Introduction: reinterpreting the history of welfare economics

Roger E. Backhouse

and

Tamotsu Nisizawa

Version 17, December 2006

1. Placing welfare economics in context

The standard history of welfare economics in the early decades of the twentieth century needs to be rewritten. It runs in terms of a conflict between two traditions, one associated with Pigou, the other with Pareto.¹ Until the 1930s, so the story goes, welfare economics was dominated by A. C. Pigou, whose two books, Wealth and Welfare (1914) and The Economics of Welfare (1920, 1932) effectively defined the subject. It was aggregative and based on utilitarianism, its ancestry going back, through Marshall and Sidgwick, to Bentham and the English utilitarians of the mid-nineteenth century. This “Cambridge” approach to welfare economics was based on the assumption that different individuals utilities could be measured and compared with each other. Against this was set what remained, till the 1930s, a continental European tradition, associated primarily with Pareto, but with its origins in Walras. In this tradition, there was no need to compare utilities,

¹ For examples of such accounts see Blaug (1997), Backhouse (1985).
differentiating it sharply from the Pigovian approach. Around 1930, English-speaking economists
took up the Paretian approach, showing that not only was there no scientific basis for interpersonal
comparisons of utility, there was no need for such comparisons. All the significant results of
welfare economics could be derived, using techniques such as indifference curves and revealed
preference. The key figure in this change, at least in Britain, was Lionel Robbins, whose *Essay on
the Nature and Significance of Economic Science* (1932, 1935) effectively served as a death notice
for Pigovian welfare economics, ushering in the so-called New Welfare economics, from which the
route into modern welfare economics can be traced.

We argue that welfare economics needs to be placed in a much broader context because doing so
not only helps explain the way it arose but also offers a very different perspective on the changes in
the subject that took place during this period. The most important elements in this context were the
following. Firstly, welfare economics arose at a time when academic disciplines were becoming
professionalized, as disciplines pursued by specialists within universities. Secondly, this was the
time when the foundations of the British welfare state were being laid. Finally, welfare economics
was not yet completely separated from religion. Our claim is that the history of welfare economics
is significantly distorted if it is told apart from this context. Welfare economics was a broader, more
pluralistic, endeavour than the conventional story implies, in which economists on the fringes of
academia played a role that, according to contemporaries, was as important as that played by
academics; and it was based on a much broader range of philosophical positions. This broader
history leads to a radically different viewpoint, in which the similarities between Cambridge
welfare economics, in particular Pigou’s welfare economics, and the approach inspired by Pareto
and endorsed by Robbins appear much more significant than the differences. They both sought to
render the study of economics scientific, through excluding ethical judgements that many of their
contemporaries were prepared to make. Furthermore, Pigou distanced himself considerably from
utilitarianism and even welfarism: paradoxically his main critic, Hobson used utilitarian arguments
in his critique of Pigou.
We start by outlining, in Section 2, the economists who were involved in discussions of welfare during this period, and their position in relation to, on the one side, professional academic economics and, on the other side, to providing the intellectual case for the welfare state. We then turn, in Section 3, to the philosophical views that inspired them. From there we paint a broader picture of welfare economics as a field, to which academics and various types of practitioner contributed, that we describe as pluralism in welfare economics. That pluralism is then analysed through discussing first Cambridge welfare economics (section 4) and second Oxford welfare economics and the welfare state (section 5). The asymmetry in the headings of these two sections arises because Oxford economists, in addition to contributing to welfare economics as the term was understood at the time, also became involved, to a greater extent than Cambridge economists, in the movement towards the welfare state. The effect of Robbins’s Essay on welfare economics is discussed in section 7. The final section draws more wide ranging conclusions, relating to both welfare economics and the welfare state.

2. Economists, the academy and politics

The story of welfare economics from the 1870s to the First World War centres on two figures: Henry Sidgwick (at Cambridge) and Thomas Hill Green (at Oxford). They were friends from an early age, whose careers had much in common. Both contributed to establishing ethics as an academic discipline, Sidgwick through his Methods of Ethics (1874), Green through his teaching at Balliol and, to a lesser extent, through his posthumous Prolegomena to Ethics (1883), and both were members of the group of “academic liberals” who entered politics in the 1860s. In their different ways, both were inspirational figures for their generation. However, their careers also diverged in ways that, quite apart from their philosophical differences, considered in detail in Section 3, help explain the difference between the welfare economics that came out of Cambridge and Oxford.

---

2 See Richter (1964: **).
3 Richter on Green; check Schultz on Sidgwick. Also Leavis on Sidgwick?
Sidgwick and Green were both members of the group of “academic Liberals” who sought to enter politics in the 1860s. Faced with the extension of the franchise to the working class, a process started with the 1867 Reform Act, they believed that academics had an obligation both to help educate the new electorate and to provide enlightened leadership. Education for newly-enfranchised adults was provided by the university extension movement. Leadership was to be provided by academics standing for Parliament. They were radicals, successors to the earlier Philosophic Radicals, wanting reform of society, in particular to reduce the role of the Church and the aristocracy. In 1868, nineteen of their number were elected and they were full of hope that Gladstone’s administration would fulfil this aim of reforming society on a rational basis. However, these hopes were rapidly dashed when it became clear that religious interests were still sufficiently strong to prevent the educational reforms that were needed. An Education Act was passed in 1870, but the radicals felt let down because it left the Churches in a strong position in providing education. Gladstone regrouped the Liberal Party, it was on the basis of foreign policy. The new electorate was revealed as conservative, and a barrier to reform. It was necessary to find a new way forward.

Another of the academic Liberals, Leslie Stephen, assessed the problem in the following terms:

For a solid reform therefore we must look to the gradual infiltration of sound beliefs through the whole social organism, which must end by bearing the fruit of an intelligent loyalty to trustworthy leaders. The change must be inward before it can be outward: no shuffling of the cards can make them all turn up trumps; it is a new force that is required, not a new machinery; and all constitution-mongering is thrown away till a new spirit has been breathed into the dead bones. (Stephen [1875], quoted in Harvie 1976: 198)

The relation between academia and politics needed to be re-assessed. In order to bring about this “inward” change, many Liberals retreated from Parliament, and resorted to single issue politics – the temperance movement, public health, public education and poor relief.

Sidgwick’s response was to explore the foundations of ethics, political economy and politics in a series of thorough tomes, each offering a meticulous analysis of the problem in hand. In response to
Marshall’s comment that his lectures failed to attract more than a handful of students (in contrast to the hundreds who were inspired by Green) Sidgwick responded [*** get quote from Harvie]. He laid the foundations for the Cambridge School of economics. Not only can Cambridge welfare economics be traced from Sidgwick through Marshall to Pigou, Sidgwick began the process whereby economists became academic experts, distancing themselves from direct political involvement. Sidgwick’s *Principles of Political Economy* (1883[1901]) used utilitarian arguments to make a case for government intervention that went beyond what his predecessors, such as Mill, had advocated, but he remained conservative in his outlook. Though briefly entertaining socialism in the ****, he soon to more traditional Liberal views. Thus he was involved in the Charity Organisation Society (COS) an organisation established in 1869 to tackle the problem of poverty by ensuring that poor relief was not handed out inappropriately, undermining its recipients’ ability to help themselves through harming their moral character.

Green also “retreated” to academia, and shared many of Sidgwick’s classical Liberal views. However, his teaching in Balliol had a very different effect. Unlike Sidgwick, Green remained within the Church of England, seeking to reinterpret Christianity as an ethical creed. Students came might come away from his lectures without having understood a word, but inspired by the call of duty. This consciously moral outlook on social problems was reinforced by John Ruskin, who became Professor of Fine Arts in 1869, offering a denunciation of the life-threatening values of commercial society and political economy. Perhaps their most influential student was Arnold Tonybee whose lectures on the industrial revolution used history to reinforce the the moral critique of capitalist society, though, like his teacher, Green, he resisted socialism: reform was to come about through improvement of character. He threw himself into the university settlement movement, and after his death, in 1883, at the age of 30, he was lionised as if a martyr. The combination of Green, Ruskin and Toynbee inspired a generation of students, including many historically-minded economists whose careers were dominated by questions of social reform. Even more than their Cambridge counterparts, many of them went into the extension and settlement movements,
exemplified by Toynbee trust and Toynbee Hall. Some retained Green’s liberal values, but others moved in a more collectivist direction, especially after the “bitter cry of outcast London” came to their attention in the 1880s (see Stedman Jones 1984). Bernard Bosanquet and J.H. Muirhead, like Sidgwick, were supporters of the COS. John Atkinson Hobson, Leonard Hobhouse and Graham Wallas moved towards the Fabians (though Hobson remained a Cobdenite Liberal in many respects). Of these, ‘The two Hobs’ became the leading intellectual spokesmen for a New Liberalism of social reform (Clarke 1996: 43).

In contrast, the Cambridge welfare economists became professional, academic economists in the modern sense. This was particularly so in Pigou’s case; while Marshall attempted the professionalization of economics in general, Pigou did for the economics of welfare, whose ‘official’ history starts with Pigou. Marshall’s principles begins by trying to show that what is good for economic man is normally good for ‘total man’; Pigou’s Wealth and Welfare begins by postulating this. The battle to professionalize economics was primarily a battle between those who saw it as a discipline comparable to the natural sciences and those who saw it as an adjunct to immediate social reform, the absolutist ‘trait’ method and the historical-relativist method (Maloney 1985, 183-4, 232). They sought to observe the positive-normative distinction and engaged in economic analysis that was separate from their policy advice. This analysis might be comprise dry logical dissection of problems (as in Sidgwick’s major books) or technical, mathematical arguments such as used by Marshall, or Pigou, or it might be analysis of specific problems of policy. A major exception was the Tariff Reform Campaign of 1903, where Marshall, Pigou and others sought to enter political controversy directly. Even here, however, they were seeking (with disastrous consequences) to impose the authority of an economic science that lay above the political arena.

In contrast, the Oxford economists and their students became involved much more in organisations designed to have a direct influence on policy or social reform. They might not seek to enter Parliament, but they did not retreat into academia; some became bureaucrats (for example, Llewellyn Smith, Michael Sadler, Beveridge) whilst others went into journalism (for example,
Hobson and Hobhouse). They became involved in groupings such as the New Liberals and the Fabian Society. Hobson and Hobhouse worked alongside politicians such as Samuel and Haldane (both Ministers in Asquith’s 1906 government) and Ramsey McDonald (later Labour Prime Minister). Olivier and Graham Wallas (both Oxford products) founded the Fabian Society with George Bernard Shaw and Sidney Webb. Perhaps more significant, there was no demarcation between the economic and the political; they were political economists in a fairly literal meaning of the term. This overlap of the political and the economic is shown most clearly in Hobson’s writing, where his ideas on welfare were developed not only in books that addressed the problem specifically, such as *Work and Wealth* (1914) but also in clearly political writings such as *The Crisis of Liberalism* (1909) or *The Social Problem* (1901), or in the close cooperation that developed between him, Hobhouse (who became Professor of Sociology at LSE) and Wallas (a Professor of Political Science). A similar difference in attitude is also found in economic and social history. John and Barbara Hammond, and R.H. Tawney, history could, in the tradition of Toynbee’s *Lectures on the Industrial Revolution*, be used to make a clearly political point. In the twentieth century many of this group were linked to LSE and they provided many of those whom Hamilton labelled ‘the English school of welfare economics’ (Hamilton 1919: 318).

In arguing that these two strands of thought – welfare economics and the welfare state – need to be considered alongside each other because they involved overlapping communities and that contemporaries did not draw the same dividing line as do modern economists, and in arguing that a crucial distinction that needs to be made in this context is between Cambridge and Oxford, there are several points that it is important to remember. The first of these is that, though it can be argued that ideas coming out of Oxford had more effect on politicians, and hence on the movement towards the welfare state, influence is hard to establish. For example, it has been argued that Hobson’s arguments about the surplus had more effect on the move towards progressive taxation in Lloyd George’s ‘People’s budget’ of 1908 than more orthodox utilitarian arguments. Hobson did move in the circles frequented by decision makers, and his views were certainly more important in
influencing the climate of opinion on taxation than his almost complete neglect among historians of academic economics would suggest. However, politicians pick up ideas from surprising sources. Toye (this volume) illustrates this by showing that Churchill and Lloyd George may have been persuaded to adopt certain welfare policies, not as a result of arguments by economists (however broadly defined) but by H. G. Wells. Wells, of course, was associated with the Fabians and thereby with the Oxford side of the division discussed here, but he was by no stretch of the imagination an Oxford economist. In his hands, ideas were given new twists. In the same way, Sidney and Beatrice Webb, who had even stronger connections, through LSE, with Oxford economists, and of whom Sidney was classified by Hamilton as a welfare economist (as was Cannan, another link between Oxford and LSE), were not themselves from that tradition.

3. Idealism, utilitarianism and morality

The two men who like at the roots of this period’s welfare economics, Sidgwick and Green, offered contrasting philosophical foundations for the subject: utilitarianism and idealism. However, despite this, they were both responding to the mid-Victorian loss of religious faith caused by the results of biblical criticism emanating from Germany and the evolutionary ideas associated with Charles Darwin and Herbert Spencer. They both struggled with this crisis of faith, the problems they faced resonating with those of their friends and students. Sidgwick is renowned for, in Keynes’s words, never doing anything but ‘wonder whether Christianity was true and prove that it wasn’t and hope that it was’.\(^4\) He sought, though his involvement in spiritualism, to recover the supernatural element lost with traditional Christianity; in his philosophy he sought to find a secular basis for ethics. Green, in contrast, sought to accommodate Christianity to the new developments: to reinterpret the Christian religion as a system of ethics that could stand independently of Christian dogma. In doing this, Sidgwick turned to the utilitarianism of Bentham and Mill, and Green, to the idealism of Kant and Hegel.

---

Sidgwick’s great work on utilitarianism was *The Methods of Ethics* (1874), a book which arguably changed the direction of moral philosophy away from discussion of ethical judgements themselves to discussion of the principles on which ethical judgements should be based.\(^5\) Though it argued the case for utilitarianism, it posed clearly the dilemma that dominated his ethical thought. He could not find a decisive reason why utilitarianism was better than egoism as a criterion for moral judgement. This meant that utilitarianism, the purpose of which was to provide a justification for ethical judgements, rested on an intuition. He might claim that this was an intuition shared by the relevant community – that there was a consensus among experts – but he had not provided a rational argument that should persuade a sceptic who did not share this intuition.

In contrast, Green was known as much for the ethics he espoused as for the philosophical basis on which he sought to ground them. It was not unusual for students attending his lectures to be baffled by the technical arguments, but to come away impressed with the speaker’s sincerity and passion: Green ‘transmitted earnestness with a charismatic force’ (Clarke 1978: 13). His ethics was one of social reform: challenging the Evangelical claim that faith was a matter of personal piety. This social gospel, to use an anachronistic term, was not new, but Green, unlike earlier Methodists and High Church figures, was dissociating it from traditional theological doctrines. In one of his highly influential lay sermons, one of the few things published before his death, Green concluded that though criticism had invalidated much traditional Christian doctrine, ‘it is not the reality of God or of the ideal law of conduct that is in question, but the adequacy of our modes of expressing them’ (Green 1888: 276). He went on to claim that ‘Faith in God and duty will survive much doubt’. It was an ethic of self-sacrifice, for ‘if once we have come to acquiesce in such a standard of living as must make us wish God and duty to be illusions, it must surely die’. The pairing of God and duty (twice in the last two sentence of his sermon) reflected a sense of duty that Sidgwick would wholeheartedly have endorsed, but such language was far from anything Sidgwick would have used.

The philosophical basis on which Green sought to base this Christianity-as-ethics was idealism,

---

\(^5\) This has been discussed in much more detail in Backhouse (2006), which contains further references. The principal ones are Schultz (2004) and Schneewind (1977). See also Collini (2001).
taken from Kant and Hegel. In Hegel’s hands, idealism was a conservative doctrine, but Green sought to turn it around and use it to ground social reform.

Green adapted idealism to the needs of those who wanted justification for the moral code of their parents; he gave conscience a social and political meaning, and gave an outlet to the strong sense of duty and obligation to serve, so characteristic of his generation. (Richter 1964: 12)

For Green, the world was the realization of a spiritual principle: an eternal consciousness (God) was realizing itself gradually but imperfectly in the human organism. Moral good was the realization of moral capability. Because the process was imperfect, people had a duty to help bring it about. In so doing, people were realizing their true freedom, doing not simply what they wanted to do, but fulfilling one’s capabilities according to the divine plan, or doing what was it was rational to do.

This view of freedom in terms of identification with an ultimate end has been seen as justifying totalitarianism (cf. Popper 1945). What frees Green from this charge is the values he placed at the centre of this process. He was committed to democracy and freedom; he argued that one had to recognise the rights of others and that the community had obligations to its members; he believed in social harmony. It was a major flaw in his philosophy is that these ethical principles were arguably not based on reason so much as on a will to believe. Yes this will to believe was characteristic of men of his generation for whom traditional Christian doctrines had become untenable. The idea that freedom meant freedom to do something worthwhile – that duty called for self-sacrifice – was what many of them wanted to hear. One of those who picked up this message was Arnold Toynbee, a student at Balliol from 1875-8, and who was on the verge of taking up a Fellowship there when he died, in 1883 at the age of 30. The spirit of Green’s religion was captured in the settlement movement, in which Toynbee had become involved, which involved middle class men moving into the slums and working alongside people there. The most influential such settlement was Toynbee Hall, in the East End of London, names in his memory.

6 This and the following two paragraphs draw very heavily on Richter 1964.
Some of Green’s students took up his idealistic philosophy, R. L. Nettleship, J. H. Muirhead, Bernard Bosanquet and F. H. Bradley being the most prominent. However, what was more important was that it was not simply a philosophical doctrine, but its influence was felt far more widely than that. One of the remarkable aspects of Green’s influence was its breadth. It lay beneath the substantially secular London Ethical Society, as well as the Christian Social Union and the Anglo-Catholic *Lux Mundi* movement. Politically, Green’s influence was also diverse. Bosanquet, C. S. Loch and the Charity Organisation Society focused on the reform of character: the aim of the COS was to making sure poor relief did not harm character by going to the undeserving poor. In contrast, for others such as the New Liberals, Hobhouse and Hobson, the effect of Green’s philosophy was to liberate them from the individualism of the Manchester School and nonconformist religion. Though the Cambridge School never took up Green’s idealistic philosophy, they shared many of his ideals. Sidgwick and Green were close friends. Marshall was exposed to Green’s lecturing in his year at Oxford and spent significant time studying Kant and Hegel. Marshall himself was an admirer of Toynbee and was a Trustee of Toynbee Hall. Students from Cambridge as well as Oxford flocked into the settlement movement.

A vital additional ingredient added to the intellectual and emotional stimulation coming from Sidgwick and Green was provided by Ruskin. His influence was so strong that one historian has gone so far as to claim that ‘It would be difficult to overestimate Ruskin’s position as cultural hero at Oxford in the 1870s’ (Kadish 1982: 32). Ruskin was neither Liberal (many of his views were extremely conservative) nor a philosopher, at least in the technical sense, but the moral values found in his analysis of culture and society could be used to offer a profound challenge to the values of political economy. *Unto This Last*, which first appeared in 1860 as ‘four essays on the first principles of political economy’, had as its stated aim to give ‘a logical definition of WEALTH’ for the first time in plain English. Following on from this, its second aim was to show that the acquisition of wealth was possible under certain moral conditions of society (Ruskin 1994: vii-ix). Ruskin defined value as ‘to avail towards life’ and declared that it was an intrinsic quality of things.
What varied greatly was the ability to appreciate and to use the valuable: Wealth was ‘The possession of the valuable by the valiant’ (Ruskin 1994: 118, 125).\(^7\) In final part he put it in one of his best known remarks: ‘There is no wealth but life. Life. , Life including all its powers of love, of joy, and of admiration’ (Ruskin 1994: 156).\(^8\)

4. Pluralism in welfare economics

In the period from around the 1880s to the 1920s, ideas on welfare economics were being developed by academic economists, concerned to give economics the authority of a science, by other academics pursuing the subject as part of a political analysis that could provide a framework for transforming British society, by political activists outside, or on the fringes of academia, and by administrators seeking administrative solutions to social problems. Arguments were based on utilitarianism, idealist philosophy, the moralism of Ruskin and on moral values taken straight from religion. Clearly, much of the resulting literature did not meet the academic standards laid down by Marshall and Pigou and, making judgements foreign to those of modern economics, does not look like welfare economics as it is understood today. However, it would be anachronistic to use modern standards to demarcate part of this literature as welfare economics and the rest as something else (such as political or religious tracts).

Evidence for this view comes from outside observers. When Walton Hamilton (1919) wrote of the English welfare school, be listed “Webb, Hobson, Cannan, Tawney and Clay” (Hamilton 1919: 318).\(^9\) Whatever the reasons for his exclusion of Pigou, Hamilton was associating with the idea of welfare economics a group comprising both academics and political activists involved in moves towards the welfare state. This was a group with whom he and his institutionalist colleagues in the United States had extensive links (see Rutherford, forthcoming). Similarly, Wesley Mitchell, in his lectures of 1919, also associated welfare not with Pigou but with Hobson. Paul Homan (1928) picks

---

\(^7\) The entire phrase is capitalised in the original.
\(^8\) The first seven words are capitalised in the original.
\(^9\) Which Webb is not specified, but presumably Sidney.
out Hobson as representing welfare economics. Outside Europe and the United States, the Japanese economist, Fukuda, and the Chinese economist Liu, also found inspiration for their welfare economics not in Pigou but in Hobson and Oxford idealism (see Nishizawa, below). It was perhaps no accident that Fukuda shared with Hamilton and Mitchell an institutional, ethical way of thinking that went back to the German historical school.

Almost paradoxically, further evidence is provided in Robbins’s *Essay* (1932), over a decade later, where it is clear that the main target is not Pigou (who receives only brief criticism, on what might be seen as a technical point) but Stamp, Hobson, Hawtrey and Cannan. Hobson, significantly, appears in both this list and Hamilton’s and Fukuda’s. The significant point here is that both Hamilton and Robbins are associating with welfare economics thinkers who, today, would not be taken seriously as welfare economists. The conclusion that should be drawn is that, in this period, welfare economics, in so far as it is appropriate to use the term to describe a body of literature that was not a precisely defined discipline, was pluralistic: it was approached in a wide variety of ways. As is argued below, the significance of Robbins’s *Essay* lies in the effect it had on this diverse, pluralistic field, not in any dispute with the Cambridge school.

4. Cambridge welfare economics

The conventional story of Cambridge welfare economics is too well known to require recounting in any detail. It runs from Sidgwick, who, though still very classical in his general approach to economics, used the notion that price was equal to marginal (not average) utility to argue for a distinction between two measures of wealth, one calculated through valuing goods at their market prices, the other through valuing them according to their average utilities. These two concepts were the basis for Pigou’s later title, *Wealth and Welfare* (1912). It was Marshall who, through his concept of consumers’ surplus, proposed a method whereby welfare (or at least changes in welfare) could be measured. Pigou then proposed a more general analytical framework through

---

10 See for example Blaug 1997.
distinguishing social costs and benefits from their private counterparts. In the hands of the Cambridge economists, the list of exceptions to laissez-faire, for which government action to remedy market failure, was greatly enlarged, first by Sidgwick and then by Pigou, in comparison to those recognised by Mill. Blaug (1997:***)) went so far as to claim that Pigou provided a virtual blueprint for the welfare state. The Cambridge economists thus used an aggregative, utilitarian framework to show how the state should intervene if welfare was to be maximized.

Though the conventional view clearly has some basis, but needs extensive qualification and revision. Though Mill was a utilitarian, he argues that individual liberty was paramount, which narrowed the scope of the utilitarian criterion: Sidgwick applied utilitarian arguments more consistently, arguing that in some cases they might trump arguments from liberty (Medema forthcoming). However, though Sidgwick worked out the implications of utilitarianism, in the absence of any quantitative evidence that might indicate the point at which the costs and benefits of utilitarianism might be balanced, he retreated from its implications, being fearful of the effects of redistribution on incentives (Backhouse 2006). In practice, therefore, he adopted a view that was more conservative, particularly in regards to distribution, than his utilitarianism would have suggested.

Marshall too, as Groenwegen (this volume) points out, held similarly conservative views on social policy: like Sidgwick, they were both supporters of the position held by the Charity Organisation Society, which focused on making sure that poor relief was given in such a way that it did not undermine the incentive to work. A dimension that Marshall added was that poor relief might serve to improve character, thereby raising productivity and possibly even paying for itself. Though he failed to anticipate the commitment to health provision that became one of the central elements of the welfare state, his emphasis on education moved in that direction. It fitted in with the emphasis, apparent in his application of consumers’ surplus analysis, on the importance of exploiting opportunities provided by increasing returns. Groenwegen points out that, though he was aware of the technical problems with his proposal for using a system of taxes and bounties to shift
resources into industries that exhibited increasing returns, his belief in the growth potential arising from increasing returns was so strong that he would not abandon the idea. There were thus two Marshalls. The pessimistic Marshall, evident in his public statements on the poor laws in the early 1990s, and his support for the Charity Organisation Society, was, like Sidgwick, very cautious and concerned not to undermine character through perverse incentives. The optimistic Marshall, on the other hand, saw the potential for raising productivity through education and exploitation of increasing returns. It was the optimistic Marshall who wrote on economic chivalry in 1907 and in the final edition of the *Principles*.

It is with Pigou that the problems with the conventional view are perhaps greatest. Suzumura (this volume) and Backhouse (this volume) point out that Pigou, though conducting much of his analysis within a utilitarian framework that has many classical features (such as aggregative analysis and focusing on weighing utility costs and benefits of various interventions) distanced himself considerably from utilitarianism. His use of the terms ‘satisfaction’ and ‘desiredness’ rather than ‘utility’ was significant. Furthermore, like Sidgwick, he drew back from many of the implications of his utilitarianism – implications to which contemporaries such as Hobson attached great significance. His reasons for doing so may have been pragmatic – that to assume that variations in wealth were in practice a good indicator of variations in welfare was to make possible ‘scientific’ analysis of welfare – but they nonetheless served to distance Pigou from utilitarianism.

There is also a great problem with the notion, particularly strong in the public choice tradition, that the Cambridge economists had an excessively rosy view of the possibilities for state action. The caution Groenewegen (this volume) identifies in Marshall reflects this. But this caution was part of a wide-ranging doubt about the scope for government action, which recognised (as does modern public choice literature) that government action was taken by politicians and bureaucrats, who were not only imperfect but had their own interests. There was a belief that the capabilities of the state were increasing, and that it could do significantly more than in the early nineteenth century, but its competence was still very limited. These remarks apply to Sidgwick, Marshall and
Pigou (Backhouse and Medema 2006). Medema (this volume) shows that when it came to applying his ideas, Pigou did not think, as the conventional picture suggests, of a sharp distinction between laissez-faire and state action, the latter being required only when market failures prevented laissez-faire from working properly. His argument was that laissez-faire was beneficial only because human institutions had been arranged to that it was so. Thus state intervention was not something apart from what was involved in all markets.

There is, in roughout the work of the Cambridge economists there is an attempt to construct welfare economics on scientific foundations. Sidgwick is important in philosophy because he moved ethics away from analysing what was or was not ethical behaviour into the analysis of the foundations on which ethical judgements might rest. His aim, therefore, was to ground ethics, and hence discussions of welfare, on foundations that might be termed scientific. However, whilst he clung to the intuition that utilitarianism could provided a ground for ethics, his successors in Cambridge drew a different conclusion. Particularly influential on Cambridge economics was G. E. Moore, who renounced utilitarianism completely. For Moore, good and bad were elementary qualities, apprehended directly: they could not be reduced to any other qualities. The principle underlying utilitarianism, that moral worth derived from something else, was flawed.

The Cambridge economist to explore this Mooreian analysis furthest was Ralph Hawtrey, towards the end of a general treatise on economics, *The Economic Problem* (1926). Though he accepted that ‘economics cannot be dissociated from ethics’ Hawtrey (1926: 184), his ethics was directly influenced by Moore: utilitarianism was flawed, for it presumed that pleasure or happiness was the right end to pursue. This was not necessarily true, and to think so was to participate in the ‘cult of individualism’ (Hawtrey 1926: 182). Welfare was, for Hawtrey, not an aggregate of satisfactions: ‘The aggregate of satisfactions is not an aggregate of welfare at all. It includes good satisfactions which are welfare, and bad satisfactions, which are the reverse’ (Hawtrey 1926: 215). Different individuals’ satisfactions are compared through feelings of approval and disapproval, ‘which the course of evolution has planted in our nature in regard to certain classes
of objects. ... In so far as other people have similar feelings of approval and disapproval, he and
they will find common ground in the search for a solution’ (Hawtrey 1926: 187). Welfare
judgements, therefore, had to be based on ‘the common ethical judgements of mankind’ – on those
judgements that are common to all ethical systems (Hawtrey 1926: 188). If mankind could not
agree, then Hawtrey had little to offer.

Though others would no doubt have differed from Hawtrey over the details, Hawtrey’s argument
against utilitarianism would have been shared by his Cambridge friends and fellow Apostles. The
most famous of them, Maynard Keynes, did not write on the theory of welfare, but his views would
not have been far from Hawtrey’s in relevant respects. Moore was his inspiration and he accepted
Moore’s rejection of utilitarianism. The good was an end in itself: activities were not good because
they yielded utility. This perspective would completely justify his drawing policy conclusions
directly from his economic theories: the value of maintaining a high and stable level of employment
was something that could be perceived directly, especially after the Great Depression. The same
was true of Beveridge’s scheme for social insurance. Unlike Pigou, he did not see the need for
offering utilitarian or other arguments as to why it was good to protect people from poverty. In his
discussions with Beveridge relating to the institutions of the welfare state (Marcuzzo, this volume)
he focused on the affordability of schemes for social insurance, but he did not adopt a Pigovian
approach of weighing its social costs and benefits against each other.

5. “Oxford” welfare economics and the welfare state

Oxford was dominated by idealism, as represented by Green and his disciples. Yet, although it is
arguable that idealist philosophy lay behind moves towards the welfare state in the early twentieth
century, its relationship with reform was very different from that between Cambridge utilitarianism
and the welfare state. Green’s ethics, as Shionoya (this volume) points out, was not collectivist (in
many ways he was a traditional liberal) but neither was it purely individualistic, for he saw individuals as developing and exercising their deliberative capacities in relation to other people. Self-realisation was thus achieved in relation to the common aims of a wider society. Though one might question whether this did more than express Green’s own ethical beliefs, it provided a framework for thinking about questions of welfare that inspired many of his students. The significant point, however, is that he inspired many who did not accept the idealist philosophy on which his ethics were based. Thus, though it is possible to speak of an Oxford tradition, encompassing those who came through Oxford, there was no direct link between idealism and what Hamilton called the English welfare school (even though most of their number came from Oxford and though some them were explicitly idealists) comparable to that between utilitarianism and Cambridge welfare economics. Though Oxford did produce economists who discussed questions of welfare directly (notably Hobson, Clay and Tawney) it also produced those who were involved as activists as much as thinkers (Bosanquet and Beveridge).

The most important of these Oxford economists was arguably Hobson (Backhouse, this volume). Hobson’s starting point was to complete Ruskin’s task of determining what were life-giving things, and to develop a human standard of value. He was never attracted to idealism, but shared with many of his fellow Oxford graduates a historical and organic approach. However, whilst he was a critic of Pigou, he was content to express himself in the language of utilitarianism: indeed, it is arguable that Hobson was taking seriously the statements made by Pigou at the beginning of *Wealth and Welfare* about how economic welfare was not the same as overall welfare. He used judgements inspired by Ruskin to drive a wedge between economic and overall welfare where Pigou, having acknowledge the distinction, proceeded to minimize its significance. Language of organicism was radically different from Pigou’s language, but in practice came close to Pigou’s social costs and benefits.

In making his critique, Hobson, inspired by Ruskin, was prepared to make a broader range of value judgements than Pigou was prepared to make. He was aided in this because he was not committed to being ‘scientific’: indeed, he explicitly attacked the idea of economic science, which
he associated with quantification and a mistaken search for exactness, and hence as implying a mechanical approach. To assess the relation between wealth and welfare, Hobson claimed, it was necessary to rely on a very broad range of value judgements, not to reduce the comparison to something mechanical. These values were based in consensus – in the common sense of mankind. Though there were limits to such agreement, these limits were, he contended, much broader than what his more orthodox contemporaries such as Pigou were willing to concede.

Henry Clay was another economist to come through the Oxford classics school. In a well-received textbook, *Economics: an Introduction for the General Reader* (1916), he started from the view that welfare depended on ethical views, and that it was nonsense to attempt to divorce the two. He proceeded to explain why wealth and welfare might differ. One reason concerned what he called the internal and external causes of welfare. The external causes of welfare are material goods, whereas the internal causes are factors, internal to the individual, which determine wants. In that it focused solely on the external causes of welfare, completely ignoring the internal causes, conventional economics was materialistic. ‘Materialism is the subordination of the internal sources of satisfaction to the external; most religions exalt the internal over the external, and teach that welfare lies in the former, to which the latter must be sacrificed: ‘The Kingdom of Heaven is within you.’ (Clay 1916: 447–8). This was enough to establish that the relation between wealth and welfare was dependent on a system of ethics. In addition, however, he offered more technical arguments, some of which overlapped with those recognised by Pigou, about why wealth and welfare might diverge, though his belief in the endogeneity of wants meant that he was more radical in his conclusions.

An argument to which Clay paid much attention was the argument that the business system was neutral, on the grounds that under a system of free enterprise activity will conform to the wants and tastes of the time, and hence the ethical values of the time. A system of free enterprise took account of demands and not needs; inequality in the distribution of income caused these to diverge, and those ‘who subordinate everything else to money-getting will exercise the greatest influence’
whereas those who ‘devote themselves to altruistic objects and neglect the pursuit of private wealth’ will have little influence (Clay 1916: 452). Furthermore, economic organisation interacts with moral standards (1916: 455–60). Under free markets many receive incomes for which no service has been provided (for example, the unearned increment of land values) which ‘obliterates’ the distinction between ‘social and anti-social effort’: ‘wealth is respectable however won, and great wealth is honoured, because it is powerful, whatever its source’ (1916: 460). The economic organisation of his day strengthened materialistic tendencies at the expense of idealistic ones.

Clay’s critique of materialism has much in common with Tawney’s critique of ‘the acquisitive society’ (Tawney 1920, 1921).11 Though they use different terminology, this similarity may not be accidental, for Tawney was described by Clay (1916: ix) as one of the friends who had read a substantial part of his manuscript. An acquisitive society was one where a priority was given to protecting economic rights, in particular property rights, whilst leaving economic functions to fulfil themselves (except under exceptional circumstances). Tawney argued that goods and activities had to be judged according to the contribution made to the public purpose. People were not isolated individuals but parts of societies that had common goals and purposes, or moral principles. However, individualism had destroyed these moral principles and the purpose, without which society could not exist. Utilitarianism did not provide such a purpose, for ‘to make happiness the object of society is to resolve society itself into the ambitions of numberless individuals, each directed towards the attainment of some personal purpose’ (Tawney 1920: 17). The existence of a common purpose provided a criterion by which to judge that some goods were better than others, and that some should never have been produced at all.

However, whereas some Oxford-trained economists moved towards more ‘organic’ conceptions of welfare, and were prepared to be critical of the capitalist system, others remained individualist. Bosanquet, for example, though idealist in his philosophy (alone among those considered here) remained committed to the liberalism of the Charity Organisation Society, opposing the attempt by

---

11 These represent three elaborations, at increasing length, of the same theme.
the Webbs to replace the poor law with institutions closer to ones we now see as representing the welfare state. (cf. McBriar 1987). Even if Tawney’s vision of a common purpose could be interpreted in terms of idealism, his ideals were very different from Bosanquet’s. Another Oxford economist who remained a Liberal, opposed to the Fabianism towards which many other Oxford economists (Hobson, Hobhouse, Tawney) gravitated, but who nonetheless had a profound influence on the welfare state, was Beveridge (see Komine, this volume). Though, early in his career, he saw himself as socialist, and even engaged with the Fabians, he espoused a very individualistic form of socialism, and for the rest of his career moved further away from it (Harris 1977: 88).

Beveridge exemplifies the way the Oxford of Green, Toynbee and their followers could inspire a passion for social reform that could result in action that eventually proved conducive to the welfare state. Beveridge’s genius lay in his ability His importance for the emergence of the welfare state lay in his administrative abilities, which enabled him to work out schemes that would work. Although their ethico-philosophical positions may have been different, he and Keynes were, as Marcuzzo (this volume) shows, able to think along similar lines. Differences in the theory of employment were more important.

7. Robbins and the science of welfare

The focus of Robbins’s Essay on the Nature and Significance of Economic Science (1932) was on economics as a science. In the field of welfare economics, it is conventional to focus on his argument that inter-personal utility comparisons, even though they may be inescapable in policy analysis, lie outside economic science, and to draw the conclusion that it was Pigou’s utilitarian welfare economics that was the target. However, if we see the previous two decades’ welfare economics as having diverse and pluralistic rather than monopolized by the Cambridge school, a very different picture emerges, in which Robbins is very close to Pigou.

To see the force of Robbins’s argument about economic science, it is helpful to look at the difference between Pigou and Hobson. As is argued here, their main difference did not lie in
utilitarianism, for both used a framework that was, at the very least, strongly influenced by utilitarianism: the real difference was that Pigou attached greater importance to being scientific, even though this meant narrowing the scope of welfare economics. At the beginning of Wealth and Welfare, Pigou argued that welfare comprised more than simply economic welfare:

Economic welfare, however, does not contain all welfare arising in this connection [the earning and spending of the national dividend]. Various good and bad qualities indirectly associated with income-getting and income-spending are excluded from it. It does not include the whole psychic return, which emerges when the objective services constituting the national dividend have passed through the factory of the body; it includes only the psychic return of satisfaction. Thus economic welfare is, as it were, a part of welfare. (Pigou 1912: 3-4; emphasis in original)

These were sentiments that Hobson (and many others influenced by Ruskin) endorsed wholeheartedly: much of Work and Life was an exploration of precisely these differences between what Pigou here calls ‘the whole psychic return’ and ‘the psychic return of satisfaction’. However, after recognising these differences, Pigou goes on to minimize their importance, arguing that economic welfare will generally be a good proxy for overall welfare. In other words, Pigou drastically narrows the scope of his inquiries in order to tackle them scientifically, making a much narrower range of value judgements than those that Hobson, Clay, Tawney, Hawtrey and others were thought it necessary to make.

Though he took it a stage further, this is exactly what Robbins was doing, a point that Hobson saw very clearly.

Supporters of Pigou contend that, if we introduce distinctively ethical criteria, we and ourselves in a region not merely outside measurable facts, but outside agreed facts. This is clearly put by Mr. Lionel Robbins [1927: 176]. “It is not because we believe that our science is exact that we wish to exclude ethics from our analysis, but because we wish
to confine our investigations to a subject about which positive statement of any kind is conceivable.” (Hobson 1929: 128).

Pigou and Robbins were both guilty of narrowing economics to what could be quantified and stated exactly, which forced them to play down the differences between wealth and welfare.

Thus when Robbins argued for the confining economic science to matters that did not rest on value judgements, he was continuing along a path already taken by Pigou. Thus his only explicit criticism of Pigou does not relate to measurability of utility, but to his argument that the measuring rod of money could be used to measure economic welfare (Robbins 1935: 2, 21). Robbins attacked the confusion wrought by economists’ failure to distinguish sufficiently carefully between the propositions of positive economic science and those that relied on ethical judgements. He was not arguing that economists should not make such judgements – to the contrary, he recognized that policy advice required them – but that they were not part of positive economic science, which dealt with the allocation of resources to achieve given ends. This was a criticism of the aggregative approach of Pigovian welfare economics, where aggregation requires that interpersonal comparisons of utility be made, even though Pigou had tried to avoid arguing in terms of utility.

6. Conclusions

We argue that welfare economics was, in the years before 1932, much more pluralistic than the conventional story admits. Alongside Pigou and Pareto, there were economists who brought ethical judgements different from Pigou’s into the subject, drawing its inspiration from a range of sources among whom T. H. Green and John Ruskin were arguably the most influential. It also brings out the parallels, neglected in the standard history, between Cambridge welfare economics and Oxford idealism.

Rather than dismissing the work of the thinkers who inspired the welfare state as political philosophers, or some other term that implies what they were doing was not welfare economics, we
claim that they should be taken seriously as welfare economists, and that they were seen as such by their contemporaries. What is conventionally considered welfare economics (the Cambridge School’s work) has to be seen alongside a variety of other work that did not meet modern criteria of what it means to do scientific economics. Although the terms ‘art’ and ‘science’ of economics were well established by this date, the distinction between the arguments about the welfare state (part of the art of economics) and welfare economics (the science) was not at all clear. It has been well-established that it is mistaken to view Marshall through the lens of modern economics; this is even truer of the profession as a whole, for the methodological conventions and distinctions that lie beneath contemporary work were not then established.

Once this change of perspective is made, Robbins’s essay appears in a very different light. Its prime aim was not to criticise Pigou, but to engage with and reject the ideas of this broader group of thinkers whose ideas differed radically from those of either himself or Pigou. The effect of his essay was to exclude from the discipline a group thinkers whose ideas had previously been considered important contributors to welfare economics. Many of the thinkers whose work was thereby excluded from the canon of welfare economics, came not from Cambridge but from Oxford. With the reaction of philosophers, after Russell and Moore, against idealism, the philosophical foundations of their work became invisible.

However, though their work was pushed out of welfare economics, the New Welfare Economics of Hicks and others owing even less to their work than to Cambridge, it was thinkers coming out of the Oxford tradition who arguably had most influence on the the set of policies that came to be known as the welfare state. This group comprised not only philosophical idealists but those inspired by Ruskin and the “rational bureaucrats” of whom Beveridge was the outstanding example. That their moral arguments could not be proved and that they blurred what economists from Marshall to Robbins thought were the proper boundaries of economic science, did not cause their ideas to lack persuasive power. The thinkers, such as Hobson, the Webbs or Beveridge, who made the case for the welfare state, are an important part of the history of welfare economics.
References


