

# Some Aspects of the Formation of Pigou's Welfare Economics: Charity, Poor Law Reform, and Unemployment

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The purpose of this paper is to trace the genesis of Pigou's interest in unemployment by surveying his early works on the poverty and on unemployment. Activists or social workers of the time —like C. Booth whose well-known research on poverty led to the Poor Law Reform and Liberal Welfare Reform in the early 20th century— had a considerable impact on Pigou's early works, and prompt him to tackle the poverty problem of his time. Indeed, we can see the origin of his welfare economics there and, especially in the 1908-1912 period, we see also the formation process for his unemployment theory which was essential in the completion of his first major book, *Wealth and Welfare* (1912).

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“Those mute myriads that speak loud to us:  
Men with the wives, and women with the babes,  
And all these making prayer to only live!”  
(*Anonymous*, Pigou 1901a: 237)

## 1. Introduction

The most serious weakness of the conventional understanding of Pigou's welfare economics is that it has been overly colored by controversies

that occurred in later years. Among them, the most influential are those concerning the “second proposition”<sup>1)</sup> of his welfare economics and the “Keynesian revolution.” As a result, to date, his practical economics have been studied from very partial viewpoints. Here, I take an approach that differs from that of such studies.

Pigou’s first major book, *Wealth and Welfare* (1912) is considered “the true first edition” (Pigou and Collard 1999, vol. 1, x) of *The Economics of Welfare*<sup>2)</sup>. The composition process of *Wealth and Welfare*, and therefore his welfare economics, can be studied along various lines, including his fellowship theses (Pigou 1901b, 1901c; McLure 2013), his controversial commitment to free trade (e.g., Pigou 1903a, 1906a, 1906b)<sup>3)</sup>, his ethical thought (Pigou 1901b, 1907c, 1908a; O’Donnell 1979), his interest in labor problems (Pigou 1905), and his analysis of surplus (Pigou 1904b, 1910a), among others<sup>4)</sup>.

- 1) Three propositions or criteria of Pigou’s welfare economics are as follows. The economic welfare of the community is likely to be augmented (1) “if a cause is introduced, which makes for an increase in the aggregate size of the net national dividend, provided that the absolute share of no group of members, in terms of the commodities which that group is accustomed chiefly to consume, decreases,” (2) “if a cause is introduced, which makes for an absolute share of relatively poor groups of persons (in terms of the commodities which those groups are accustomed chiefly to consume), provided that the magnitude of the aggregate national dividend does not decrease,” or (3) “if a cause is introduced, which diminishes the variability, or inequality in time, of the dividend, and especially of that part of it which accrues to the poorer classes” (Pigou 1912: x).
- 2) *The Economics of Welfare* was “originally conceived as a rewritten and revised edition of [Pigou’s] *Wealth and Welfare* published in 1912” (Pigou 1920: v).
- 3) As David Collard says, “it may come as a surprise to some modern readers that Pigou’s early work was mainly in international trade” (Pigou and Collard 2002, vol. 1: xi).
- 4) There exists very little study of Pigou prior to his publication of *Wealth and Welfare*, but the controversy on “the appointment of Pigou as Marshall’s successor” (Coase 1972, Coats 1968 and 1972, Jones 1978) is famous.

Here, however, I focus on two other elements: Pigou's early works on the poverty problem, which include charity and Poor Law Reform, and those on the unemployment problem. These two problems closely correlate, in the sense that he needed to study unemployment in order to resolve the problem of poverty, with the former being one of the foremost causes of the latter. In the early 20th century, unemployment was considered a mere problem that charity or the Poor Law could relieve (Hutchison 1953: 410): the causes of unemployment were not analyzed systematically by academic economists.

Poverty, which derives from both individual-level and social factors, cannot be resolved by the mere transfer of money or material goods. To support the poor, it is essential that professional activities guide the lives of the poor towards "independence." This is Pigou's fundamental view on charity, an idea common to many of today's social work activities. Needless to say, he considered other means (e.g., various kinds of insurance, Poor Law relief, and even public work in helping the unemployed) necessary as well.

In Sections 2 and 3, we take up two works of Pigou to show how he tried to fight poverty, —that is, "Some Aspects of the Problem of Charity" (Pigou 1901a) and "Memorandum on Some Economic Aspects and Effects of Poor Law Relief" (Pigou 1907a). Then, in Section 4, we consider "The Problem of Involuntary Idleness" (Pigou 1911), a work, though little known, that is very important to consider, if we are to trace the development of his employment theory, and the formation of his welfare economics.

## 2. Discovery of Poverty

### 2-1 The Influence of Activists on Early Pigou

“Some Aspects of the Problem of Charity” (Pigou 1901a) is, though having been largely neglected in the secondary literature, one of Pigou’s earliest writings on a social problem — rather than on a philosophical or ethical problem, like that in his first book, *Robert Browning as a Religious Teacher* (Pigou 1901b). This article on charity clearly shows young Pigou’s “social enthusiasm” (Pigou 1908b: 13). Its *raison d’être* is to establish the principles of charity in order to assist such persons as widows, the aged, the handicapped, and the unemployed. According to Pigou, the condition of the people of Great Britain as a whole had greatly improved during the 19th century, but there was still “a vast problem before the statesman and the philanthropist” (Pigou 1901a: 236).

It must be observed here that the word “charity” is distinguished strictly from general philanthropy — “the practice of many amateur philanthropists” (247), “foolish benevolence,” or “misdirected kindness” (248) — and is rather similar to today’s social casework. The activity of charity is not merely about giving money and goods. It looks also “to alleviate distress without injuring character, and with the hope even of elevating it in the process”; therefore “the social worker, also, must deal with causes [of each case of distress] and not with their results, if his work is to be really useful” (240). Accordingly, says Pigou, the following philosophical problem on “ultimate good” should not occur within the realm of charity.

There are some philosophers who maintain that the ultimate goal, for which all men should strive, is the realization of the greatest

possible sum of pleasurable feeling in the world, and there are others who hold that character and not happiness is the all-important thing. Fortunately it is unnecessary for any one engaged in the practical work of charity to decide between these two views, because his course of action would have to be very much the same whichever he adopted. Thus, whatever view he may take about the "ultimate good", his direct aim is to improve *both* character *and* material conditions (239)<sup>5</sup>).

At the beginning of this article, Pigou confesses that he had no direct practical life experience in the poorer parts of London<sup>6</sup>), and that he was indebted to C. Booth, A. Marshall, O. Hill<sup>7</sup>), C. Barnett, C.S. Loch, Mrs. B. Bosanquet, and others for their insights; most of these individuals also affected the Poor Law Reform. Especially, Pigou mentions the result of Booth's well-known research on poverty in London: "Mr. Charles Booth estimates that 30 per cent of the population of London are either 'poor' or 'very poor', the 'poor' being those who have a sufficiently regular though bare income, such as 18s. to 21s. per week for a moderate family [parents and three children], and the 'very poor' those who, from any cause, fall much below this standard" (237).

As Pigou had originally studied philosophy and submitted to King's

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5) Pigou regards "the spirit of independence" as one of the elements that constitute the ultimate good or welfare. To understand his philosophical conception of "welfare," we should refer to "The Problem of Good" (Pigou 1908a: Chapter 4).

6) In later years, Pigou reflected on his life and work, and told students that economists, especially when they are young, should endeavor to learn not only from the reading of printed pages, but also more from direct experience in the real world (Pigou 1935: 11-12).

7) Pigou often praises Hill's activities (Pigou 1912: 22n, Rowntree and Pigou 1914: 49).

College a fellowship thesis on *Robert Browning as a Religious Teacher*, why did he decide to become an economist? Indeed, in this respect, his own explanation is somewhat obscure: “The cause of my first interest in economic science was not a reason, but the personal inspiration of the master whose successor and whose pupil it is my high privilege to be” (Pigou 1908b: 7). However, as an important reason, we may point out that along with Marshall’s “personal inspiration,” Pigou had an interest in the great problem of poverty as discovered by Booth and other activists. On the title page of *Wealth and Welfare*, we see the motto: “Discontent, to be effective, must be shot with the colours of hope — Charles Booth”<sup>8)</sup>. Thus, it is evident that Booth had influenced the young Pigou.

The use of this motto from Booth points to the basic character of Pigou’s welfare economics, already evidenced in the use of the words “social enthusiasm” in Pigou’s inaugural lecture at Cambridge, *Economic Science in Relation to Practice*. According to him, those who feel such “enthusiasm” most strongly are not always economists; on the contrary, he says, as a result of there being much inquiry and little action, economics is sometimes criticized by activists as “a common anathema” (Pigou 1908b: 12). Thus, Pigou insists that economists share the enthusiasm with them: “I shall be far more glad if he comes [to economics] because he was walked through the slums of London and is stirred to make some effort to help his fellow-men. Wonder, Carlyle said, is the beginning of philosophy: social enthusiasm, one might add, is the beginning of economic science” (Pigou 1908b: 13). Many scholars have conventionally pointed out that the most influential figures to early Pigou are A. Marshall and H. Sidgwick, both of Cambridge. Though

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8) Unfortunately, this motto is omitted from *Wealth and Welfare* as reproduced by Collard (Pigou and Collard 1999, vol. 2).

this is undoubtedly correct, Pigou indeed paid considerable respect also to activists.

## 2-2 Principles of Charity

Pigou lays down three principles of charity: (1) a confidential or friendly relationship between a person who helps and a person who is helped, (2) careful examination into the causes of distress, and (3) the determination of an appropriate way of granting assistance.

The confidential human relationship is the most fundamental principle: "There is, indeed, one form of help which is equally applicable to all cases of distress, whatever their origin may have been. This is that personal sympathy and advice which is always in the power of real friends to give...." (Pigou 1901a: 240). Since material distress is largely also an issue of character, "the steady exercise of personal influence, of kindly counsel, and sincere and open friendship is an integral part of all genuine charitable work" (257)<sup>9</sup>). Such a human relationship is essential to charity of any form, because any examination or investigation into a case would fail without it. Pigou adds that, generally speaking, local churches and chapels have many advantages as centers of charity, because "the ties between their members are generally closer than those subsisting between mere neighbours" (261).

The appropriate way of granting assistance — where material help (including money transfers) may be frequently needed — must be decided on the basis of examinations into the causes of distress. Stressing the need

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9) The same point is emphasized also in *Wealth and Welfare* (Pigou 1912: 361-362) and "Private Use of Money" (Pigou 1922: 454-455). In particular, in the latter work, Pigou lays down three principles for gifts to the poor: (1) they need to be constructive, (2) they need to be devised so as to evoke in the recipient a spirit of co-operation rather than one of mere passive receptivity, and (3) they need to nurture "the communism of friendship" (i.e., the gift should be given as from friend to friend).

to classify various cases of distress, Pigou broadly classifies them into two groups: one is due to some temporary misfortune; the other, to chronic factors. The former group consists of the temporarily unemployed and the sick, *inter alia*; the latter mainly consists of the aged and those who are called the “submerged Tenth,” including the handicapped (241-242). What Pigou criticizes most severely is the giving of indiscriminate material assistance to the temporarily distressed, saying that doing so can destroy “the spirit of independence.” As a typical example of such so-called harmful assistance, he refers to the Speenhamland system. Since the argument clearly indicates his basic view on the problem of poverty —and, therefore, on redistribution policy in general— I wish to quote him at length:

The Speenhamland justices [...] decided in 1795 that whenever anyone in their district was earning wages below a certain fixed sum the deficiency should be made up out of the rates. The more numerous a man’s family the greater was the income guaranteed to him. This policy was soon adopted all over the country, with the most disastrous results. The condition of those who failed to support themselves became better than that of those who, by hard effort, maintained their independence, for the latter were obliged to contribute towards the support of the former. There was no longer any check upon early marriage and large families, since every additional child meant an extra dole of eighteen pence a week from the parish. Consequently, the cost of poor relief rose by leaps and bounds, and the spirit of independence among the working classes was almost entirely destroyed. The offer of indiscriminate assistance to paupers had the effect of making paupers of many who had until then been independent. The stringent Poor Law Reform of 1834



put an end to the Speenhamland system, but its disastrous effects upon the working classes have hardly yet been eliminated (Pigou 1901a: 250-251).

Insurance<sup>10)</sup> is also an effective means of preventing many cases of temporary distress. Therefore, the first step in providing assistance is to recommend that people partake in insurance schemes provided by out-of-work-benefit associations, sick-benefit clubs, and the like. The second step is to give material help in cases where individuals could not join in these schemes for some reason. Whenever providing material help, however, careful evaluation is needed. For example, in the case of a man suffering from unemployment, (1) if the cause of his unemployment was normal seasonal variation in the industry in which he was accustomed to engaging, the provision of material help would be dangerous (i.e., adversely enabling). On the other hand, (2) if the cause of it was one that he could not fairly have expected, and if there had been no unemployment benefit association he could have joined, it would be wise to give material help until he found a new job. Additionally, (3) if the cause of unemployment was a decline in the occupation, the person must either be taught a new occupation or be helped to move to a new place where his or her kind of labor would be in demand. In short, these charitable activities must all be constructive, in light of their ultimate end. Although he had been somewhat optimistic, Pigou

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10) It should be noted that Pigou chiefly argues for private insurance. It seems that he had been rather skeptical of public insurance: he says that "any general centrally organized scheme would be dangerous as well as costly," and that "the best way to deal with the question [of old-age pauperism] is by careful local inquiry into the merits and needs of individual cases" (Pigou 1901a: 247). See also his contributions on "Old-Age Pensions" to *the Times* (Pigou 1907b, 1908c).

thought that most cases of temporary distress could be resolved through the establishment of such principles of charity and the development of voluntary insurance (Pigou 1901a: 253-255).

Under the aforementioned principles, an able-bodied person who receives material support must meet certain requirements, if he or she is to continue to receive it. In this respect, the principles that emphasize self-help align with the idea of workfare policy, which has become popular today. In addition, the combination of private and public activities is of vital importance in Pigou's welfare society.

On the other hand, the problem of how chronic poverty should be treated was far more difficult for Pigou. In considering the development of his welfare economics, an especially important issue seems to be whether eugenics-oriented policies, such as those involving birth control, should be used to reduce chronic poverty stemming from genetic factors. Being anxious about "the violent interference with individual liberty," he did not recommend the immediate adoption of such policies (Pigou 1901a: 6). His position on eugenics was not evident until the publication of "Social Improvement in the Light of Modern Biology" (Pigou 1907c) and *Wealth and Welfare* (Part I, Chapter IV, "The National Dividend and the Quality of the People").

### 3. Poor Law Reform

#### 3-1 Poor Law, Charity, and Insurance

In 1907, Pigou submitted the "Memorandum on Some Economic Aspects and Effects of Poor Law Relief" (Pigou 1907a) to the Royal Commission on Poor Laws and Relief of Distress. It was his first occasion to commit to the policy of the country. Among the various works of early Pigou to predate *Wealth and Welfare* (1912), this memorandum

is the most comprehensive consideration of practical measures against the poverty problem; therefore, it is of considerable significance in the creation of that book.

In this memorandum, Pigou defines some key terms and limits the spheres of Poor Law relief. He defines a destitute person as one who "for the time being [is] without material resources appropriate for satisfying such of his physical needs as actually exist or are likely to arise immediately," where "physical needs" refers to those "that must be satisfied in order to maintain life or to obviate, mitigate or remove causes likely to endanger life or impair health or bodily fitness for self-support." Says Pigou: "It is the duty of Poor Law officers to relieve all these [destitute] persons," and "it is illegal for them to relieve any other persons" (1907a: 981).

In addition, Pigou lists the three principal elements upon which "well-being" depends; that is, "(1) the people themselves as ethical personalities, (2) the direct social and other relations of people with one another, and the satisfactions that result therefrom, [and] (3) the satisfactions obtained by the people from their economic circumstances" (1907a: 981-982). He says that "economic virtues" are included in the first element. The concept of well-being as a whole, as discussed above, is thought to be equivalent to that of "welfare," and the third element to that of "economic welfare."

The relationship between Poor Law and voluntary charity is discussed in both "Some Aspects of the Problem of Charity" (Pigou 1901a) and the aforementioned "Memorandum" (Pigou 1907a, Chapter 2 "The Poor Law and Private Charity"). He maintains that the Poor Law guardians and voluntary charitable agencies should work together, because they are so intimately connected that it is impossible to say what one of them ought to do, without knowing exactly what the other is doing.

To enhance the efficiency of relief work overall, says Pigou, the various relief agencies need to be interlocked (1901a: 258-259).

According to Pigou, the relief work generated in the name of the Poor Law derives from a comparatively centralized system; it is suited for dealing with simple cases of destitution, for which a test rather than a special inquiry can be applied. On the other hand, when it comes to work that requires careful discrimination — such as the administration of outdoor relief or the care of those of deserving age — Poor Law agencies are less suitable than charitable agencies. In rural areas, however, voluntary charity may be ill-organized and would not, in many cases, be able to raise the necessary funds. Taking these circumstances into consideration, Pigou concludes that “when these [charitable] bodies are thoroughly organized, and in receipt of adequate funds, outdoor relief on the part of the Guardians might with advantage be abandoned” (1901a: 259). The same proposal is seen in the “Memorandum” (Pigou 1907a: 982-984) and in *Wealth and Welfare* (Pigou 1912: 358-359).

One of the most important roles of Poor Law is its guarantee of a minimum standard of living. There was broad agreement among the Royal Commissioners with regard to the necessity of categorizing persons according to the cause of their destitution, and of treating each category of persons in a particular fashion. In the same way, Pigou categorizes those causes<sup>11)</sup> and proposes that “the minimum guaranteed to the different categories must be different” (1907a: 991); particularly with respect to the able-bodied<sup>12)</sup>, he agrees that the traditional principle

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11) These are (1) unemployment, (2) slight sickness or accident, (3) grave sickness or accident, (4) impotency due to disablement or old age, and (5) impotency due to tender years (Pigou 1907a: 991).

12) Pigou denies that the “principles of 1834 can be extended *unreservedly* to categories of poor other than the able-bodied” (Pigou 1907a: 993). Therefore, the not-able-bodied can be guaranteed a somewhat higher minimum level of material support.

of less eligibility is “still of considerable importance and ought not to be violated” (992). At first glance, he may seem to be coldhearted to the poor; however, this is not necessarily so. He endeavored to pursue the means that are compatible with economic principles. This was his fundamental stance, not only in early years, but also in later years, as an economics student.

Pigou opines that one reason why the poor do not make provisions against various risks could be “the imperfection of the *machinery* of insurance” (993, italics in the original). Therefore, Pigou asserts that we need to improve upon that machinery and make it more attractive for the poor by combining old-age insurance with sickness and life insurance, for example, or by permitting a pension, adjusted on a prorated basis, to begin whenever the insured person wishes (993).

### 3-2 Unemployment Problem

Even around 1910, unemployment was still considered a problem of charity or Poor Law relief, and it was a very important and difficult issue for most of the Poor Law Commissioners. In fact, the standard economic theory on employment or on the business cycle scarcely existed yet, at least in the English-speaking world. Although W.H. Beveridge's pioneering monograph *Unemployment: A Problem of Industry* (1909) — which was influential in creating the British labor exchanges — could be highlighted as an exception, it seems to be unthinkable that the monograph provided a standard framework by which people in those days could address the unemployment problem<sup>13)</sup>.

Pigou's “Memorandum” (1907a) also does not deal with “the problems

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13) Beveridge's *Unemployment*, however, had a considerable influence on early Pigou's employment theory. See Pigou(1912: 299, 311n, 313, 315n, 328, 337, 391n, 403; 1913: 26, 151, 217). It is probable that Pigou's interest in unemployment was sparked by Beveridge.

that were to concern him so deeply in later years —the problems of the causes and remedies for general unemployment” (McBriar 1987: 254-256). For instance, Pigou set out there only the first and second propositions of his welfare economics; his third proposition had not yet appeared.

Economic well-being depends upon two things, the size of the national dividend of goods and services annually available for consumption by the community and the manner in which this dividend is distributed among the different members of the community (Pigou 1907a: 987).

Therefore there is no denying that, in the 1907 “Memorandum,” Pigou does not recognize the significance of general unemployment in relation to the poverty problem. However, it seems to be natural to speculate that after having submitted “Memorandum” to the Commission, he heard of the public work plans that were being discussed by the Poor Law Committee. It is probable that these discussions prompted him to embark on a study of general unemployment that stemmed from business cycles and the like —versus particular unemployment, which was the main subject of Poor Law relief— and to examine such public work plans as counter-cyclical policies by which to reduce involuntary idleness (McBriar 1987: 258n).

Indeed, in his “Memorandum,” Pigou does not refer to general unemployment or such public work plans (Pigou 1907a). However, in his inaugural lecture delivered in the following year —namely, *Economic Science in Relation to Practice*— he takes up “the great problem of Unemployment” as one of its central themes, and voices approval for a certain type of public work scheme (Pigou 1908b: 23, 27-29). It should

be noted that the public work policy that Pigou discusses in the lecture was not his original idea, but rather his commentary on such a policy proposal by the Poor Law Committee. As we see later, there were two different types of public work scheme: one was advocated by the Majority Commissioners, and the other by the Minority Commissioners<sup>14</sup>).

This inaugural lecture can be considered a manifestation of his ideal or research program of economic science; it seems that the title of the lecture itself points to the essence of his welfare economics. I point out the following two reasons why general unemployment was a focus of the lecture. First, being affected by the various discussions in the Poor Law Committee —especially the public work plans for reducing the number of unemployed individuals— he keenly realized the need to create a theory of employment and economic fluctuation that could systematically address those topics. Second, such theory would have been essential to the completion of his practical economics or welfare economics.

Various discussions of the Royal Commission on Poor Laws and Relief of Distress evidently had an influence on Pigou in the course of forming his welfare economics; his interest in the unemployment problem was similarly aroused by such discussions. Glancing at the index of *Wealth and Welfare*, we find “The Report of Royal Commission of Poor Law and Relief of Distress” to be by far the most frequently referenced source material; therefore, we can say that Poor Law Reform marks a predominant moment in the formation of Pigou's welfare economics.

#### 4. “The Problem of Involuntary Idleness”

Given that Pigou has been frequently considered a typical “classical

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14) Pigou contrasts and examines these two schemes in “The Problem of Involuntary Idleness” (Pigou 1911).

economist” who never admits to the existence of involuntary unemployment, Pigou’s early article on “The Problem of Involuntary Idleness” (1911) may seem somewhat paradoxical. To date, this article has been largely neglected in the secondary literature. In this respect, a re-examination of Pigou’s early employment theory would directly affect interpretations of the “Keynesian revolution” of the 1930s<sup>15)</sup>.

The article was presented at an international conference on unemployment held in Paris on September 18-21, 1910; it was published the following year<sup>16)</sup>. It consists of (1) an explanation of the term “involuntary idleness,” (2) an analysis of the causes of involuntary idleness in general, (3) an examination of two different types of public work plans for mitigating economic fluctuations, advocated respectively by the Majority and Minority of Poor Law Commissioners, and (4) an analysis of those factors that determine the distribution of involuntary idleness among workers.

It is natural to assume that Pigou began to write *Wealth and Welfare* following his inaugural lecture in 1908. Although to date we know little of the work’s developmental process in the 1908-1912 period, his work “The Problem of Involuntary Idleness” must provide clues to this question. When considering the formation of his welfare economics, this 1911 article surely has exceptional significance, along with the well-known

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15) Many scholars consider Keynes’s judgment against Pigou unfair (Winch 1970: 153; Hutchison 1978: 198-199; Collard 1981: 123-125; Aslanbeigui 1992). I align myself with these authors.

16) On my visit to University of Cambridge in 2005, I found this stapled-paper article to be housed as an ordinary book in the University’s Marshall Library of Economics. I learned later that the article had been published in the conference proceedings. I am grateful to Professor Gilbert Faccarello of Université Panthéon-Assas and Sorbonne Universités for valuable information.



article "Producers' and Consumers' Surplus" (Pigou 1910a)<sup>17</sup>.

At the beginning of the 1911 article, Pigou speaks of "involuntary idleness," a term seldom used at that time. The popular term that newspapers and politicians used was "unemployment." Pigou, however, insisted that the term "involuntary idleness" bore an advantage, as "unemployment" —as the term was ordinarily used— covers only a certain proportion of the wider phenomenon of involuntary idleness. For example, unemployment was often contrasted with "short time," or the reduction of working hours; today, the term popularly used is "underemployed." Therefore, persons on "short time" were not considered unemployed. Unemployment and short time are, however, in great measure consequences of the same causes (Pigou 1911: 1)

#### 4-1 The Causes of Involuntary Idleness

Pigou clarifies the causes of involuntary idleness by examining the following three cases, in turn.

First, he assumes that the economic world, being in a stationary state and not subject to fluctuations, consists of a single industry operating at a single point. In this simplest case, if conditions of perfect competition prevailed, "involuntary idleness would be impossible." On the other hand, if free competition were impeded by the enforcement of an artificial wage rate that exceeds the rate brought about naturally under competition, involuntary idleness *could* exist, and the quantity of idleness would depend on two factors: (1) the amount by which the artificial wage rate exceeds the natural rate, and (2) the elasticity of the demand for labor. In relation to this, Pigou mentions that the

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17) Of course, Pigou discusses the other subjects in this period, such as taxation policies (Pigou 1909a, 1909b, 1909e, 1909f) and the method of measuring elasticity of demand (Pigou 1910b).

“current opinion concerning a living wage coupled with the provision of Poor Law Relief” causes involuntary idleness among the lowest grade of unskilled workers; he also adds, however, that “in stating these results [he does] not, of course, imply any judgment concerning policy. The establishment of an artificial wage rate is not proved to be undesirable by the fact that it causes some involuntary idleness. It also produces other consequences, and the goodness of these may outweigh the badness of the involuntary idleness” (Pigou 1911: 2)<sup>18)</sup>.

Second, Pigou assumes that the economic world, subject as it is to fluctuations, consists of a single industry operating at a single point. In this case, too, involuntary idleness would be impossible unless an artificial wage rate were to exist there. The extent of this artificial element itself depends on two things: (1) the magnitude of the fluctuations in the demand for labor, and (2) the force of friction impeding the adjustment of the wage rate to align with downward fluctuations of demand (Pigou 1911: 3). Pigou does not explain explicitly why the extent of the artificial wage rate depends on the magnitude of the fluctuations in labor demand, but as we see later, the reason is that the choice of wage payment system — in other words, whether wages are paid in terms of pieces or time — partly depends on the magnitude of the fluctuation from which the industry in question suffers.

Third and finally, Pigou assumes that the economic world consists of various industries that operate at various points, and that they are subject to various fluctuations in relation to one another. In this case, a new factor must be taken into account: the mobility of labor

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18) Among the beneficial consequences such an artificial wage rate produces, one of the most important is the enhancement of labor productivity by increasing human capital. Pigou discusses such an effect in detail in, for example, *Wealth and Welfare* (Pigou 1912: 351-364).

among industries and places (Pigou 1911: 4). Therefore, the quantity of involuntary idleness would depend on three factors: (1) the amount by which the artificial wage rate exceeds the natural rate, (2) the elasticity of the demand for labor, and (3) the mobility of labor. The fundamental causes regulating mobility itself include, according to Pigou, the degree of specialization within the industry in question, the general ability of workers as distinguished from the technical ability peculiar to each industry, and the condition of the industries of transport and communication, *inter alia*.

Thus, we can say that Pigou's early work already betrays his clear perception of involuntary idleness: its ultimate cause is wage rigidity, and its quantity depends on the three aforementioned factors. In this way, he summarizes his view of the causation of involuntary idleness, and it seems that this view remained almost unchanged until the 1930s. Nonetheless, in his 1911 article, he does not touch at all upon the causes of these fluctuations. The study of them, or of the causes of variability in national dividend, first appeared in Part 4 of *Wealth and Welfare*.

## 4-2 Two Schemes of Public Works

As mentioned, Pigou does not provide in his 1911 article any analysis of the causes of fluctuations. Rather, he carefully examines the practical schemes by which to reduce involuntary idleness; these are schemes that arise directly from the study of fluctuations: that is, the schemes of public work for that purpose. There were two types of scheme: that advocated by the Majority of the Poor Law Committee, and that advocated by the Minority.

The former scheme was that "certain work, over which the State or municipalities have control, should be deliberately held over in times of good trade to be executed in times of depression. The idea, of course, is

that by this arrangement fluctuations in the demand for labour would be diminished, and, therefore, that, taking one year with another, the quantity of involuntary idleness would also be diminished” (Pigou 1911: 4). Such planning is made from a local rather than national point of view, and it necessarily does not resort to the public bond. Pigou generally approves of this type of public work scheme.

On the other hand, the latter scheme was that the state or municipalities should transfer works controlled by them from boom times to slack times, “not merely when that work is inherently spasmodic, but even when it would in the ordinary course have been regular.” This latter scheme is essentially different from the former one. Pigou explains the point as follows:

Let the resources devoted to the employment of labour at two points be represented by the symbols A and B. The schemes [proposed by the Majority Commissioners] ... are such as to increase the stability (A + B) either by increasing the stability of one of these two or by leaving the stability of each of them unaltered and so adjusting things that the high points of A's range of values synchronize with the low points of B's range. The proposals of the Minority Commissioners, however, go beyond this. They would endeavour to increase the collective steadiness of (A + B) even when in order to do this, it is necessary to decrease the individual steadiness of B. A policy of this kind will not in all cases diminish the quantity of involuntary idleness on the whole (Pigou 1911: 4-5).

Pigou points out that the scheme of the Minority Commissioners would increase the quantity of involuntary idleness, unless there were

sufficient labor mobility, and that the larger the measure of mobility is, the more likely it would be that the quantity of involuntary idleness would decrease (Pigou 1911: 5-6). Incidentally, this argument reappears in the final chapter of *Wealth and Welfare*, entitled "Philanthropic and State Action Designed to Lessen the Variability of the Demand for Labour." These are thought to have been influenced by Beveridge.

### 4-3 Distribution of Involuntary Idleness

Pigou's employment theory, as found in his early work, has been discussed thus far mainly in relation to his view on public work as a counter-cyclical policy. In contrast, his pioneering study on the distribution of involuntary idleness, which is also an essential component of that theory, has been almost completely disregarded. However, the problem of whether such idleness spreads widely and evenly over a large number of people or concentrates mainly among a small number of individuals is worth studying, especially "from the standpoint of social welfare" (Pigou 1911: 6-7).

Pigou lays down the following two propositions and examines them in turn: (1) involuntary idleness tends to be concentrated more narrowly, the smaller are the fluctuations in demand to which any form of labor is exposed, and (2) when the magnitude of these fluctuations is given, involuntary idleness tends to be concentrated more narrowly, the greater is the advantage that entrepreneurs can obtain by employing certain groups of workers, in preference to certain other groups (Pigou 1911: 7).

According to Pigou, the main reason behind the first proposition is that entrepreneurs can obtain general advantages by employing the same workers continuously, for those workers tend to enhance their abilities and efficiencies by engaging continuously at the same workplace. Therefore, among certain workers, involuntary idleness in a relatively

stable industry would tend to take the form of “unemployment,” or outright job loss: in other words, it would tend to be highly concentrated.

The reason for the second proposition is the discrepancy among the “efficiency wages” among various workers. Since less-efficient workers are more expensive for an employer, he or she must prefer to concentrate involuntary idleness on them alone, rather than distribute it, taking the form of “short time,” among all the workers. The extent of the discrepancy among efficiency wages depends in considerable measure on the system of wage payment: the piece-wage system, under which discrepancies are likely to be small, is favorable to the method of spreading the distribution of involuntary idleness, while the time-wage system, under which the discrepancy is likely to be large, is favorable to the concentration method. In the former method, involuntary idleness tends to take the form of “short time,” while in the latter method, it takes the form of “unemployment” (Pigou 1911: 8-9).

This argument implies that if we hope to achieve a more even distribution of involuntary idleness, then discrepancies among the efficiency wages of various workers must not be overly large. Incidentally, in *Wealth and Welfare*, we can see Pigou’s more detailed argument on the distribution aspect of involuntary idleness (Pigou 1912: Part 3, Chapter 4, “Methods of Engagement of Labour”). Furthermore, several paragraphs that deal with distribution, as found in the 1911 article, also appear later in the book<sup>19)</sup>.

#### 4-4 The Original Goal of Pigou’s Welfare Economics

In the concluding section of “The Problem of Involuntary Idleness,” Pigou refers to the circumstances of the time when he started to study

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19) Compare “The Problem of Involuntary Idleness” (Pigou 1911: 9-10) to *Wealth and Welfare* (Pigou 1912: 338-339).

the unemployment problem.

The truth is that some years ago I became ambitious to study the problem of unemployment. In pursuing that study I have found the subject so intertwined with many widely separated parts of economic science that any adequate discussion of it in a monograph devoted to it alone —to say nothing of a brief paper— has seemed utterly impracticable (Pigou 1911: 10).

Moreover, we see almost the exact same passages in the first paragraph of the preface of *Wealth and Welfare*:

Several years ago I began to study the causes of unemployment. It soon became apparent, however, that these causes are so closely interwoven with the general body of economic activity that an isolated treatment of them is scarcely practicable. Hence the gradual growth and more extended scope of the present volume (Pigou 1912: vii).

These two quotations suggest that the original goal or spur of *Wealth and Welfare* was to resolve the unemployment problem (Hutchison 1953: 284-285), and that in order to attain this goal, he needed to research not only the business cycle or “the variability of the national dividend” (*Wealth and Welfare*, Part IV), but also the allocation (*ibid*, Part II) and distribution (*ibid*, Part III) of resources. In a sense, Pigou’s monograph *Unemployment* (1913a) can be considered a sequel to that research program.

It should be noted that the standard theory on employment or on

the business cycle scarcely existed in the English-speaking world at that time: the period around 1910 was the very dawn of business cycle theory. Under such circumstances, Pigou “became ambitious” about studying it theoretically. His commitment to the research program was more serious than is generally appreciated; he continued, with great eagerness, to improve upon that theory after publishing *Wealth and Welfare* in 1912 (Pigou 1913a, 1913b, 1920, 1927, 1933).

## 5. Conclusion

The main point of Pigou’s welfare economics was to construct practical instruments by which to resolve the poverty problem which had been discovered by the well-known investigation of C. Booth. We could even say that this was the driving force that turned Pigou’s mind from philosophy to economics. The poverty problem was followed by the Poor Law Reform and Liberal Welfare Reform in the early 20th century. Pigou became the Professor of Political Economy at the University of Cambridge in the midst of these reforms, and it was at that time that he wrote his first large book, *Wealth and Welfare*.

In constructing such instruments, the most difficult and pressing challenge for him was to analyze systematically the causes of general unemployment. It is probable that he began to study this problem immediately after submitting “Memorandum on Some Economic Aspects and Effects of Poor Law Relief” (Pigou 1907a). One of the fruits of that work — albeit not at that time completely ripe — was “The Problem of Involuntary Idleness” (Pigou 1911).

We can draw three conclusions: (1) an important origin of Pigou’s economics is the discovery of poverty, made possible by the exploration of the activities of social workers like Booth, and (2) Poor Law Reform and Liberal Welfare Reform were at work in the background of the



formation of his welfare economics. In focusing attention on his deep and sustained interest in charity or other voluntary actions, we can consider his practical economics a blueprint for a welfare society. Additionally, (3) especially in the 1908-1912 period, we can even say that the formation of his welfare economics was driven by the very process of examining the unemployment problem.

The theory of industrial fluctuations or business cycles, embodied in Part IV of *Wealth and Welfare* and entitled "The Variability of the National Dividend"<sup>20)</sup>, should be considered an essential part of the book. In spite of it, the intrinsic connection between Pigou's welfare economics and the unemployment problem has been generally ignored in the conventional popular view; a historical study of Pigou's early work, however, shows that ignoring this connection is a fundamental error. The most important element in the formation of his welfare economics was his deep interest in the problems of poverty and unemployment.

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20) In the final chapter of the book, Pigou discusses the "Philanthropic and State Action Designed to Lessen the Variability of the Demand for Labour" (Pigou 1912, Part IV, Chapter IX).

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