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Ian Kumekawa, *The First Serious Optimist: A.C. Pigou and the Birth of Welfare Economics*, Princeton University Press, 2017, 346 pp. $35 Hardcover

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1. Introduction

Before there was Keynes, there was Pigou. Both students of the acclaimed Alfred Marshall, both went on to make foundational contributions to economic thought. Keynes's star in macroeconomics surpassed Pigou, but Pigou's contribution to micro and welfare economics are pinnacles in their own right. The late 19th and early 20th century Cambridge economics faculty is frequently over looked by the more recent developments in economics by the University of Chicago and Massachusetts Institute of Technology. Nonetheless, the Cambridge contributions from Marshall, Pigou, Keynes, and Joan Robinson rightfully form what can be classified as a Cambridge School of Economic Thought. Ian Kumekawa has written a biography of Arthur Cecil Pigou in *The First Serious Optimist: A. C. Pigou and the Birth of Welfare Economics*—a member of the Cambridge School—who may be among the most overlooked member relative to the contributions he made.

Born in 1872, Arther Cecil Pigou was drawn to economics by his interest in history, where he was a student under Oscar Browning at King's College, Cambridge. Also interested in philosophy, ethics, and morals—interests that were related to his work in welfare economics—he experimented with an economics course taught by Alfred Marshall, after which he changed his major to economics. A foundation of modern neo-classical economics is constrained optimization and demand theory. Pigou

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did not start the marginalist revolution that became modern neoclassical economics but was integral in its development. Mistaken by the original belief in cardinal utility, Pigou nonetheless extended the use of diminishing marginal utility to address questions in welfare economics. Like many of the academic elites of 19th century Britain, Pigou thought society is better–off by redistributing resources from wealthy individuals who had small marginal utilities from the last unit of consumption to low income individuals who had higher marginal utilities of income. Pigou, subsequently, favored an active role for the state and redistribution to increase economic and social welfare (Pigou, 1951, p.300).

While Victorian London was segregated by socioeconomic status, there was a Cambridge ideal that advocated economists' ability to improve the lives of individuals. At the end of the late 19th century England, a question that challenged economists was the consequence of a tariff, and the Cambridge economists were equipped with the tools of welfare economics to analyze the free-trade policy question (Pigou, 1912). The answer to the free trade question was addressed by late 19th century economists was that free trade is the way to wealth, and that conclusion still rings true among modern neo-classical economists. It was welfare analysis that made A.C. Pigou a free-trade liberal. The use of welfare economics to analyze the overall effects of policy continued the evolution of economics as a policy discipline, which persists to the modern era. However, the young Pigou did not advocate for economists to be politically active but maintained that they remain above the fray by only offering an objective, informed perspective by theory and evidence.

Keynes is frequently cited as among the economists who independently developed macroeconomics, as if he worked in isolation to generate a plethora of new ideas. However, trade-cycles were common questions of the time in Cambridge and in Austria. Hayek and the Austrians considered macro monetary issues, and economists at the time—Richard Kahn, Pigou, and other Cambridge economists—considered macro-economic issues and the role of the state over the course of the trade cycle. As a scholar who saw the benefits of activist government intervention, Pigou promoted the role of government intervention changing over the trade cycle. Classical and neoclassical economists typically view markets as efficient and the role of government limited. However, as a liberal economist, Pigou's ideas were related to the political transition of the term liberal to be aligned with the modern interpretation of government involvement in the economy rather than its historical classical interpretation of minimal government intervention.

More insightful to the history of microeconomic demand theory, Pigou considered—but did not fully develop—Slutsky's decomposition, compensating variations, and equivalent variations. It was John Hicks and Nicholas Kaldor who extended Pigou's views of government's role in redistributing wealth to address economics and social inequalities to make agents "better-off" through government redistribution with compensating and equivalent variations. Although Hicks attended Oxford University, he was influenced by welfare analysis and the Cambridge economists when he developed compensating and equivalent variations.

Pigou was also instrumental in constructing one of the most important applications of welfare economics applied to producer theory and industrial economics. Antiseptic microeconomic allocation explanations from Augustin Cournot's duopoly and single-price monopolies can leave untrained economists with a sterile interpretation of the "black-box" approach to firm behavior, where firms are one-dimensional and only maximize profit by setting marginal revenue equal to marginal cost (Schumpeter, 1942). At its core, marginal analysis offers a profound explanation for optimal production and allocation rules, but such simplistic behavioral rules rob economic theory of its value. The single-price monopoly, like the perfectly competitive firm, is an extreme case where only one firm produces a unique, non-replicable product and has important explanatory insights for a firm with market power. Cournot's duopolies and single-price monopoly models are bench-marks by which contemporary anti-trust policies are evaluated and are productively employed in various instances of international trade and competition policy. However, it is Pigou's price discrimination, published in his 1920 *The Economics of Welfare,* that flushes out the contemporary views of price-discrimination that have such value-added microeconomic producer theory applications in the contemporary period that are absent in other approaches to commerce. For example, the large social media firms Google and Facebook's business models rely on gathering customer information that they sell to down-stream firms who are better able to target their customers and increase profitability by estimating customer reservation prices, discriminating on price, and extracting consumer surplus. Pigou's price discrimination adds considerable explanation to firm behavior for a sole proprietor, who when unable to set single prices for each customers, charges different prices to different customers. Combined with matching theory, microeconomic producer theory now has the best applied theory to explain producer behavior, the Information Economy, and how firms behave in practice, reverting back to Pigou's ideals of consumer surplus and price discrimination.

While Ian Kumekawa's *The First Serious Optimist* is a value-added contribution to the history of economic thought, there are shortcomings. From a historical perspective, Kumekawa's contribution adds much to the life of one of the most important but frequently overlooked developers of microeconomics. The narrative is superlative. Nonetheless, *The First Serious Optimist* is written primarily from a historian's perspective and does not put the intellectual rigor of economic theory into context. Nonetheless, the book is well-written, and historians, economists, and social scientists are well-informed by its coverage of this under appreciated economist who added much to the development of economic science.

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