigou was careful not to show these disagreements to the external world. The scientificity of economics hinged on the appearance of consensus in front of the public. In the 1930s, Pigou was challenged on two theoretical fronts: by Keynes on unemployment and by Robbins and his LSE colleagues on welfare. Although we remember of Pigou's position as the Classics straw man that Keynes made of him, his *Theory of Unemployment* (1933) was actually well received by his peers. Roy Harrod considered it « a supreme intellectual achievement, a

masterpiece of close and coherent reasoning » (p. 143). Pigou built sophisticated models of the economy which relied much more on mathematics than Marshallian economics. Pigou did make room for government expenditures in public works in extraordinary circumstances, but he argued the depression would mostly resolve itself by a reduction in wages. In spite of Keynes's charge on Pigou, it must be remembered that both men were moderate liberals along a political spectrum that included at the time far more radical positions on the left and on the right, even among economists. The second wave of challenges to Pigou came from young economists at LSE. With his new definition of the scope and methods of economics, Robbins attacked Pigou's reliance on interpersonal comparisons of welfare. Following Robbins's view of science, Hicks, Lange, Lerner, Kaldor and others then proposed a new welfare economics that could formulate policy recommendations without relying on problematic comparisons of utility. It is a bitter irony that Pigou devoted so much energy in making economics a scientific discipline, yet by the 1930s many of his contributions were attacked as unscientific. As Kumekawa puts it: "Thus after Robbins' *Essay*, it was increasingly difficult for the middle-aged Pigou to be seen as a rigorous scientific economist, as the very conceptions of science shifted under his feet." (p. 163).

The last two chapters deal with Pigou's intellectual engagements in his old age. In the midst of WWII, Pigou was forced into retirement from his position of Professor, yet he stayed a King's fellow until his death in 1959. He continued to write articles and books on economic matters throughout the 1940s and in the early 1950s. Kumekawa argues that as Pigou was tossed aside by the rising stars of the profession, he toned down his elitist disdain for the common man and turned his writing to the general public. This gradual transformation was fuelled by a regained optimism in the government's ability to improve the welfare of the British people. The central role played in the postwar Labour party by Pigou's friend and former student Philip Noel-Baker certainly played a role in the enthusiasm of the older Pigou for Labour policies. For instance, he was supportive of the Beveridge Report to confront the five giant evils of Want, Disease, Squalor, and Ignorance and Idleness (unemployment) (p. 186). At the beginning of the century, only socialists would have defended the provisions that Beveridge proposed in his Report and which Pigou enthusiastically endorsed. But times had changed, and the wars had increased the economists' confidence in government intervention.

Both in his introduction and in the epilogue, Kumekawa justifies the topicality of his book by recent invocations of Pigou by American economists across the political spectrum, especially in the context of climate change and the financial crisis. How is it that Pigou was on everyone's lips in the recent years, knowing that his theoretical contributions were overshadowed in the 1930s by Keynes and his Cambridge Circus on one side, and the LSE economists in the other? Kumekawa is right to pinpoint welfare economics as Pigou's lasting contribution (p. 201). Yet, he does not suggest in any way how some of Pigou's ideas have survived through the decades, especially after the new welfare watershed. Perhaps it is beyond the scope of a biography of Pigou to answer this question, but the reader would have benefited from a stronger historiographic

position on Pigou's legacy. Recent scholarship in history of economic thought suggests that Pigou's lasting contribution is to provide foundations for public economics. But this story is not a straightforward one, and still needs to be researched and written.

Public economics only emerged in the 1970s by combining methodologically heterogeneous elements from the century-old field of public finance, Pigovian welfare economics, as well as new welfare economics. After WWII, the centre of gravity of the economic profession had shifted in the United States. In public finance per se, already by the 1930s, Pigou's neoclassical *Study in Public Finance* (1928) had started to replace older American institutionalist texts (Johnson 2014). In welfare economics, Abram Bergson and Samuelson took at heart Pigou's ethical motivation. Their reaction to the new welfare economics acknowledged the difficulty of making interpersonal comparisons of utility, but they argued that meaningful welfare judgement could be made if they were formulated objectively in a social welfare function. In other words, contrary to Robbins and his followers, for Samuelson, the implications of ethical judgements could be analysed scientifically by economists (Backhouse 2017, p. 470). And indeed, a significant part of contemporary normative public economics formulates and analyses policy problems in terms of social welfare functions. This literature has also benefited from the revival of American moral philosophy, especially from the 1970s onwards.

Taxation theory, another leg of public economics, also drew from Pigou's public finance. The foundational contribution to optimal taxation theory was written by the Cambridge prodigy Frank Ramsey in direct collaboration with Pigou (see Duarte 2010). Besides, so-called "Pigovian taxes" are instruments to correct inefficient market outcomes in the presence of externalities. Although Pigou devoted only a few pages of his *Economics of Welfare* to what are now called environmental externalities, his discussion is a cornerstone of what will become the 'market failure' approach to government intervention in the middle of the twentieth century (see Marciano et Medema 2015). One major contribution to this literature was made by Richard Musgrave who had studied at Harvard in the 1930s at the same time as Bergson and Samuelson. In his *Theory of Public Finance* published at the end of the 1950s, Musgrave synthesised various national traditions in public finance in a general welfare framework incorporating public revenues and expenditures. Musgrave introduced his discussion of social goods (public goods) with the Pigovian language of "discrepancies" between "social costs" and "private costs". Musgrave is an intermediate figure between Pigou, and the leaders of post-1970s public economics such as Anthony Atkinson, James Mirrlees and Joseph Stiglitz. It is an open research question to which extent these economists were directly influenced by Pigou, or if they mainly learned about his ideas through the filter of Samuelson and Musgrave, for instance. This being said, Medema (2017) has recently shown that there was no steady discussion of Pigovian externalities between *The Economics of Welfare* and its witty criticism by Coase (1960). Even after Coase's groundbreaking paper, the economic literature on externalities only burgeoned

in the US when environment became an important political issue in the 1960s and 1970s, decades after Pigou published his *Economics of Welfare*.

In sum, just as concepts and tools from Marshall are still with us today in contemporary microeconomics textbooks despite the ascendancy of general equilibrium models, some of Pigou's concepts and ideas found their way into modern public economics despite the new welfare economics attack. Notwithstanding this gap on the transmission of Pigou's ideas from their original context to their invocation by economists in the twenty-first century, Kumekawa's book is an exemplar case of intellectual history. This book has been years in the making. It is very well researched and the result is a truly enjoyable read. Aslanbeigui and Oakes (2018) have identified small factual mistakes which I think should encourage the author to eventually produce a revised edition that would have the potential to become a classic in the field.

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