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A.C. PIGOU

# THE ECONOMICS OF WELFARE

VOLUME ONE



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## PREFACE TO THE THIRD EDITION (1928)

IN preparing this revised third edition, I have removed a number of minor errors and have made, I hope, some improvements in analysis and exposition. I have also tried, so far as possible, to bring my references to facts and laws up to date. The main changes in the structure of the book are as follows. A portion of what used to be Chapter VIII. of Part IV. and the Appendix entitled "Taxes on Windfalls" are omitted, as the matters there discussed are now dealt with in *A Study of Public Finance*. The following Chapters are new: Part I., Chapter IV.; Part II., Chapter VIII.; Part III., Chapter XVI.; Part IV., Chapter VII. Chapter XI. of Part II. replaces, under a new title, what used to be Chapter X. and has been entirely rewritten. The first five divisions of Appendix III., which are concerned with the subject-matter of that Chapter, are also new. In these divisions I have made free use of an article entitled "An Analysis of Supply," which appeared in the *Economic Journal* in June 1928; and in the new Chapter VII. of Part IV. I have used part of an article on "Wage Policy and Unemployment," which appeared in the same journal in September 1927.

The scheme of the book, which is displayed in more detail in the Analytical Table of Contents, is as follows. In Part I. it is argued, subject, of course, to a large number of qualifications, that the economic welfare of a community of given size is likely to be greater (1) the larger is the volume of the national dividend, and (2) the larger is the absolute share of

that dividend that accrues to the poor. Part II. is devoted to a study of certain principal influences of a general kind by which the volume of the dividend is affected, and Part III. to a study of influences specifically connected with labour. In Part IV. the question is raised in what circumstances it is possible for the absolute share of the dividend accruing to the poor to be increased by causes which at the same time diminish the volume of the dividend as a whole; and the relation of disharmonies of this character, when they occur, to economic welfare is discussed. The two Parts contained in the first edition, which discussed respectively the Variability of the National Dividend and Public Finance, are omitted from this, as they were from the second edition. Their subject-matter is now treated more fully in my *Industrial Fluctuations* and *A Study in Public Finance*.

I have done my best, by restricting as far as possible the use of technical terms, by relegating specially abstract discussions to Appendices, and by summarising the main drift of the argument in an Analytical Table of Contents, to render what I have to say as little difficult as may be. But it would be idle to pretend that the book is other than a severe one. In part, no doubt, the severity is due to defects of exposition. But in part also it is due to the nature of the problems studied. It is sometimes imagined that economic questions can be adjudicated upon without special preparation. The "plain man," who in physics and chemistry knows that he does not know, has still to attain in economics to that first antechamber of knowledge. In reality the subject is an exceedingly difficult one, and cannot, without being falsified, be made to appear easy.

In publishing so comprehensive a book, I have had to face one somewhat special difficulty. Legislative and other changes both here and abroad are so numerous and rapid that some of the legal enactments and general conditions to which I have referred in the present tense are certain, by the time the book

is in the reader's hands, to have been superseded. I do not think, however, that the impossibility of being completely up to date in a world of continuous change matters very greatly. For the illustrations I have used are not brought forward for their own sake. The service I ask of them is to throw light on principles, and that purpose can be performed as well by an arrangement or a fact that lapsed a year or two ago as by one that is still intact.

I would add one word for any student beginning economic study who may be discouraged by the severity of the effort which the study, as he will find it exemplified here, seems to require of him. The complicated analyses which economists endeavour to carry through are not mere gymnastic. They are instruments for the bettering of human life. The misery and squalor that surround us, the injurious luxury of some wealthy families, the terrible uncertainty overshadowing many families of the poor—these are evils too plain to be ignored. By the knowledge that our science seeks it is possible that they may be restrained. Out of the darkness light! To search for it is the task, to find it perhaps the prize, which the "dismal science of Political Economy" offers to those who face its discipline.

A. C. P.

KING'S COLLEGE,  
CAMBRIDGE, November 1928.

## NOTE TO THE FOURTH EDITION (1932)

THE principal changes made in this edition affect Chapter IV. and Chapter VI. §§ 12-13 in Part I.; Chapter XI. § 2 and Chapter XV. in Part II.; and Chapter IX. §§ 2-3 and Chapter XIV. § 1 in Part III.



## NOTE TO REPRINT (1952)

THE last revised edition of this book was published in 1932, since when there have been a number of reprints. As the book is still in demand, I should naturally have liked to undertake a thorough revision of it, taking account both of recent writings and of changes that have taken place in the facts and in the laws to which I have referred. But, apart from the fact that the printing has been stereotyped, that would have involved an amount of concentrated effort of which I am not now capable. Rather than a botched patchwork, it seems better to leave the body of the book as it is. There are, however, several matters on which I should like to emend or amplify what I have written and several more recent approaches to which I should like to refer. I have therefore added new Appendices (numbers IV to XI), mostly reproducing or based on articles written by me and relevant to the subject-matter of the book. Except in Appendices VIII and IX, I have not drawn on *The Economics of Stationary States*. Nor have I added anything about monetary analysis or the ideas associated with Keynes's *General Theory*. In the main these relate to a terrain—covered to some extent in my *Employment and Equilibrium*—outside the scope of this book. Recent difficult discussions about utility and “the new welfare economics” are, of course, relevant; but I have not felt competent to discuss them in their technical aspects, only in the “plain man” manner of Appendix XI.

A. C. P.

Sept. 1951

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to different purchasers of ton-miles of transportation, so far as the ton-miles sold to different purchasers are not "jointly supplied." §§ 3-4. The common view that railway services are in large part jointly supplied—that the carriage of copper and the carriage of coal, or the carriage of coal destined for A and the carriage of coal destined for B, over a given piece of line are joint products—is incorrect. § 5. However, some measure of jointness, as, for instance, between out and home journeys, does in fact prevail. § 6. The meaning in concrete form of "the value of service principle" is explained. §§ 7-8. "The cost of service principle" corresponds to simple competition, and "the value of service principle" to discriminating monopoly of the third degree. In general, the former is the more advantageous to the national dividend; but, as stated in the preceding chapter, circumstances may arise in which the latter is the more advantageous. §§ 9-10. These circumstances, however, are less common than writers on railway economics usually suppose. § 11. Moreover, such benefit as the "value of service principle" is competent to bring about can often be attained more satisfactorily by means of a bounty. § 12. The policy of permitting discriminating charges, subject to the condition that profits are prevented from rising above the normal, is discussed. § 13. Lastly, something is said of zone systems of railway tariffs.

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