

The Sanguine Science: Historical Contexts of Pigou's Welfare Economics

Norikazu Takami¹

1. Introduction

The aim of this essay is to reconstruct the intellectual environment in which A.C. Pigou (1877-1959) wrote his welfare economics in the beginning of the 20th century. For contemporary reviewers, Pigou's welfare economics changed the general impression of economics. A reviewer of *The Economics of Welfare* (1st edition, 1920) wrote, "We have moved a long way from the times when all was for the best in the best of all possible worlds," and noted that the work as a whole was calling for state intervention to the economy.² When an economic historian William Cunningham attacked Pigou's forthcoming attitude toward income redistribution, he did so by giving him the epithet 'The Sanguine Science,' contrasted with the classical 'dismal science';³ and last but not least, a student who was an active socialist in Cambridge and later became an influential Labour MP, recollected Pigou's book as containing "new conclusions, significant for practical action" (Dalton 1953, 58). I will examine the historical contexts that coexisted with the creation of the doctrine considered to be distinctly novel in economics' political implications.

In the United Kingdom in the years immediately before the First World War, a series of pioneering social legislation was put into effect. Behind this political changeover were various political campaigns, with which Pigou as a professional economist was directly and indirectly involved. When a senior cabinet member, who also advocated old age pensions, started a campaign for the introduction of protective tariff in 1903, Pigou actively joined the counter-campaign against tariff reform by contributing articles to newspapers and popular magazines and giving speech at political meetings. Afterwards when the Labour Party emerged as a major political force in the 1906 election and the newly aroused popularity in

¹ takami.jp@gmail.com. My thanks are due to Craufurd Goodwin, Stephen Meardon, and the archivists at Modern Archives Centre, King's College, Cambridge. This research was done with the support of Japanese Society for the Promotion of Sciences.

² An anonymous reviewer in *Cambridge Review*, May 13, 1921.

³ *The Times*, May 16, 1914, p. 13.

socialism caused anti-socialism in the popular debate, Pigou attempted to check the latter's arguments against social legislation. Pigou thus took part in this time of high politics, and this makes it plausible that Pigou's doctrine of those years strongly reflects the influence of the time.

On the other hand, however, Pigou was a theoretical economist loyal to his teacher Alfred Marshall who held an important academic position at Cambridge, first as Girdler's Lecturer and then the Professor of Political Economy, which means that Pigou was not perfectly free to draw any conclusion. Pigou's argument needed to be based on marginal theory unlike such heretics as J.A. Hobson and socialist writers including Sydney Webb; and Pigou as an economist in the socially visible academic position would have been compelled not to be seen as a political radical. Thus, it is estimated that Pigou's publications would have been a consequence of social interaction, or in other words, mutual stabilization of scientific and social discourses. At this point, the literature on co-production in the social studies of science has affinity. Co-production is the conception that focuses on stabilization of scientific notions through social interactions. The essays included in Jasanoff (2004) examine the cases of global warming, muscle dystrophy, sugar canes (as an imperial commodity in the late nineteenth century), and so on. This conceptual guide is instrumental in considering Pigou's welfare economics since it is possible to see that active politics of labor classes influenced the orientation of Pigou's theoretical research or at least the tone with which he wrote his books. In what follows, I will examine Pigou's intellectual environment from this insight and aim to bring into relief the social and political nature of his moves as an economist.

In this essay, I will trace the early days of Pigou's life up to the point at which he published *Wealth and Welfare*, predecessor of *The Economics of Welfare*, in 1912.⁴ The next section briefly follows his quick passage from an excellent orator in the Cambridge Union Society and protégé of Alfred Marshall to one of the best theoretical economists in Britain. The following section concerns the tariff reform controversy. I will note that Pigou discovered an important concept in his welfare economics through the bitter debate with various opponents. Section 4 deals with criticisms to socialism after 1906 and Pigou's response to them. I will go on to discuss in the next section how Pigou responded to the students' socialist movement in his close environment, namely in Cambridge. In conclusion, I will summarize how Pigou's interest was directed at progressive political reform.

⁴ In 1915, Pigou told the Macmillan publisher that he was revising *Wealth and Welfare*, published three years before. There he said, "it ought to have a new title, e.g. *The Economics of Welfare*. . . I imagine there would be no object in doing anything with it till some time after the war, and also until more copies of the original *Wealth and Welfare* have been sold" (A letter dated Nov 9, 1915 in Macmillan Archive).

2. Career Building in Cambridge, 1897-1908

Pigou entered the University of Cambridge with a scholarship to King's College to study history and modern languages. Historical teaching in Cambridge in those days reflected the influence of John Seeley (1834-1895), who founded the History Tripos in 1873, which made it more clearly grounded on the interest in modern politics than on the interest in history itself.⁵ Not only were pure historical subjects given, but also basic theoretical economics and politics were taught in the History Tripos. By the time of his completion of the undivided Historical Tripos three years later, he had already been attracted to Marshall's *The Principles of Economics*. In letters to his history teacher Oscar Browning (1837-1923) he wrote that he found Marshall's work interesting and that he was spending time studying economics.⁶ Following this interest, Pigou moved on to Part II of the Moral Science Tripos, where the course on advanced economics was given, and majored in "ethics, political philosophy, and advanced political economy" among the wide range of subjects in the Moral Science Tripos and completed it in the first class in 1900.

As an undergraduate, Pigou established his reputation as an orator in the Cambridge Union Society, a debate club, which brought him a great honor to a Cambridge student, the election to the President of the Union Society. It can be estimated what intellectual proclivity the young Pigou possessed from his speeches at the Union. On the question of the conflict in South Africa, Pigou criticized the British government by stating that its failure in the negotiation with the Boers had brought the military conflict. Among the topics he himself moved were renouncement of Puritan beliefs and censure to American expansionism. The former speech testifies to Pigou's liberal religious views, which also gained him a favorable review from the *Cambridge Review*, a general periodical for the University people one section of which evaluated each speaker's performance at the Union.⁷ Despite his liberal views in general, however, he was not necessarily attached to the Liberal Party. When Oscar Browning, a long-time treasurer of the Union, proposed that the only hope of efficient social reform lies in the Liberal party, Pigou first took him to task for the vagueness of the proposition and responded that the Conservative

⁵ Kadish 1989, 134-141

⁶ See Pigou's letters dated 1897-1899 in Oscar Browning Papers (OB/1/1281/A). In a letter dated Thursday, September 23, namely in 1897, his second year in Cambridge, he said, "of books that are dull & improving I've read Hallam's Constitutional History & Marshall's Political Economy / not nearly as bad as Hallam." In another letter dated just Sunday and with a marginalia, 1897-1899, apparently written by someone else, we read after an illegible phrase, "so I'm going to do Pol. Econ. & Economic History here."

⁷ *Cambridge Review*, Feb 14, 1899.

Party was less liable to radical sentiments and hence more reliable in some cases. Thus, apparently Pigou was leaning towards liberal views but tended to utter balanced cautious judgments.

Cautiousness and sobriety were also major characteristics in the young Pigou's scholarly attitude. In the older entry on Pigou of the *Dictionary of National Biography*, Austen Robinson (1971, 815) writes that the young Pigou's method was a philosopher's one, though it might be more correctly called a logician's one. According to McLure (2010), this method characteristic of Pigou can be found in his fellowship dissertation submitted to King's College. At his first attempt, he submitted the essay that won the Burney Prize, a prize for theological essays, a year before, the title of which was "Robert Browning as a Religious Teacher." The essay's aim was to describe the poet's religious, ethical views expressed in his literary works. Westcott (1825-1901), the Bishop of Durham and Raleigh (1861-1922), the Regius Professor of English Language and Literature at the University of Glasgow, were selected from the connections of King's college to review an essay on religious views of a poet. These referees praised Pigou's broad knowledge of Browning's works but expressed bewilderment as to the writer's intention. That is, the dissertation was to them too scholarly and analytical for a literary criticism or theological study, and Pigou brought an excessively strict framework into Browning's literary works. As a consequence of these indecisive reports, Pigou was not elected a fellow at this attempt. McLure suggests that Pigou's forced realization of his own analytical inclination, at least partly, made him decide to specialize in economics.⁸

A year later in 1902 Pigou submitted an economics essay for the fellowship and obtained favorable reports from the two economist referees, Alfred Marshall (1842-1924) and H.S. Foxwell (1849-1936); and he was elected a fellow. However, Foxwell's report was far from unconditional, and its large part was devoted to criticisms to Pigou's method. There Foxwell expressed dissatisfaction as regards Pigou's sole dependence on theoretical analysis and to the fact that the young economist tended to ignore the cases incompatible with the prediction of economic theory.⁹ It is known that Foxwell was hostile to Pigou for a personal reason. When Marshall tried to hire Pigou to lecture on introductory economics in 1901, Foxwell opposed it for fear that less students would take his course. Foxwell's distrust of Marshall

⁸ However, Pigou maintained the interest in ethics and theology afterwards at least until he succeeded Marshall in the Chair of Political Economy. *The Problem of Theism and Other Essays* (1908) is one of its products. In this work, he called for a scientific method of theology that takes the state of consciousness of the people who went through religious experiences as a datum. Dalton (1953, 57) reports Pigou's participation in Lowes Dickinson's personal seminars on philosophy when Dalton was a undergraduate in Cambridge.

⁹ Foxwell's report on Pigou's dissertation, King's College, Cambridge. See also Coase (1972); Kadish (1989, 194-195); McLure (2010).

reflected on his relationship with Pigou as well: in a letter to J.N. Keynes, Foxwell remarked Pigou was “a man, of all I have known, least qualified to deal with a general class, as he is such a prig!”¹⁰ According to Marshall’s letter to J.N. Keynes, Foxwell changed the content of his own course into the one that Pigou would give.¹¹ Despite this disagreement on teaching, however, Foxwell noted Pigou’s high caliber in lucid logical analysis, and this report, along with Marshall’s unconditionally praising one, had Pigou elected as a fellow of King’s College and gave him a foothold for an academic career in Cambridge.

Foxwell’s opposition to hiring Pigou as a lecturer was not heard in the end, and Pigou began teaching in the year 1901-02. In the first year, he taught introductory economics to lighten Marshall’s teaching load, and in the second year, he lectured on history of industrial combinations and labor movements, which was also his research subject at this time. In 1903, his thesis on industrial relations won the Adam Smith Prize, then triennial prize administered by Marshall’s own finances for the promotion of economics research in Cambridge. As is noted in the preface of the later published work, *The Principles and Methods of Industrial Peace* (1905), Marshall suggested this topic to Pigou. Marshall had served in the Royal Commission on Labour in 1891-1894, where he had opportunities to discuss with experts on labor issues such as Ben Tillett (1860-1943) and Sidney Webb (1859-1947)¹². He brought back strong impression on labor issues and encouraged his other students as well as Pigou to study such issues.¹³

The 1905 book that developed from this prize thesis brought Pigou’s theoretical inclination into sharp relief among contemporary economists. A review to this book was written in the *Economic Journal* by L.L. Price (1862-1950), fellow at Oxford and Marshall’s former student when he was briefly there in 1883-4. Price’s criticisms were that economic theory wielded by Pigou was hard to understand for economists not theoretically trained as well as for general readers and that it was oversimplifying the actual situations surrounding industrial bargaining. Indeed, in this work, Pigou treated normal wages (competitive wages) as if they could be easily known in the real world and worked out a sophisticated bargaining model based on Edgeworth’s theory.

Price’s charge on Pigou’s theoretical treatment ought to be seen in the light of the condition of economics of this time where the discipline was not clearly divided with history. What Marshall tried to

¹⁰ JNKeynes 1/48, also quoted in Coase 1972, 476.

¹¹ “[Foxwell] instantly cuts in before Pigou & duplicates in anticipation a part of the course .. wh[ich] Pigou has been preparing himself to give.” JNKeynes 1/195, also quoted in Coase 1972, 477.

¹² Groenewegen (1995, 360-371).

¹³ For instance, Sydney Chapman won the Adam Smith Prize in 1900 with an essay on the cotton industry that possessed an advanced bargaining system between workers and firms. C.R. Fay dealt with labor conditions in Britain and Germany (Pigou 1925, 74-75).

achieve by the creation of the Economics Tripos in 1903 was to erect economics as an independent discipline upon theoretical foundations (Maloney 1985). As his loyal disciple Pigou did not shy away from applying advanced economic theory to industrial relations. Price in turn detected implicit disregard for the historical method in Pigou's book and expressed his dissatisfaction. In his book, Pigou concluded that normal wages should be awarded for the best long-term result rather than giving higher wages that would eventually cause loss to labor as a whole. Price rejected his theoretical treatment as "fatally defective in their application to the central problem which arises here" (Price 1905, 385), even though he did not clearly describe what the central problem was in the review.

The hostility between Pigou and historians was not confined to Foxwell and Price. When Marshall devoted enormous efforts to create the Economics Tripos in 1903, it was William Cunningham who opposed this attempt most fiercely. In May 1903 both camps sent letters to the editor of the *Cambridge Review* concerning the value of economics learning as a distinct subject. Cunningham's former student Ellen McArthur (1862-1927) warned its danger by illustrating her point with her own recent experience while Pigou cautioned against the danger of insufficient economics learning by adducing his own recent experience¹⁴.

Although Pigou's research in economics met with the opposition from historically trained economists, apparently this did not hamper his career building. It is largely because he had high reputation among more influential economists such as Marshall, Marshall's many students who were teaching all over Britain and F.Y. Edgeworth (1845-1926), who was then the Drummond Professor of Political Economy at the University of Oxford. When Marshall retired from his Chair in 1908, he publicly supported Pigou as a successor, and Edgeworth, who held Pigou in high regard, served as a member in the election committee.¹⁵ Pigou was elected the Professor of Political Economy in preference to a strong rival candidate Foxwell, who had long taught economic history and history of economic thought in Cambridge.

¹⁴ Kadish 1989, 213. McArthur was a history tutor at Girton College, Cambridge and taught economic history at the LSE. She coauthored *Outlines of English Economic History* with Cunningham in 1895 and wrote articles and book reviews mostly in the *English Historical Review*. See Berg (1992, 314).

¹⁵ According to Coase (1972, 478), the other members were J.N. Keynes, lecturer in logics, W.R. Sorley, Professor of Moral Science, V.H. Stanton, Professor of Theology, R.H. Inglis Palgrave, former editor of *The Economist*, J.S. Nicholson, Professor of Political Economy at the University of Edinburgh, Lord Courtney, former MP, and Balfour, former Prime Minister who was not present at the meeting.

3. The Great Tariff Controversy, 1903-1906

Parallel to the conflict between Pigou and economic historians was the ongoing great controversy. Triggered by the speech of the Colonial Secretary Joseph Chamberlain (1836-1914) to call for tariff, the controversy led to resignation of both Chamberlain and pro-free trade cabinet members, creating heated debates on all media of periodicals, newspapers, pamphlets, and platform speech. Before moving into the Unionist camp in the wake of the Ireland Home Rule issue, Chamberlain was a radical Liberal politician turned from a business manager in Birmingham, and he later administered the development of underdeveloped colonies as the Colonial Secretary (he is said to have been among the first high-level official in Britain who used the word 'development' in the modern sense¹⁶). The tariff reform campaign was thus projected as a political reform by a radical politician. Chamberlain made an additional claim that unemployment and poverty among labor classes were attributable to free trade, and thereby appealed to those classes. Although the tariff issue was also a political one that involved the governance of colonies, many economists were called into the controversy by being asked for professional views by politicians or compelled to counter other economists.¹⁷

The most well-known episode that involved economists during this controversy would be a letter sent to the editor of *The Times* in August 1903 that came to be called fourteen economists' manifesto. A series of letters with the signature 'An Economist' had appeared on *The Times* since June to support Chamberlain's tariff reform, and pro-free trade economists felt compelled to counteract these letters. Initially organized by Edgeworth, a letter eventually signed by fourteen economists including Marshall and Pigou was sent to the editor of the newspaper and appeared on August 15. Economics professors and lecturers in prestigious universities signed the letter with their affiliations, but the influence of the letter was weakened by the further response from pro-tariff reform economists. Right beneath the manifesto appeared L.L. Price's letter addressed to Edgeworth, telling he had refused to sign it, and five days later, *The Times* printed the dissent of an economic historian Foxwell and the director of the LSE and author of the above letters by the pseudonym 'An Economist' William Hewins (1865-1931). Thus Edgeworth's attempt to exert strong influence upon the general opinion was partly thwarted.¹⁸

¹⁶ Storey 2004, 117.

¹⁷ The following paragraphs depend on Coats (1968), Coats (1964, 99-103), and Groenewegen (1995, 376-388).

¹⁸ Sydney Chapman, the Professor at the University of Manchester, sent letters to support free trade to the paper *Daily Mail* before the manifesto was printed on the *Times*. Being abroad, he did not sign the manifesto, but he sent a letter to the *Times* a month later to defend the manifesto by claiming that it was not fair to say the manifesto was authoritatively imposing their specific view upon the general public. Alfred Marshall was asked for an opinion by the pro-free trade Chancellor of Exchequer Ritchie and wrote a memorandum. The memorandum was not

In addition to these three – Price, Foxwell, and Hewins –, William Ashley (1860-1927), the director of the Faculty of Commerce at the University of Birmingham, also publicly supported the introduction of tariff, which means that professional economists avowedly in support of tariff reform were almost all economic historians. Foxwell himself noted in his letter to *The Times* that without a few exceptions, the economists adopting a historical method supported tariff; and he revealed strong hostility to theoretical economists thus: “The fact goes far to justify the position they [NT: historical economists] hold as to the importance of historical study in economics.”¹⁹ According to Koot (1987, 99, 117-118), they became convinced of the necessity of tariff for a similar reason to each other. The watershed event to them was the preceding Second Boer War, which made it undeniable that Britain’s supremacy had disappeared. In his 1902 article, Price contrasted the situation at the point of the repeal of the Corn Laws fifty years before and the current situation; and he claimed that behind the repeal of the Corn Laws were industrial superiority of Britain and the concern over food supply in the aftermath of the Irish Famine but that the current situation was entirely different and required protection of domestic industries more urgently than food supply.²⁰ Ashley, who provided the tariff reform camp with professional views through the book *The Tariff Problem* (1903), also noted specificity of current economic situations. Ashley described gloomy future for the economy overly relying on the financial sector and insisted on rebuilding manufacturing industries by activating scale of economy with the increased demand in the colonial market. Ashley additionally demanded combining protection and social welfare policies as realized in the contemporary Germany. Koot (1987) characterized these economic historians’ claims as neomercantilism for their sensibility to the specificity to their time.

As young college lecturer Pigou was not in the position that could exercise a great influence on the general debate but nonetheless appeared as a free trader in the public sphere by sending pro-free trade arguments to newspapers and publishing a pamphlet even before he signed the *Times* manifesto with other thirteen economists²¹. After the manifesto, he came to contribute to *The Times*. On participating

published because of the cabinet crisis in September, but eventually the then Chancellor Lloyd George discovered and published it with Marshall’s permission in 1908. Foxwell was asked for comments on his economic notes by Balfour.

¹⁹ *The Times*, Aug 20, 1903.

²⁰ This point was used by free traders in an opposite way. A daughter of the legendary free trader, Jane Cobden-Unwin coined the terms “hungry forties” and appealed to the general opinion. See Howe (1997, Ch. 7).

²¹ See the preface of Pigou (1903). Pigou wrote articles in newspapers *Pilot* and a pamphlet *Great Inquest* in 1903. Given the high interest in the tariff issues, publishers would have readily accepted pieces on the issue regardless of author. When he published a book on the tariff issue from Macmillan in 1906, Pigou accepted publication with full risk on the author (See a letter dated July 30, 1906 in the Macmillan Archive). He could expect a certain number of copies to sell.

in debate on the general media, Pigou had received an advice from Marshall. “When I write it is always because I think some general principle, which belongs to the sphere in which I work, is being misquoted, or misunderstood” (Pigou 1925, 432). Marshall thus instructed him to join such debate only for the purpose of correcting others’ arguments along the line of economic principles. However, Pigou’s intervention in the general debate was hardly as reticent as Marshall’s words suggest. It was rather the one with bitter wit, reminiscent of opposition speeches at the debate club Union Society.

Pigou offered an earliest response among economists to Prime Minister Balfour’s *Economic Notes on Insular Free Trade*. Balfour proposed to make the tariff more flexible to have leverage in the tariff negotiation with the United States and Germany, but Pigou answered that everyone was aware of this argument and claimed that it was its feasibility that should be examined with well-grounded evidence.²² To Leo Amery of *The Times*, who played an active role as a field combatant for the tariff reform camp, Pigou highlighted his ignorance of economic theory. When Amery responded to Pigou’s criticism without understanding the latter’s points, Pigou in turn submitted a longer article than the original one, in which he assaulted on the inconsistencies within Amery’s response article.²³ In his book *The Riddle of Tariff*, published at the end of the same year, Pigou also made a critical response to Ashley’s point concerning imperial preference and scale of economy, arguing that a small increase in the output enabled by the colonial market would not lead to much improvement in manufacturing efficiency.²⁴

L.L. Price wrote a critical review to Pigou’s 1903 article in the Oxford-based *Economic Review* less theoretical than the *Economic Journal*. In not very clear words, Price claimed that Pigou based his argument upon the assumption of perfect competition and therefore that it is circular reasoning to argue for free trade as its conclusion.²⁵ Not only Price but also other pro-tariff economists tended to list the growth of trusts and trade unions as evidence to support tariff. Pigou ignored Price’s review for the time being but answered it in June 1906, when the tariff issue was less urgent.²⁶ He poked fun at him by saying that if he had fallen into any error, it would not be circular reasoning but merely an incorrect assumption, and further noted that there is no necessary link between free competition and the merit of tariff – e.g., the infant industry theory is held tenable under free competition – and that theoretical economists including himself also dealt with the case of monopoly.

²² *The Times*, Sep 18, 1903, p. 4.

²³ *The Times*, Nov 11, 1903, p. 3, and Nov 14, 1903, p. 14.

²⁴ Pigou (1903, 80).

²⁵ Price (1904).

²⁶ Pigou and Price (1906).

Pigou thus directly fought against various opponents, namely politicians, journalists, and economists who adopted entirely different methods. In parallel to these battles, his argument on tariff became more methodical and systematic. His 1903 book adopted the style of dealing with one opposing argument after another to impress that the original proposal is riddled with problems, as in the speech at the Union Society, while the later article published in the *Edinburgh Review* in January 1906 contained an ethical framework by which Pigou normatively judged the tariff proposal. The ethical criterion presented there was 'national dividend' (practically the same thing as national income or national products that came to be officially rendered and published in many countries after WWII), which Pigou took from Marshall's *Principles of Economics* and upon which he built his own books *Wealth and Welfare* and *The Economics of Welfare*.

From this general principle [NT: national dividend], it is easy to deduce the correct method of estimating the effect of Protection upon Labour. The first stage is an inquiry into the effect of that 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. The second stage is an inquiry as to the effect 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. (Pigou 1906, 12-13)

Besides activities through writings, Pigou attempted to influence the public opinion in other means. To counter the open lectures given by Cunningham in the Michaelmas Term in 1903, three lecturers – Pigou, H.O. Meredith, J.E. McTaggart, (the latter two were also Marshall's former students at Cambridge) – jointly held a series of lectures for free trade in the next term. Pigou also gave free-of-charge lectures on trade in the year 1904-05, open to students other than ones studying for the Economics Tripos. When the pro-free trade organization 'Cambridge University Free Trade Association' was formed in May 1904, Pigou served as secretary to this organization and administered many meetings. The president of the Association was Arthur Elliot (1846-1923), who resigned from the cabinet together with the pro-free trade Chancellor of Exchequer Charles Ritchie (1838-1906) and others. Elliot was the editor of *The Edinburgh Review*, where Pigou contributed two articles on the tariff issue, and he also advised him to

separately publish them as a book.²⁷ Among the committee members of the organization were celebrated Cambridge dons such as a botanist A.C. Seward and the Professor of Law John Westlake, but the then sitting Professor of Political Economy, namely Alfred Marshall, did not join the Association.

In December 1905, shortly before the coming election, Pigou gave a public speech in front of the general audience at the Cambridge Guildhall.²⁸ The subject of the speech was the one similar to the above-mentioned *Edinburgh Review* essay, "Protection and the Unemployed." According to the summary in the *Cambridge Review*, Pigou in this speech attributed the large part of unemployment to the fact that labor is only imperfectly mobile and responsive to the fluctuation of the industry. He quoted Marshall's words and claimed that free trade is more likely to stabilize the industry. And at the end he added this:

As to the emotional appeal, which accuses Free traders of standing by unmoved while the workless families are starving in the streets, the lecturer [NT: Pigou] styled it as the reasoning, or want of reasoning, on the strength of which every quack or charlatan, whether in medicine or politics, maintains his career. Mr Chamberlain's remedy would make things worse than they are;²⁹ the fact that Free Traders were unable to make them better was, indeed, a mournful, but a wholly irrelevant, circumstance. (Cambridge Review, Dec 7, 1905)

In the general election one month later, the Unionist Party suffered a landslide loss, but the tariff reform campaign did not entirely disappear from the political debate afterwards.

Thus far I have discussed Pigou's research and political activities up to the point around 1906. He was given high credit as an economic theoretician by Marshall and Edgeworth on the one hand but fiercely opposed by historical economists on the other hand. This polarity further worsened with the tariff controversy, through which Pigou discovered a methodical criterion with which to judge economic policy proposals in the concept of national dividend. His intellectual proclivity would have required the capability of more systematic treatment on policy proposals. When he reviewed the fifth edition of Marshall's *Principles*, he viewed the concept as "a practical instrument of great power designed for service in the concrete solution of social problems" (Pigou 1907, 534) and contended that this should

²⁷ A letter dated 29 Aug 1906 in the Macmillan Archive.

²⁸ Dalton (1953, 59) notes that Pigou made another speech at an election for Philip Noel-Baker's father, a Liberal MP for Finsbury.

²⁹ Pigou spoke at the March 1906 Union debate and attacked Chamberlain again. "Mr Chamberlain was an ignorant and a blatant demagogue" (*Cambridge Review*, Mar 15, 1906).

constitute the center of policy guidance, more important than its moral or cultural aspect. Pigou thus connected political and scientific discourses by finding a concept that links economics and normative judgment, which enabled him to participate in political debate without sacrificing scientific appearance. However, national dividend is not the only important aspect of his welfare economics; so too is his sympathetic tone towards social welfare policies and income redistribution. To contextualize the latter, we must turn to the later period in which Pigou discussed those issues in public and in Cambridge University.

4. Anti-Socialism in the Public Sphere, 1906-1914

As also featured well in the tariff reform controversy, poverty and unemployment among labor classes had been a great social issue since the end of the nineteenth century. Socialist organizations such as the Social Democratic Federation organized political activities; many demonstrations, including the one in November 1887 that caused casualties, were arranged; and in one notable episode, their political action raised a large sum to support the London dockers on a strike in 1889. On the other hand, the social investigations administered by Charles Booth and others stressed the urgency of the poverty issue by exposing the shocking living conditions of urban labor classes.

After the election in 1906, the emergence of the Labour Party as a political force was widely publicized on the general media. This political success was made possible by the electoral cooperation between the Liberal Party and the Labour Representation Committee (predecessor of the Labour Party), under which the decline in the Unionist approval brought many labor representatives along with Liberals into Parliament. After 1906, high interest in the labor political movement gave further encouragement to socialist writers and sympathizers such as Sidney and Beatrice Webb, J.A. Hobson, L.T. Hobhouse, and H.G. Wells. To take only the years between 1906 and 1914, Sidney Webb wrote twenty books and pamphlets and Hobson twelve.³⁰ They also found an outlet for their opinions in such progressive newspapers as *The Daily News* and *The Nation*. These writers restlessly traveled around the country to give speech (See the next section for their visit to Cambridge). On the other hand, some politicians and

³⁰ These figures were the numbers of publications in the online catalogue of the British Library (www.bl.uk). I excluded new prints and editions and preface written for others' books.

journalists who opposed this political trend launched a campaign to counteract it. I will try to map out the political scene after the 1906 election by focusing on the latter's views and movement below.³¹

Harold Cox (1859-1936) was one of such writers who expressed strong opposition to socialism after 1906. After completing the Mathematical Tripos at Cambridge in 1882, Cox lectured on economics in Yorkshire through the University Extension Society. Afterwards he had contact with socialists and coauthored *The Eight Hours Day* with Sidney Webb in 1891. He continued to work as a journalist and after 1903 became one of the most strident free traders,³² through which activities he earned name recognition and got elected as a Liberal Member of Parliament in the 1906 election. Soon afterwards he found new opponents in socialism, with which he once aligned himself. In the article published in *The Edinburgh Review* in October 1906, "Socialism in the House of Commons," he denounced social welfare policies.³³

In this article, Cox examined three pieces of social legislation – free meal in school, old age pensions, and unemployment remedies. First, he rejected free meal in school as only fostering parents' idleness in raising their children. In most cases, he noted that parents let their children go to school with empty stomach not for financial reasons but for the lack of their responsibility while they tended to use the spare money for their own leisure; socialists would be pleased by the state looking after children instead of parents, but this would weaken filial affection and hence affection towards the society. What should be done, he claimed, was to examine the families of unhealthy children rather than providing free meal in school.

Second, Cox observed that up to then, no satisfactory system of old age pensions had been proposed because any proposed system involved unfairness in such institutional questions as whether to set an income limitation for recipients, what age should be the start of payment age, and so on. Furthermore, workers would complain about unfair competition for employment if those receiving pensions were allowed to continue to work. For these reason, Cox concluded that it is the wisest policy for each

³¹ There is literature on the socialist camp in the debate after 1906. See the chapters on J.A. Hobson and H.G. Wells included in Backhouse and Nishizawa (2010).

³² Between 1903 and 1905, he published five books and pamphlets on tariff and contributed numerous articles to newspapers and periodicals.

³³ Since *The Edinburgh Review* adopted anonymity of authorship until 1912, the article in the journal is not signed by any author. However, a pamphlet authored by Cox with the same title and the description that this was the reprint from *The Edinburgh Review* appeared the following year. Hence I can conclude that the article was written by Cox.

individual to save for the years in her old age, to which he added that it is as natural to save for the old age as to save for Sunday on weekdays.

Finally, on unemployment remedies, Cox adduced the National Workshops (Ateliers Nationaux), instituted in France at the time of the Revolution in 1948. According to his description, these workshops allowed unemployed workers to continue their work at sufficient wages; however, products made in the workshops could not be sold in the market for opposition by private business managers; and the workshops quickly fell into financial difficulties and closed in months. Even in socially valuable public works, Cox noted that authorities cannot employ unemployed workers indiscriminately since these works usually require special skills; and he also mentioned the crowding out effect in plain words; namely, a state fund to finance public construction projects ultimately comes from the money that would have been paid for employment in the private sector; therefore, public works merely destroy private employment. After reporting on absurd expenditures that were actually made under schemes designed to reduce unemployment, Cox claimed that instability of employment was a more important issue than unemployment itself and that therefore, more rational reorganization of the economy was needed instead of a simple measure of direct employment by the government.

Harold Cox thus emphasized inefficiency and moral degradation that would accompany socialist policies. He came to be viewed as a representative figure who resisted the socialist trend in the British politics after 1906.³⁴ However, a more organized anti-socialist campaign was made by the organization affiliated with the opposition Unionist Party, with which Cox later cooperate. The London Municipal Society, organization which opposed socialism in the local politics of London, coordinated with similar organizations in other regions and created an umbrella society, the Anti-Socialist Union, in 1908.³⁵ The president albeit titular was a former cabinet member Duke of Devonshire, the vice president Walter Long, an influential Unionist MP, and many other Unionist MPs served the committee of the organization. The well-financed Union administered a school to train speakers, hired able speakers with good salaries – they had an occupational hazard of getting attacked by some audience –, and issued a periodical called *Anti-Socialist* (after 1910 *Liberty* although ceased publication in 1912). The publication of *Anti-Socialist Union Speakers' Handbook* (1911) was a direct consequence of these activities. Harold

³⁴ For instance, a review on a book on unemployment has a phrase, "Individualists like Mr. Harold Cox" (*Fabian News*, Sep 1906, p. 40); and in a book written by a French journalist and former cabinet member Yves Guyot (1843-1928), *Economic Prejudice* (1910), Harold Cox is one of the few real figures who appear in the dialogue besides Keir Hardie and Lloyd George.

³⁵ This paragraph relies on Brown (1974).

Cox published his *The Taxation of Land Values* (1909) from the publication department of the Anti-Socialist Union.

Despite the current political trend, there were few publications by economists that dealt with socialism in this period. Although this lack of attention may be natural given socialist doctrines having already faded into the past, a book written by an economist that won a contest with set subject was published in North America. The author was O.D. Skelton (1878-1941), Chicago trained Professor at the Queen's University, Canada.³⁶ At the University of Chicago, he took the courses on socialism and industrial relations, given by Thorstein Veblen and J. Lawrence Lauchlin the first Head of the Department of Economics, and he picked the analysis of socialism as the subject of his dissertation. This thesis won a contest for the best essays on economics, sponsored by a Chicago clothing company, and was published a year later. In this work Skelton emphasized merits of capitalism, incoherence within Marx's doctrine, and inconsistencies of his doctrine with observable recent historical tendencies. This work is comparable to Pigou's *Wealth and Welfare* in that both works concerned socialism or policies inspired by it, but Skelton's work is certainly more clearly politically motivated with its central aim being a critique of a specific doctrine.

After the tariff controversy, Pigou contributed letters to *The Times* on economic issues, apparently in more detached tone than his letters on tariff issues had been. He stated his neutrality from any specific policies, but in fact, he constantly presented favorable arguments to welfare legislation. In October 1907 Pigou intervened in the debate upon old age pensions by offering a modern economic argument. Some participants in such a debate took it for granted that if old workers receiving pensions are allowed to continue to work, other workers' wages would decline, but Pigou contended that this view was rooted in the obsolete wage fund doctrine and that at least in the long run, real wages tend to increase as the number of workers rises. The following year, he suggested in *The Times* economically more rational pension systems than the one that confines payment to those whose incomes are under a certain limit. His proposed schemes would not purportedly harm labor incentive.

When Lloyd George's budget speech in April 1909 brought the Parliament into a state of frenzy, Pigou wrote a pamphlet *The Policy of Land Taxation*³⁷ and sent letters to the editor of *The Times*, at which

³⁶ See Levitt (1983) for the description of Skelton's life and views.

³⁷ In a letter dated July 20, 1909 (the Macmillan Archive), Pigou told the Macmillan publisher, "the pamphlet in question is mainly a reprint of an article written originally for the *Edinburgh Review*." However, none of the issues

point he had been elected the Professor of Political Economy at Cambridge. In one of these letters, he defined an increment of land value not attributable to the owner's effort as a windfall and viewed taxation upon such an increment as economically rational. This article was considered to be a support from the Professor of Political Economy at the University of Cambridge and "hailed with acclamation by the supporters of those taxes, from the Prime Minister downwards."³⁸ Harold Cox swiftly responded to Pigou's letter and tried to counteract its political influence. First, Cox drew attention to Pigou's concession on various institutional difficulties and described his letter as an opposition to the land taxes conveyed in *reductio ad absurdum*. Cox then added that an important item was lacking in Pigou's list of institutional difficulties, namely that an increment of land value due to the increased present value of land caused by the decline of interest rates should be also exempted from taxation.³⁹ On the newspaper of the next day, Pigou accepted this point and repeated his intention of merely sorting out the issues involved in the land taxes and his indifference to the policy in question. Cox referred to the Professor's withdrawal of his original argument in his speech at Parliament to the utmost benefit to his political purpose.

The exchange of letters on *The Times* between Pigou and Cox demonstrates the former's naivety and the latter's shrewdness in the highly political debate, but it also points to Pigou's implicit assumption that the governing party's policies had the general approval from the public. As I noted above, Pigou stated his neutrality to specific policies and yet offered favorable arguments to those policies. He seems to have done so because he thought such arguments were needed by the general democratic opinion. Indeed, Cox's classical liberalism based on strict self-help failed to win wide support within the governing Liberal Party although he was considered an able speaker.⁴⁰ Many Liberal MPs were publicly committed to land taxation; and as for old age pensions, there was no party distinction since this was originally advocated by Joseph Chamberlain. Therefore, though faced with a direct criticism by an able

of the periodical that were published in 1909 or surrounding years contain an article on land taxation; his essay was obviously rejected to be included in the *Review*.

³⁸ *The Times*, July 7, 1909. "Professor Pigou on windfalls" by H. Cox.

³⁹ Strangely enough, right above Cox's letter appeared Pigou's letter, where he discussed a difficulty in land taxation in relation to a change in present value due to a change of interest rates.

⁴⁰ Cox's obituary by Mallet's (1936). See also "The government and the country," *The Edinburgh Review*, July 1909, p. 254, and "Mr. Harold Cox on Socialism," in *The Times*, Feb 2, 1909. The second of the three pieces says: "Almost alone Mr. Harold Cox protested against the principle on which this legislation [NT: old age pensions] was based. Almost alone he argued that the measure was corrupting to that spirit of independence and self-support which used to characterise the British working man. Almost alone he refused to approve the taxation of the workers and the provident in order to endow almost indiscriminately the most improvident section of the community. There was no real fight in the House of Commons against the Ministerial proposals, and the first instalment of an Old Age Pensions scheme became law without having met any serious opposition in either House of Parliament."

writer well versed in economics, Pigou's progressive views were far from radical in the contemporary political situation. Yet, it is also true that Pigou's views were clearly more reformist than those of earlier generations of mainstream economists such as J.S. Mill, Henry Sidgwick, and Alfred Marshall. Economics, exemplified by Pigou, certainly took a turn in the early twentieth century; and this is attributable to Pigou's constant interaction with politics through economic policy debates since 1903.

In the following section, we will observe Pigou's yet another interaction with politics, though not in the public sphere but in his immediate vicinity, Cambridge University. In his letter to a publisher, Pigou described his book *Wealth and Welfare* as a "contribution to learning,"⁴¹ thus intending it to be read by students and others new to economics. Thus we need to see what sort of students Pigou was teaching in those days to estimate his intended readers of this book.

5. Socialist Movement in Cambridge, 1906-1914

Founded in 1884 in order to influence the opinion of the middle class, the Fabian Society formed affiliated societies in universities to spread socialism among students. Especially after 1906, along with the expansion of membership in the parent society in London – from 730 in 1904 to 2462 in 1909 (Pease 1963, 185) –, university societies became more active. In addition to the ones that had already existed in Oxford (founded in 1895) and Glasgow, the Fabian Society was launched in the Cambridge University in February 1906, a month after the general election. The founders were a group of students, some of whose parents had close relationship with Fabians. Haden Guest (1877-1960) was sent from the parent society and gave a speech at the first meeting. As women played an active role in the parent society, out of the twenty founding members of the Cambridge Society six were from either Newnham or Girton Colleges. The Society was one of the few student clubs open to women.

Socialism was already something that readily appeared in the mind of students regardless of whether they approved of or opposed it. When a group of students injured people on the street and vandalized stores, the president of the Union Society mentioned socialism in his apology printed on *The Cambridge Review*, a general periodical for the University people. It was feared that a riot by privileged students at Cambridge would only reinforce socialists' rhetoric to attack the wealthy; and it demanded for students to recognize their social responsibility. According to the recollection of Edward Pease (1857-1955), who served the secretary to the parent Fabian Society in London, university societies were "fashionable

⁴¹ A letter dated Feb 10, 1912 in Macmillan Archive.

organization[s]” (Pease 1963, 194). Membership tended to expand, “when an undergraduate of force of character and high social position, the heir to a peerage for example, is for the moment an ardent Socialist” (Pease 1963, 194). However, many of the students who became a member of the society lost the interest in social problems and did not participate in the activities of the society after they graduated from universities. “On the whole it is true that Socialists are born and not made” (Pease 1963, 194). In his biography of Keynes, Skidelsky depicted the Fabian Society of Cambridge as a heterosexual (not homosexual as in the other groups) community centered on Rupert Brooke, an undergraduate and poet known for his good looks. The Society thus would have created new attractions for students.

The main activities of the Cambridge University Fabian Society were to organize meetings. In its first full year 1906-07, high profile speakers such as H.G. Wells, J. Keir Hardie, and Beatrice Webb visited Cambridge to give a speech. First H.G. Wells, popular writer and then Fabian, presided at a discussion meeting at Newnham College and answered questions from students. He stressed that socialism does not necessarily mean Marx’s doctrine and that the work of Fabian socialists such as Sidney Webb and Sidney Olivier should be held as high as Marx’s for their constructive vision of socialism.

Keir Hardie’s visit to Cambridge in February 1907 generated a scandal that attracted the attention of general newspapers.⁴² Avowedly opposing the Boer War and the Indian colonial policy, Keir Hardie was a controversial figure, but growing hostility towards the Labour Party would have also affected this episode. At the dinner held before the meeting, some students screwed up the door and shut him inside. But this Keir Hardie was a decoy disguised by a student, and Keir Hardie himself appeared on the stage in the Cambridge Guildhall where he was supposed to give a speech. Seeing him on the stage, the students who was responsible for the trouble were reported to be “hugely astonished” by *The Cambridge Review* (February 21, 1907). Nevertheless, they shouted at him during his speech, and the meeting had to be cancelled. Members of the University Fabian Society forced their way into the agitated crowd and guided Keir Hardie from the Guildhall to King’s College. Like in the previous student riot, The Union Society again posted an apology on the *Cambridge Review* (The president of the Union when this occurred, E.G. Selwyn, was a member of the University Fabian Society⁴³).

The following month, Beatrice Webb gave a lecture on “The Faith We Hold.” Webb was a member of the Royal Commission on the Poor Laws at this time, and the meeting attracted a large audience. Since the

⁴² Townsend (1918, 11-12); Dalton (1953, 45-46); Benn (1992, 223).

⁴³ *Fabian News*, Dec 1907. Selwyn became an official member of the University Society after Keir Hardie’s incident. Dalton (1953, 51-52) remarked that there was no socialist who was elected the president of the Union until 1925.

Fabian News (May 1907) reported that several well-known orthodox economists attended it, it is likely that Marshall, Pigou, and others listened to Webb's speech. This article also reported that they "preserved a discreet silence;" it seems that they did not have discussion with Webb at least at the meeting. It is possible to sense disregard of the Fabian Society for academic economists in these words. The Fabian Society had radical proposals to allay distress among labor classes, advocated and supported by able writers and social investigators with active publications of pamphlets and investigation reports, which made them inclined to disregard academic economists who tended to defend the status quo with abstruse theories.⁴⁴

When George Barnard Shaw gave a lecture at Cambridge in the following 1907-08 year, an undergraduate student questioned Shaw on the *Cambridge Review*.⁴⁵ Charles Webster (1886-1961), history student at King's College, sent a critique that it is a contradiction that Shaw called for increased taxes to the wealthy while he noted the danger of capital flight (Shaw was a pro-tariff socialist). Frederick Keeling (1886-1916), one of the founding members of the University Fabian Society, and Dudley Ward (1885-1957), member of the Society and economics student, responded to Webster by repeating Shaw's remark that taxes upon incomes from foreign investment would prevent foreign transfer of capital. Keeling further insisted that greater good of socialism justify sacrifice to a certain extent and that capital flight never be a sufficient reason to deny socialism. Webster answered that it is practically impossible to enforce such taxes and also noted that taxes upon the wealthy would discourage them from saving and hence bring down investment. Finally Shaw sent a letter to the periodical two weeks after Webster's last letter, but Shaw's response was cryptic and vague and would

⁴⁴ This tendency is noticeable in the book review section in the *Fabian News*. In the review on Suthers's *My Right to Work*, Edward Pease criticized economic theory in general. "The abstractions of political economy are as useless for dealing with unemployment as the abstractions of ethics for settling a Belfast riot. . . . When politicians have reduced unemployment by common sense remedies, the economists will come along and explain how the new facts are really in accord with the old abstractions, as properly interpreted. And that is about all that abstract economics is good for" (*Fabian News*, Sep 1906). Again, Pease's review on Skelton's *Socialism: Critical Analysis* has the following remark. "Being a professor, Dr. Skelton naturally adopts the typical professorial attitude in one respect. Every true professor of Economic Science deems himself to be born into a world which has just entered on the culminating period of its existence. The past is to him a dreary record of mistakes: the future a dangerous jungle of experiments. The present is the acme of perfection. So Dr. Skelton explains that governmental sick insurance, as in Germany at the time he wrote, of labor bureaus, of workmen's compensation, is proper and right; but non-contributory old age pensions is "regrettable," if justified by "concrete difficulties." If he had started his essay a year or two later, old age pensions would have passed into the golden present, on which the professorial eye would have glanced glad approbation" (*Fabian News*, Oct 1912).

⁴⁵ Articles cited in this paragraph are found respectively in *Cambridge Review*, Oct 31, Nov 7, Nov 14, and Nov 28, 1907.

not have satisfied Webster. A later commentator noted that Shaw's understanding of economics was grounded on the Henry George-style labor theory of value.⁴⁶

In the following 1908-09 year, Sidney Webb visited Cambridge in the middle of his national lecture tour in which he promoted the Minority Report of the Poor Law Commission. In 1910-11, the activities of the Cambridge University Fabian Society grew more intense, with lectures by high profile speakers such as J.A. Hobson, Henry Hyndman, and Philip Snowden held almost on a weekly basis. Such active political movement naturally produced strong response. *The Cambridge Review* devoted more than one page to report on Snowden's speech while a usual report takes only one paragraph; and a reader who called himself a 'Radical' complained that despite the low intellectual level of Snowden's speech, not up to the Cambridge standard, it is evidently politically biased to report on that meeting at such length and not to say a word on meetings of the University Liberal Club or the Unionist Carlton Club.⁴⁷ The above-mentioned Anti-Socialist Union also founded a university organization at Cambridge in October 1911, and had a fierce, though not intellectually productive, debate with the Fabian Society.⁴⁸

An economist provided a course on socialism at Cambridge in this period. The course was not a subject offered in the Economics Tripos, but it was sponsored by the local lecture syndicate, and held in the evening, it could be attended for fees by people other than regular Cambridge students. The lecturer was Sydney Chapman (1871-1951), Marshall's former student who obtained Part II of the Moral Science Tripos two years before Pigou did and then the Professor at University of Manchester. Consisted of six lectures in the Lent term in 1910, Chapman's course concerned intellectual and economic origins of socialism, the history of socialist doctrines, Marx's and later theories, contemporary socialist movements in Europe, and lessons to British economic policy. Chapman concluded by suggesting influencing the forces which determine income distribution by cultivating young people's capacity, to which he argued the money spent on old age pensions could be diverted with benefit.⁴⁹

Socialism thus had become a much disputed topic in the Cambridge University by 1910. Economics lecturers also had various contact directly and indirectly to this surge of political movement in the University. First of all, many of the students engrossed in socialism took courses on economics. One of the founders of the University Society Frederick Keeling attended Marshall's lectures in the year 1907-08

⁴⁶ Sweezy (1949). Here Sweezy concluded that this lack of Fabians' understanding of modern economics is to blame for the Fabian socialism's (and the Labour Party's policy reputedly based on it) disregard for distribution.

⁴⁷ *Cambridge Review*, May 25, 1911.

⁴⁸ *Fabian News*, May 1911.

⁴⁹ *Cambridge Review*, Jan 27, Feb 10, Feb 17, Feb 24, Mar 3, and Mar 10, 1910.

after obtaining a First in Part II of the History Tripos.⁵⁰ Dudley Ward, Society member who defended Shaw, studied economics and got elected a fellow of St. John's College in 1909.⁵¹ Hugh Dalton (1887-1962), who completed Part II of the Economics Tripos with a second in 1910, and Gerald Shove (1887-1947), who completed it with a first the following year,⁵² were in the circle of Rupert Brooke and others. Dalton and Shove played important roles in governing the Society by serving its high posts. Dalton (1953, 46) recollected that he was strongly impressed by Keir Hardie being unmoved by the crowd at his lecture and at this point he became a convinced socialist. Later Dalton became an influential Labour politician. Shove, on the other hand, told Keynes that he despised Keeling's dogmatic attitude,⁵³ but he stayed in the Society at the time of his completion of the Tripos in 1911. Later Shove ran a journal called *War and Peace: a Norman Angell Monthly* for Norman Angell, later Labour MP, and worked in farms as a conscientious objector during the war.

Having won a first in the History Tripos in 1906, C.R. Fay (1884-1961) was a colleague of Marshall and Pigou as a lecturer on economic history from 1907, but he became a member of the Cambridge University Fabian Society the same year. It is likely he had already had relationship with the Fabian Society because he won a Shaw studentship and worked at the LSE in the previous year. His research reflects this political inclination. Fay wrote a book and an article on agricultural cooperation respectively in 1908 and in 1910, and sent an essay on Chartism to Keynes in 1911.⁵⁴ After serving in the military, he also participated in the organization in the university affiliated with the Labour Party until he became the Professor of Economic History at the University of Toronto in 1921.

Other economists participated in the activities of the Fabian Society although they did not become its official member. Walter Layton (1884-1966), who started teaching economics in the year 1908-09 after obtaining a First in the Economics Tripos in 1907, and historian and philosopher G. Lowes Dickinson (1862-1932), who lectured on politics in the Economics Tripos, took part in the Society's activities by serving the chair and giving speeches at the meetings. Layton was a friend of Keeling at Trinity College,

⁵⁰ Townsend 1918, 21.

⁵¹ There is no lecture given by Dudley Ward on the list of lectures on the *Cambridge University Reporter* in 1909. Afterwards, instead of joining socialist activities, he began working for the newspaper *Economist* in 1910, served in the Treasury during the war, and became a banker after the war. See Edwards 1995, 495-6.

⁵² Geoffrey Toulmin (1888-1953), who finished the Economics Tripos with a first in 1911, was also a King's man and a member of the CUFS. But his name does not appear either in Dalton (1953) or Hale (1998).

⁵³ Quoted in Skidelsky 1983, 240-241.

⁵⁴ In a letter to Keynes (Fay 1/20, Marshall Library, Cambridge, <http://www.econ.cam.ac.uk/marshlib/archives/fay.pdf>).

and Dickinson was close to Dalton and Brooke, his students at King's College.⁵⁵ Because of the personal relationship and also their shared support for non-economic issues such as women's suffrage and pacifism, they would have been readily available to cooperate with the Fabian Society. Afterwards Layton played an influential role in Liberal Party as the editor of *The Economist* – he unsuccessfully ran for Parliament three times in the 1920s –; and Dickinson helped launch a campaign for the League of Nations during the First World War.

J.M. Keynes, who left the India Office and returned to Cambridge in 1908, had close relationship with the Fabian Society members at King's College such as Brooke, Dalton, and Shove. Biographers of Keynes agreed that Keynes harbored sympathy to socialism in this period. In the Union debate in February 1911, he spoke in support of a motion “[t]hat the progressive reorganisation of Society along the lines of Collectivist Socialism is both inevitable and desirable” (Skidelsky 1983, 241); and when he had lunch with Beatrice Webb in 1913, Keynes described it as “deep spiritual experience.” Later in the essays “Short views on Russia” and “Liberalism and Labour” written after the First World War, he left favorable comments on socialism.

Unlike many of his colleagues I have so far discussed, there is no record that Pigou took part in the activities of the Fabian Society; he thus seems to have distanced himself from the organization. This is in sharp contrast with his active involvement in the political campaign for free trade. Even so, it is not true that Pigou did not respond to this intramural political movement at all. For, Pigou opened lecture courses in the Economics Tripos that would have attracted students with progressive political views. Pigou gave a course on ‘wages and conditions of employment’ in the years 1908-09 and 1909-10; and gave a course on ‘economic principles in relation to some practical problems’ in the years from 1911-12 through 1914-15. *The Cambridge Review* reported on the latter course in 1912-13. Following the first introductory lecture, the course consisted of six lectures, each dealing with a separate topic. The topics were “employers and economic chivalry,” “the principle of the minimum wage,” “the principle of laissez-faire in practice,” “the housing problem,” “advantages and disadvantages of international trade,” and “the uses and abuses of statistical reasoning.” It was pronounced that these lectures did not require prior knowledge of economics; therefore, students who attended the meetings of the Fabian Society and other political organizations could have attended and brought some knowledge back from them.

⁵⁵ “I [Keeling] attended the last meeting of that body in October, 1904, along with another freshman, W. T. Layton, whom I persuaded to come with me, although he protested his fidelity to sound economic truth” (Townsend 1918, 9). “I [Dalton] knew him [J.M. Keynes] better than Pigou, less well than Dickinson” (Dalton 1953, 60). See also pp. 56-57 in the latter book.

The content of some of these lectures can be estimated from his works published in the same period with a similar title. The essay “Employers and economic chivalry” was written in 1913 and included in his 1923 collection of essays. This essay started from where Marshall’s famous 1907 essay left and discussed in a morally charged tone what employers could do for their employees. He observed that employers were in the situation to set working environment in which workers spent most of their lives, and therefore their position was more important than that of charity activists in terms of improving employees’ lives. Pigou then noted that employers could follow their more enlightened colleagues who treated their employees as active partners and created safe, hygienic, and cultural working environment for them.⁵⁶

Next, Pigou’s lecture on the housing problem can be gauged by his lecture given in the different occasion in the same period. He offered a lecture on housing at the University of Manchester in January 1914, and this lecture was published together with Seebohm Rowntree’s lecture held on a different date. This lecture presented his general views on welfare policy in relation to minimum wages, state medical and unemployment insurance, and the principle of laissez-faire⁵⁷.

Pigou first stated that it is the state’s duty to set the minimum standard for housing conditions such as area per resident and appearance of towns, also noting that the effect upon children makes it more urgent than regulation of working environment. He partly admitted the argument that attributed the housing problem of the poor to their ignorance and laziness and acknowledged the significance of moral persuasion by landlords and municipal workers. However, he also stressed that necessarily some workers could not live in the house above the standard for the lack of finances rather than mere indifference and argued as follows: for those low income people the institution of minimum wages would merely diminish employment and therefore should not be considered the final solution to the housing problem; hence subsidies in some form from the public authorities were needed. In popular discussion, Pigou noted that state subsidies in any form were associated with the discredited Speenhamland system, in which a sum inversely proportional to income was given, and tended to be rejected as prone to laziness. He did not accept this criticism for housing subsidies; rather he discussed this issue in relation to education, medical and unemployment insurance, for which public funds had

⁵⁶ Pigou mainly relied on a book of a candy maker Cadbury’s manager Edward Cadbury, *Experiments in Industrial Organization* (1912). The Cadbury family was Quakers and subsidized the Liberal leaning *Daily News*, which was quite comparable to the Rowntree family, of which Seebohm was one, was Quakers and subsidized the *Nation*. Clark (2004: 42-43).

⁵⁷ Flatau (1997) highlighted Pigou’s take on a national minimum living standard in this essay.

been already spent by 1914. Then how should one address this issue? He rephrased what he had offered in *Wealth and Welfare* as follows:

I myself approach this question with a major premise that some would dispute. I believe it to be right that the well-to-do should be summoned by the State to help their poorer neighbours whenever that summons can be enforced without evoking gravely injurious reactions upon the production of wealth, therewith, ultimately upon the fortunes of the poor themselves. (Rowntree and Pigou 1914, 62-63)

Although he referred to institutional problems to not harm labor incentive, confine housing subsidies to low income people, and not discourage private supply of houses, Pigou concluded that housing subsidies were worth serious consideration.

These two lectures reveal the general drift of the lectures he gave at Cambridge during the crucial years. His views presented above might have been insufficiently radical for the students leaning towards socialism. Even so, the lectures would have left strong impression to those young socialists with the clear normative position and sincere attitude to deal with issues related to poverty. Pigou's 1912 *Wealth and Welfare* similarly started with ethical discussion, and by way of Marshall's concept of national dividend, he was able to discuss various state intervention in a systematic way. According to his later recollection, Hugh Dalton, who left Cambridge in 1910 and was a research student at the LSE, was greatly inspired by *Wealth and Welfare*.

His Wealth and Welfare, published in 1912, . . . changed old confusions into new clarity. It laid down sharper criteria for economic policy than I had found before. It brought out new conclusions, significant for practical action, from old generalities. It was a book that helped me, more than any other, to formulate my own approach from ethics, through politics, to economics. He was splendidly free from party or class prejudice, but he believed, as Marshall did before him, that great inequalities of wealth and opportunity are both unjust and wasteful of welfare. (Dalton 1953, 58)

Dalton thus viewed Pigou's work as a set of old ideas rearranged to satisfy the time's need.

6. Conclusion

In the previous section I have shown that Pigou was surrounded by vocal students who were active socialists, which to some extent explains his sympathetic tone towards social welfare legislation. Pigou would have had to adopt the tone that was capable of appealing to those students. Thus he had an extra reason to emphasize the possibility for the state to improve social economic difficulties. Another reason for his favorable tone that is detected in the above narrative is marginalist theory grounded on individual incentive. Pigou therewith rejected the classical economists' cautiousness on wage issues and highlighted the economic soundness of such policies as old age pensions, housing subsidies, and land taxation in certain cases. For the last reason, one cannot find a better epithet for Pigou's welfare economics than the one Cunningham gave, 'The Sanguine Science.'

If we turn to the question of the appropriateness of viewing Pigou's welfare economics through the concept of co-production, I note that his keen interest in Marshall's concept, national dividend, was mainly due to his enthusiasm to make economics relevant to policy debate. Through the debate with various opponents on the tariff issues, Pigou felt the need for a systematic way to derive normative judgment from economic theory. He continued to use the concept that he found in this connection, national dividend, as a basis of his welfare economics. However, not only did this new device give Pigou a scientific way to discuss policy issues, but it also unintentionally captured the modern sense of the word 'development' and the need for effective governance of the economy, which was clear departure from the nineteenth century economic virtue. Pigou's welfare economics was in many levels a co-productive aspect of the whole social change that took place in Britain in the early twentieth century.

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