

Pigou's Early Opposition to Protective Tariffs and the Three Propositions of Welfare Economics

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Because Pigou had developed an economic theory and policy around the problem of welfare, in this paper I devote particular attention to the theoretical basis for Pigou's initial opposition to the protective tariff. My purpose is to clarify how the theory behind his criticism contributes to an understanding of Pigou's economics. The three main points may be summarized as follows.

First, Pigou already had an established interest in the relation between national dividend (income) and welfare when he formulated his criticism of protective tariffs, and he recognized that national dividend and welfare would increase and decrease by the same direction. He backed his objection to protective tariffs with a close examination of how they would operate to raise or reduce the national dividend. The significance of these ideas becomes clearer when it is shown that, at that time, Pigou had, quietly, formed the theoretical directionality that later would emerge

in his welfare economics.

Second, Pigou's discussion of the influence of protective tariffs on labor, employment, and unemployment considers the problem of industrial fluctuation and stability in annual income and how industrial fluctuation determined incomes of the poor. He recognized, in other words, the relation of protective tariffs to the "third proposition of welfare economics." In this, Pigou seems to demonstrate an understanding of the basis of unemployment and business cycle theory of later years.

Third, Pigou did not object in principle to protective tariffs and protection. Rather, he tried to deal with the question of protective tariffs and protection by considering the stage of development of a nation's economy and society.

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