An Alternative History of Welfare Economics and Alfred Marshall

HISTORY OF WELFARE ECONOMIC STUDIES RECONSIDERED

Tamotsu Nishizawa, Teikyo Univ.
1. Introduction: Reconsidering history of welfare economics (economics of well-being)

Starting point (1)
Hicks’s non-welfarism Manifesto;
Suzumura’s ‘Connecting links between Pigou, Hicks, Sen: ‘Non-welfaristic’ and ‘Non-consequential’ foundations of normative economics

Informational basis of welfare economics: economic welfarism to non-welfaristic values, (such as security, freedom, as Hicks says), human capabilities and functionings as Sen says.
Hicks’ Non-Welfarism Manifesto: Preface to Essays in World Economics, 1959

The view which, now, I do not hold, I propose to call ‘Economic Welfarism’; it is one of the tendencies which has taken its origin from that great and immensely influential work, the Economics of Welfare of Pigou.

One can take any view one likes about measurability, or addibility, or comparability of utilities; yet it remains undetermined whether one is to come down on one side or other of the Welfarist fence. The line between Economic Welfarism and its opposite is not concerned with what economists call utilities; it is concerned with the transition from Utility to the more general good, Welfare itself.
Pigou’s contention: the economist’s concern does not lie with Welfare in general, but with that part of general Welfare which he calls economic welfare; this is the point where trouble arises.

Welfarist have become something like the dominant school of economic thought.
Pigou: Welfare is a thing of very wide range. It is necessary to limit our subject-matter. In doing this we are naturally attracted towards that portion of the field in which the methods of science seem likely to work at best advantage. This they can clearly do when there is present something measurable, ..... The one obvious instrument of measurement available in social life is money. Hence, the range of our inquiry becomes restricted to that part of social welfare that can be brought directly and indirectly into relation with the measuring-rod of money. This part of welfare may be called economic welfare. It is not possible to separate it in any rigid way from other parts, ..... The outline of our territory is, therefore, necessarily vague (Pigou, 10-11).

Pigou says the outline is vague: it was Robbins who made it clear and pointed in line with the scientific way.
Robbins’s criticism and ‘new’ welfare economics

Pigou’s ‘old’ welfare economics was based on the epistemological basis of cardinalist-welfarism with interpersonal comparability. This informational basis of Pigou’s synthesis was attacked by Robbins for its alleged lack of ‘scientific’ foundation. Then two schools of ‘new’ welfare economics were created: (1) the compensation principle school by Kaldor and Hicks, (2) the social welfare function school by Bergson and Samuelson. To be free from Robbins’s criticism against Pigou’s informational basis, and consistent with ordinalist revolution of microeconomic theory led by Roy Allen and Hicks, both schools of ‘new’ welfare economics were founded on the informational basis of ordinalist-welfarism without interpersonal comparability.
It was Hicks’s Manifesto that opened the gate towards the fascinating vista of non-consequentialist approaches to welfare economic. (Suzumura)

It is impossible to make ‘economic’ proposals that do not have ‘non-economic’ aspects, as the Welfarist would call them; when the economist makes a recommendation, he is responsible for it in the round; all aspects of that recommendation, whether he chooses to label them economic or not, are his concern. (Hicks)
Hicks was not just resurrecting a criticism against Pigou’s separation of economic welfare from general welfare. He was declaring that we should go back all the way to the non-consequentialist node in the informational tree of normative judgment. …….

By invoking such non-welfaristic values as security and freedom on a par with welfaristic values, Hicks was ready to go against the exclusive use of welfaristic values as the informational basis of welfare economics. Hicks was prepared to cross the welfarist fence towards non-welfarism. (Suzumura)
Reinstating Pigou can go one step further. Not only may the standard understanding of Pigou’s ‘old’ welfare economics by means of the constrained maximization problem (Bentham-Pigou) be misleading, but also the identification of his informational basis within the category of welfarism may have a room for reasonable doubt. (Suzumura)
Pigou: National minimum standard of real income (pt.iv ch.xiii)

It is desirable to obtain a clear notion of what precisely the minimum standard should be taken to signify. It must be conceived, not as a subjective minimum of satisfaction, but as an objective minimum of conditions. The conditions, too, must be conditions, not in respect of one aspect of life only, but in general. Thus the minimum includes some defined quantity and quality of house accommodation, of medical care, of education, of food, of leisure, of the apparatus of sanitary convenience and safety where work is carried on, and so on. (759)

It is clear that Pigou’s concept of the minimum standard of real income has similarities with the recent concept of basic needs and, as such, it provides us with a non-welfaristic basis for judging about people’s states of well-beings.
It seems to me (Hicks) that this earlier title, *Wealth and Welfare*, was much better; it conveys the significance of what Pigou was doing much better than the later and more celebrated title does…it [*Economics of Welfare*] could be interpreted…as ‘The Welfare (or Utility) Approach to the Theory of Wealth’. ….He was not creating a new subject; Pigou was making a new and most important approach to an existing subject—the Theory of Wealth. (quoted in Suzumura)

- “Another Shot at Welfare Economics: Lecture I and II”, (typescript, c. 1955)
- “The Real Product: A Revision of Welfare Economics”, (typescript, c.1963) (Hicks Papers at Hyogo)
2. Starting point (2)
Welfare Economic Studies in the formative age

While people are familiar with the old/new welfare economics divide and the social choice theory from which the discipline has taken its present shape, setting the subject in a historical context and exploring all its various and often diverging lines of development is a task that does not seem to have been undertaken in a systematic way so far.

Economics of welfare (well-being) in the making
Outcomes of Tokyo workshops:


Part I. **Cambridge** welfare economics and the welfare state

Part II. **Oxford** ethics and the problem of welfare

A comparison between the Cambridge approach to welfare economics and the relatively neglected but —in their times— influential approaches prevailing in Oxford, LSE, and abroad (US, Japan in some way).
Background

Schumpeter – Neo-classical (scientific) economics and the ethico-historical economics, institutional economics, economic sociology. The latter spread internationally and became much stronger in the late-comer countries. [Economics of social reform across the borders]

It was around 1870 that a new interest in social reform, a new spirit of ‘historicism’, and a new activity in the field of economic ‘theory’ began to assert themselves (Schumpeter, 1954). This was the context, out of which the neoclassical economics was formed: Marshall laid the foundation for this movement, and the movement was further shaped by Pigou. Pigou inaugurated the ‘official’, orthodox history of welfare economics. ピグーは科学として厚生経済学を経済的厚生に限定して；マーシャルの考えとは違う。
This was also the period in which the German historical school and the Verein für Sozialpolitik emerged: ethical-historical approach that linked political economy with social reform.

Great intellectual change in later sixties: while Sidgwick turned to utilitarianism, T.H. Green to idealism of Kant and Hegel.

In Britain, the centre of ethical-historical approach was Oxford and LSE, epitomized by thinkers such as Arnold Toynbee, John Ruskin, J. A. Hobson, and the Webbs. They developed more practical, ethical and radical perceptions of welfare economics, which laid the intellectual foundations of Britain’s welfare state.
These connections were related to new movement in English social policy, led by the Webbs, Tawney and others. They also influenced New Liberal social reformers, Hobson and Hobhouse, who had been influenced by Oxford idealism of the philosopher Green and the art and social critic Ruskin. This group had close ties to LSE, and can be seen as ‘English school of welfare economics’, as the American institutionalist Walton Hamilton called the Webbs, Hobson, Edwin Cannan, Tawney and Henry Clay.

By contrast, the Cambridge economists Pigou and Marshall were not associated with this group. There were therefore divergent ways of thinking about welfare economics and the welfare state in this formative period in Britain, characterized by the Cambridge school and the Oxford approach. The latter seems to have been much stronger, say in United States by the 1920s.

Ch.1 Shionoya on Ruskin: Ch.2 Caldari & Nishizawa on Marshall

Oxford ethics, initiated by Green and Ruskin, was different from that of Cambridge based on utilitarianism. Shionoya’s chapter “Ruskin’s romantic triangle: neither wealth nor beauty but life” proposes to reconsider Ruskin’s theory of art and discourse on economic theory in unitary way as representing two sides of a kind of ‘romantic theory’ of what it means to enjoy a life in which human nature is fully realized—a ‘Life’ with capital L—and the role that labour and social institutions should play in the process. It sheds further light on the existence of philosophical roots of modern normative economics that cannot be referred to utilitarianism.

In pluralistic perspective of our research program, Caldari and Nishizawa, shifts from Oxford to Cambridge tradition in welfare economics. Differently from the former, the latter has been regarded as having its roots in utilitarian grounds, and this holds some truth as far as it is limited to Sidgwick-Pigou line, but sounds inadequate if extended to the chief Cambridge economist Marshall. Joining recent Marshallian ‘revisionist’ scholarship, C and N stress the complex mixture of ethical values and evolutionary considerations which went into Marshall’s ideas of progress, the organizing concept on the basis of which in his later years he tried to elaborate a view of the possible future of the industrial society.
Although this project of Marshall’s never went beyond drawing plans and drafting and polishing fragmentary notes for an intended book, the mass of manuscripts that remains is enough to enable an understanding of what normative economics really meant to him and —C and N argue—the comparatively minor importance of the accounting in terms of surpluses which he used in the Principles in order to discuss issues of market regulation and the like.
Pigouvian Welfare Economics

• Welfare is something quantifiable, measurable and comparable; it is assimilated to National Dividend.
• Welfare is considered mainly in its *economic* dimension because although welfare comprehends a very large range of things, it is better to take into account only the part that “can be brought directly or indirectly, into relation with the measuring-rod of money” (Pigou 1920: 12).
• It is given by the sum of producers’ and consumers’ surplus that are measured in terms of money and maximized according to the doctrine of maximum satisfaction.
• The maximization of welfare (that is of consumers’ and producers’ surpluses and National Dividend) becomes simply the solution of an analytical maximization problem.
• The condition of welfare maximization is that marginal social costs (benefits) are equal to marginal private costs (benefits). (Pigou 1912: 149); if they are not equal (market failure) then there is scope for state intervention.
Marshall and Pigou

Welfare economics, economics of human well-being in the making

Marshall and Pigou share the same peculiar cultural milieu where the welfare economic studies connected with social reform are diverse and pluralistic:

- Ethical opponents to the so-called “price economics” and utilitarianism: social and cultural critics (Thomas Carlyle, John Ruskin), Oxford historical economist (Arnold Toynbee), social reformers of the Fabian Society (the Webbs), and the prominent writer of the so-called “English school of welfare economics” (J. A. Hobson). Utility vs Virtue
• It is due to this milieu that there is not a clear-cut separation between economics and ethics; that economics is unavoidably economics of welfare, economics for human well-being; that economists had to handle urgent and actual problems (poverty, labor conditions); that laissez faire was seen not as an undisputed principle.

• All these aspects are present, although in different measure and combinations, in all the most representative scholars of Cambridge: Henry Sidgwick, Alfred Marshall, Arthur Cecil Pigou and even John Maynard Keynes.
Important signs of the on-going change are found already in Pigou himself, in his discharging of important aspects of the Marshallian analysis and consideration of welfare.

Neo-classical welfare economics goes by the names ‘Pigovian’ and ‘Paretian’, rather than ‘Marshallian, but its roots trace to the Cambridge tradition, commencing with Sidgwick and working through Marshall on the way to its far more elaborate, and yet more narrow or pointed, development at the hands of Pigou (Medema). Pigou adopts an utlitarianistic approach, mixing some analytical tools and concepts inherited from Marshall with pre-Marshallian (especially Sidgwick’s and Mill’s) theoretical concepts.
Economics in Pigou

• **According to Pigou**, economics was still at a “primitive stage”, because it “can accomplish successfully qualitative analysis, but seldom quantitative analysis” (Pigou 1935: 108)

• Economics is compared to mechanics: “in economics there is not, as in dynamics, one fundamental law of general application, but a great number of laws, all expressible, as it were, in equations of similar form but with different constants” (Pigou 1920: 9).

• Economics is not to be considered a science open to everybody or to be approached using simple, common language (Preface to Economics of Welfare, 3rd edn, 1928)
"Economics is a study of mankind in the ordinary business of life ....... It is on the one side a study of wealth; and on the other, and more important side, a part of the study of man" (Marshall 1920:1)

The main aim of economics is to solve “practical problems”, and that is why “ethical forces are among those of which the economist has to take account” (Marshall 1920:vi).

“Its reasonings must be expressed in language that is intelligible to the general public; it must therefore endeavor to conform itself to the familiar terms of everyday life, and so far as possible must use them as they are commonly used” (1920:51)
Welfare in Pigou

• Economics is a quantitative science which deals with quantities, such as National Dividend in relation to welfare.

• Pigou’s main aim is to find how to maximize (analytically) the strictly economic (or material) welfare: and although “economic welfare is only a part of welfare as a whole,” and welfare may “often change while economic welfare remains the same” and economic welfare cannot “serve for a barometer or index of total welfare”, still ‘for our purpose – he writes – [that] is of no importance’ (1920:12)
Welfare in Marshall

• Welfare or wellbeing – as he mostly calls it – is made up of several components: material but also physical, mental and moral; the material part being the unavoidable and necessary requirement for having the others.

• Wealth itself is defined by Marshall only “a means to the sustenance of man; to the satisfaction of his wants; and to the development of his activities, physical, mental and moral” (Marshall 1920: 173).

• Welfare is not simply reduced to a measurable quantity but it is dealt with as something extremely complex; yet for Marshall the idea of measurability “should be always present” but “it should not ... be prominent”. (1885:161).
Welfare and Welfare Economics

• Pigou aimed at building a “welfare economics”, far from ethical considerations, based on a rigorous and autonomous analytical framework.

• Marshall considered problems of welfare as part of the more general scope of economics, the main aims of which are “to gain knowledge for its own sake, and to obtain guidance in the practical conduct of life, and especially of social life. [. . .]”(1920:42).
The Scope of Economics

- Economics “will not ... itself be an art, or directly enunciate precepts to government. It is a positive science of what is and tends to be, not a normative science of what ought to be. Nor will it limit itself to those fields of positive scientific inquiry which have an obvious relevance to immediate practical problems” (Pigou 1920: 5).

- “The dominant aim of economics ... is to contribute to a solution of social problems’, and ‘our ethical instincts and our common sense’ are the ‘ultimate arbiters to apply to practical issues the knowledge obtained and arranged by economics and other sciences’ (Marshall 1920, 42, 28).
Role of the State

• In Pigou the state has to intervene imposing taxes whenever the private marginal net product is larger than the social marginal net product (1920) or bounties when it is less, that is in order to guarantee the attainment of maximum national dividend. By means of taxation, the state may contribute to the restoration of the equilibrium between the two quantities, that is, to the perfect functioning of the market (Medema, Samuels 2010).

• According to Marshall, the state must intervene not because of a market failure (as in Pigou) but for providing goods and services that – for their own nature – cannot be given at all by the market (i.e. public goods); among them we find all the components of the Marshallian idea of welfare (education, quality of air and so on).
Marshall’s Concern for Welfare

• Letter to James Ward, dated 1900, in explaining why he decided to leave his favourite topics (metaphysics and psychology) for studying economics around 1870, he writes: “economics grew and grew in practical urgency, not so much in relation to the growth of wealth as to the quality of life; and I settle down to it” (Whitaker, 1996; II); in Preface to *MCC*, explaining the project he was still working on, Marshall notes: “I am not without hopes that some of the notions, which I have formed as to the possibilities of social advance [and the conditions of social well-being], may yet be published” (1923: vi, 234).

• From what precedes, it is evident that Marshall’s lifelong concern was for the problems related to welfare: poverty, quality of life, social progress.
Marshall’s passage into economics is also described, written about 1917 and designed for Preface to *MCC*: Psychology’s fascinating inquiries into the possibilities of the higher and more rapid development of human faculties brought him into touch with the question: how far do the conditions of life of the British (and other) working classes generally suffice for fullness of life? Older and wiser men told him that the resources of production do not suffice for affording to the great body of the people the leisure and the opportunity for study; and they told him that he needed to study Political Economy. (Quoted in Keynes, 1924)
• **The aim of social endeavour** must be to increase the numbers of those who are capable of the more difficult work of the world, and to diminish the number of those who can do only unintelligent work. The age of chivalry is not over: we are learning how dependent the possibilities of leading a noble life are on physical and moral surroundings. However great may be our distrust of forcible socialism, we are rapidly getting to feel that no one can lay his head on his pillow at peace with himself, who is not giving something of his time and substance to diminish the number of the outcasts of society; and to increase yet further the number of those who can earn a reasonable income, and thus have the opportunity of living a noble life. *(Industrial Remuneration Conference, 1885: MCC, 1923)*
Marshall and Welfare

• In the literature, Marshall’s dealing with welfare has been taken mainly from *Principles of Economics*, the volume that – notwithstanding its importance and relevance - has certainly many shortcomings and it is considered limited in its scope by Marshall himself: “The present volume .... Remains as a general introduction to the study of economic science...”(1920: xii).

• The analytical core of *Principles* is Book V, which “deals with abstractions” (Marshall 1898:52) And it is especially in Book V that the analysis of welfare is mainly developed.

• It is not surprising, therefore, to find there all the theoretical apparatus (consumers’ and producers’ surpluses, equilibrium and maximum satisfaction, fiscal policy applied according to the distinction among increasing, decreasing, constant returns and so forth) kept and used by Pigou in his welfare economics.
• However, Marshall’s consideration of welfare cannot be reduced to the analysis developed in *Principles*. This is stressed by Marshall himself when in Appendix K of *Principles* notes that the analytical tools used and the study developed there have “little practical bearing” although they have “some attractions from the academic point of view” (1920:830).

• As recently recognized by Groenewegen (‘Marshall on welfare economics and the welfare state’, 2010), there are other writings where it is possible to find Marshall’s wider and more comprehensive reasoning on welfare; most notably the several notes written for his book on Progress.
Progress and Wellbeing

• **The term “economic progress” is narrow:** Progress “includes developments of mental and moral faculties, even when their exercise yields no material gain” although it is sometimes “taken to imply merely an increase in man’s command over the material requisites of physical mental and moral wellbeing; no special reference being made to the extent to which this command is turned to account in developing the higher life of mankind” (Folder 5. 3. 1.)

• Wellbeing is a far more inclusive concept. True wellbeing or welfare requires, besides a necessary level of material wealth, a number of elements that are of fundamental importance for human character.
Practical “Welfare Economics”

• To find the ways and means towards progress and wellbeing is for Marshall the main aim of the economist; in his own words: “the growth of mankind in numbers, in health and strength, in knowledge, ability, and in richness of character is the end of all our studies” (1920, p.139)

• Welfare considerations do not stop at a theoretical level but have important practical bearings.
Government and Wellbeing

• “It is reasonable to suppose that the chief aim of the Government of a Western country is to promote the well-being of the people” (Folder 5.26).

• Necessarily pertaining to Government: “…Streets…Canals, Light houses (some); Surveys and information of all kinds which are beyond the reach of private effort: …Free parks and Recreative grounds etc”; among those “which must be regulated more or less by Government”: …” Markets…slaughter houses; fairs; cemeteries; action in the case of infectious diseases. The supply of meat, fruit, and other things which the consumer cannot test for himself at all or until too late to escape…Telegraphs, Telephones, Water, Gas, Electricity supply, Tramways Building on public streets, Railways Pipe lines, Agricultural drainage and Irrigation works, Educational and medical provisions on too large a scale for private enterprise, in which public and private foundations may well be mingled under public control. Universities[,]Museums[,] Art Galleries[,] Hospitals…..” (Folder 5.37).
• “Whenever the home of children is such that there is no considerable chance of their growing up to be good citizens, healthy in mind and body, the State is bound as a duty and for self-preservation to intervene. It may improve the home; or close it, and take charge of the family. In the rare cases in which when the wages of any kind of adult male labour are so low that, even when supplemented by the utmost earnings that wife and children are likely to bring in, they would not suffice to maintain a wholesome family life, then it may conceivably be advisable to prohibit such low wages” (Folder 5.37).

• The State seems to be required to contribute generously and even lavishly to that side of the wellbeing of the poorer working classes which they cannot easily provide for themselves (1920, ‘Progress in relation to standard of life’).
• (a) that individuals concerned are of a lower order than the average man, and are in fact not fit for freedom: this justifies the constraint of madmen, idiots, and perhaps habitual drunkards; (b) that private action is injurious to public weal; (c) that the individuals concerned are acting injuriously to members of their own family and through them of the State. ...; (d) that the individuals concerned are sacrificing higher ends in order to increase their material gains in such a way as indirectly to compel others to do the same. Such are regulations with regard to hours of work in factory and shop, except in so far as they are made under head (b) in the interest of the coming generation; (d) that the individuals concerned are reaping too much for themselves of what is really collective property: that the State is therefore justified in demanding some concession to public interests, and that it can effectively do so without vexatious interference with industrial enterprise or the peace and restfulness of private life ...” (Folder 5.36)
The Necessary Role of Government

• State functioning is far from being faultless (Backhouse and Medema 2012) but still it is necessary because only “Utopia does not require a Government” (Folder 5.7). The real world does. This is why for Marshall “Laissez Faire, in the intention of letting nature have her way is a deadly sin. But that is not its true sense. Its true sense is let Government do its own work; and not listen to rival sectional interests which want to utilize it for inappropriate work, or to prevent its working on behalf of the weak & c” (Folder 5.7.)

• Government should obtain its fair share of the growing intelligence of the country; this intelligence should be concentrated intensively on work which none but Government can do (1907).
Some Conclusions

• Pigou gives a strong theoretical imprinting of what has become known as welfare economics. Taking and amending the apparatus developed by Marshall in his *Principles*, Pigou builds an abstract framework where some questions of welfare are inserted.

• Being mainly a quantitative concept, several aspects are left outside the significance of welfare Pigou deals with.

• This does not mean of course, that Pigou does not know those aspects and their importance, but only that in the analysis of welfare he decided to develop they are simply ruled out. Welfare is brought “under the category of greater or less” (Pigou 1920: 10) and the aspects not pertaining to that category are simply ignored.
• That part is indeed only a little (and slight) part of Marshall’s study of welfare, being his overall analysis imbued with the manifold elements which characterized Cambridge intellectual milieu. In particular, welfare is not considered something quantifiable but something extremely complex and many-sided (its core is human character, physical mental and moral well-being) for which the state may have an important role.

• The richness and complexity of the reflections developed by Marshall went lost in Pigou’s systematization and were also neglected in the following metamorphosis of welfare economics into the “new version”.
• Marshallian contributions to welfare economics constitute only one chapter, and not even a very important one. Marshall was aware of the very rough character of a social welfare index based on consumer surplus, and realized that its shortcomings rendered the scope of welfare policies based on it rather narrow. He was also aware that all utilitarian social indexes had the defect of being unresponsive to the potential evolutionary impact of changes in the equality and distribution of welfare. (Marco Dardi, ‘Marshall on welfare, or: the “utilitarian” meets the “evolver”’, 2010)
Your generation will recognize that men are not equal by nature and cannot be made equal by art. It will recognize that some work must be done that is not ennobling. But it will seek to apply the growing knowledge and material resources of the world to reduce such work within narrow limits, and to extirpate all conditions of life which are in themselves debasing. It will expect no sudden improvement in man’s conditions of life, because he forms them as much as they form him, and he himself cannot change fast. But it will press on steadfastly towards the distant goal where the opportunities of a noble life may be accessible to all. (Marshall 1897 and ‘Possibilities of future’ of the final chapter, *Industry and Trade*)