Preliminaries

Pigou’s economics is generally understood as a body of policies, particularly ‘Pigouvian’ taxes and subsidies, designed to maximize economic welfare. This view is embedded in leading economics textbooks, the basis of the early socialization of economists and the principal artefacts in which ideas are institutionally certified as economic truths. Older books identify presumptively Pigouvian policies by attaching his name to them. Newer texts retain the policies but drop his name, indicating the extent to which the received view is woven into the conventional wisdom of the field. One notable result of this reading of Pigou is the ‘Pigou Club’ founded by Gregory Mankiw. Numerous economists have been inducted as members, amongst them Gary Becker, Robert Frank, Paul Krugman, Nouriel Roubini, and Lawrence Summers.\(^1\) Pigou’s place in the disciplinary consciousness of contemporary economics is nicely documented in a remark by William D. Nordhaus in an essay on the economics of energy use. Taxes on negative externalities, Nordhaus observes, are ‘sometimes called Pigouvian taxes after their first important advocate, English economist Alfred [sic] Pigou’ (Nordhaus 2011, 30). So much for the conventional view of Pigou’s thinking.

Although Pigou assessed the economic policies of his time, his judgements were invariably prima facie, guarded, and hedged and qualified by a formidable array of restrictive and contingent variables: the significance of the problem at stake; the conditions under which it could be addressed given existing circumstances; the analytical tools, data, and competent personnel – economists, civil servants, and political leaders – available for handling the problem; and the potentially damaging consequences, both economic and extra-economic, of adopting policy
proposals. In other words, there are no definitively Pigouvian economic policies. Pigou was a logician of policy analysis, not a proponent of specific economic policies. Nor was he the architect of a general system of policy analysis – for the compelling reason, as we shall show, that he believed such a system is impossible.

In the ensuing, we explore Pigou’s theory of policy analysis and some of its more significant implications. Pigou developed what he called a ‘machinery’ of thought, favouring, as he often did, Marshall’s mechanical metaphors. The Pigouvian machinery constituted a blueprint for a metatheory of economics, specifying the conditions an analysis of economic policy should satisfy in order to qualify as scientifically legitimate. Employing his metaphor, he was an artificer of the tools that comprise the economist’s toolbox as well as an artisan who employed them to investigate the conditions under which specific economic policies can be expected to succeed in solving concrete problems of economic wellbeing.

Policy and policy analysis

Pigou’s theory of policy analysis is defined by several premises. Some he stated explicitly and stressed repeatedly. Others are tacit assumptions. He arrived at these principles in early manhood and adhered to them with remarkable consistency. There is a strong sense in which his conception of the aims of economic analysis and what it means to be an economist had their source in the reformist social thought of late Victorian progressives, the Edwardian New Liberals who became prominent in the early years of the twentieth century, and his engagement in the tariff reform controversy.

Economists do not make economic policy, which lies in the province of politics. Economic policy is a responsibility of political leaders, whom Pigou, borrowing language from Plato’s Republic, occasionally called ‘philosopher kings’, with what sense of gravity, levity, or irony it is difficult to judge (Pigou 1939, 220). Economists analyse effects of alternative policies, spelling out their consequences for the size, distribution, and stability of the national dividend. The choice amongst these alternatives is not a legitimate question for economics, which is a purely ‘positive’ science. It can substantiate no judgements about what measures should be taken or what ought to be done, because its conclusions are restricted to propositions that can be established by logic and empirical investigation. In Weberian language, economic policy analysis is value-neutral. It cannot validate norms and is limited to clarifying the substance of