

KUMEKAWA, IAN. *The First Serious Optimist. A.C. Pigou and the Birth of Welfare Economics*. Princeton University Press, Princeton (NJ) 2017. \$35.00; £27.95.

Arthur Cecil Pigou was a British economist who lived from 1877 to 1959. He was the successor to Alfred Marshall, the towering, almost classical, figure in British economics around the turn of the twentieth century, and John Maynard Keynes' predecessor. Between these two giants, Pigou was thus always likely to be somewhat neglected. But his name has become associated with one of the most prominent concepts in modern economics: externalities – the side effects of economic activity which harm or benefit parties not associated with the activity. Pollution is the most famous example of an externality. Externalities are an economic and social problem because the individual producer does not take into account the costs of the pollution that harms others, and hence produces more than is socially desirable. It is the central concept in contemporary environmental economics.

Central in Kumekawa's biography of Pigou is the idea that Pigou was the first serious optimist, a title bestowed on him by Joan Robinson, one of Keynes' protégés, who could not help but add that it took Master Keynes to prove that Pigou's optimism was justified. That, however, does not make Pigou's optimism less important – as this book shows. The optimism he displayed was central in rethinking the role of the state in the economy as an active agent of social justice. And the book is a wonderful study of how this role gradually evolved from the cautious reforms of the Liberal Party before World War I to what, by the end, had become the welfare state, which Pigou embraced along with the Labour slogan "fair shares".

The great success of the book is that it demonstrates this gradual transformation and the extent to which Pigou's career exemplifies it. Unwittingly it also makes clear that Pigou did not actively contribute much to the transformation, which he embraced when it arrived, but which he never excessively advocated while it was still underway. As such, Pigou reflects perfectly the difference between Britain and the Continent, where economists were engaged in heated debates over socialism, planning, and business cycles. Pigou instead moved along with public opinion, sometimes slightly ahead of the pack, more often hobbling just behind it. When he gives advice to the government, public opinion and the British utilitarian tradition provide a solid ethical basis that has to be taken into account when different measures are weighed against one another.

Kumekawa illustrates wonderfully how Pigou thinks in terms of statesmanship, instead of economic expertise, and how the economist is a trusted adviser of those who govern: more whispering into the ear of the prince, than expert advice from outside. Pigou's vision of the role of the economist reflects this. When giving advice, the economist should take into account public opinion, the party currently in government, as well as the more technical issues involved. It is somewhat regrettable that Kumekawa never contrasts that with those economists on the Continent who sought to develop

modern techniques of economic governance and expertise. Such techniques of economic governance were meant to supplement, if not replace, traditional political decision-making, most grandiosely in the hopes that the economy can be planned by government experts. But even without this contrast, this biography gives a rich account of the committee meetings of which Pigou, as Chair of Economics in Cambridge, was a natural member, and where the professors sought to represent the general opinion of the discipline as a whole: stable truths, that have stood the test of time, and that were immortalized by Pigou's predecessor Alfred Marshall.

This solid basis was shaken up in multiple ways during the 1930s. Unlike on the Continent, this shock was caused not primarily by the outbreak of the Great Depression, but instead by a palace coup. The theoretical edifice that Pigou had taken over from Marshall and had further perfected over the years was, all of sudden, nothing more than a "classical model", "a special case" after Keynes was done with his revolutionary work. And Keynes did not merely overthrow the reigning theories, he also possessed the charisma to attract the devotion of his Cambridge students and the ear of London's politicians.

Pigou was sidelined, and he turned more to popular writing for the public, embracing, among other things, the postwar welfare state. He also returned to the ethics that had originally motivated him to pursue economics. As he famously suggested, economics was a science that should bear more fruit than light. Late in life, he remarked: "Nobody suggests that an economist shouldn't *have* ethical opinions; only it's convenient not to call them economics". That very statement also makes him a highly unlikely candidate to be the father of welfare economics, the branch of economics that seeks to provide value-neutral technical advice to governments, as the subtitle of Kumekawa's book suggests. It seems fairer to consider him the last of the classical British political economists, a line going back through Marshall and Neville Keynes to John Stuart Mill and Ricardo.

Pigou's commitment to interpersonal comparisons of utility, which should provide a shared ethical basis from which to make welfare judgements, is rejected from the start by those who develop modern welfare economics. One of the underlying political issues in that debate is whether there is a scientific basis for redistribution; if interpersonal comparisons are possible, then there is a clear case for redistribution, otherwise that basis is lacking. More generally, modern economics has sought to eliminate the ethical foundation from economics, the same foundation that Pigou considered essential. In that sense Joan Robinson was correct, Pigou was an optimist, but one who failed to provide a sufficient theoretical basis for that optimism.

That is not the only place where one would have expected more from this biography. Three years ago Nahid Aslanbeigui and Guy Oakes wrote a monograph *Arthur Cecil Pigou*¹ that ends with a

¹ Nahid Aslanbeigui and Guy Oakes, *Arthur Cecil Pigou* (New York, 2015).

chapter aimed at dispelling a number of mythologies about Pigou. Among these myths are the idea that he was a recluse, that he was deeply impacted by the horrors of World War I, that he engaged in homosexual acts, and that after World War II he was far more optimistic and democratic. It is therefore surprising to see all these “myths” return seemingly untouched in Kumekawa’s biography. It is perhaps less surprising when we consider that the book starts with the author’s fascination for Robinson, a later Cambridge Professor of Economics and the first to write extensively on Pigou’s life. After all, Robinson is the source of many of these supposed myths about Pigou.

It is beyond my knowledge to judge the fine details of these issues, but one would have expected them to at least have been made explicit in the biography; they are not. Overall, it is clear that in Kumekawa Pigou has found a very sympathetic biographer, who writes in the best Cambridge tradition of Quentin Skinner: the book is rich in intellectual history and context. The flipside is that virtually no attempt is made to rationally reconstruct ideas, or even to explain the technicalities of Pigou’s theoretical contributions in modern (economic) language. This Cambridge style also means that the book is written in elegant, “gentlemanly” prose, that tends to smooth out the rough edges, if not indeed, as in the case of these supposed myths, to brush over them completely. And the modern reader cannot help but be frustrated when Pigou is again off on one of his many hikes or other outdoor activities, while important academic and political work awaits him. Kumekawa instead is endlessly patient with his subject, and is sympathetic to Pigou almost to a fault.

Finally, the book is thoroughly Cambridge in that it feels completely self-contained at times, save the occasional contact with the government in London or the countryside for Pigou’s outdoor pastimes. One struggles to find one Continental economist in the book, despite it being there, arguably, in the interwar period, that the most important advances were being made, especially in Pigou’s field of welfare economics. This undoubtedly reflects a reality of Pigou’s intellectual life, but for an understanding of Pigou’s role in the development of welfare economics, or economics more broadly, this is a handicap. This is all the more troubling since Pigou owes much of his subsequent fame to criticism, most notably that of Ronald Coase.² Coase objected to a so-called Pigovian tradition, which in reality was virtually non-existent at the time he wrote. His criticism in turn inspired later environmental economists to reinvigorate this tradition, after which Pigou’s concept of externalities and the associated Pigovian taxes have become standard fare, even in undergraduate textbooks.³ Although there is a nod in the introduction and epilogue to this posthumous neglect and rediscovery, the biography itself is silent on it. It is a missed opportunity to explore the fate of ideas after someone’s passing, but more importantly it would have given some of the material in the biography greater

² Ronald H. Coase, “The Problem of Social Cost”, *Journal of Law and Economics*, 3 (1960), pp. 1-44.

³ Steven G. Medema, “‘Exceptional and Unimportant’? The Rise, Fall, and Rebirth of Externalities in Economic Analysis”, 2017, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3057411.

relevance. It could even have been an opportunity to explore the extent to which any serious economic policy requires the ethical basis on which Pigou built his ideas.

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