

The Road Example from

the other sources.¹ This result is of considerable theoretical importance, because it is in direct conflict with the widespread opinion that, apart from certain possible indirect effects, differential taxes are necessarily wasteful and necessarily cause people to obtain what they want by a more costly, instead of by a less costly, route. This opinion is incorrect, and the nature of the error can be easily illustrated. Suppose there are two roads ABD and ACD both leading from A to D. If left to itself, traffic would be so distributed that the trouble involved in driving a "representative" cart along each of the two roads would be equal. But, in some circumstances, it would be possible, by shifting a few carts from route B to route C, greatly to lessen the trouble of driving those still left on B, while only slightly increasing the trouble of driving along C. In these circumstances a rightly chosen measure of differential taxation against road B would create an "artificial" situation superior to the "natural" one. But the measure of differentiation must be rightly chosen.

§ 5. What has been said in the preceding paragraphs exhausts the topic, which, if the logical scheme of this work is strictly adhered to, is proper to the present place. For the relation between the magnitude of the national dividend and economic welfare was examined in a general way in Part I., and Part II. has been reserved for a discussion of certain influences by which the magnitude of the national dividend is affected. After all, however, logical arrangement is a servant, not a master, and may be disregarded for sufficient cause. In the present instance such cause exists. The fact that individual producers, in determining their investments under simple competition, disregard an element in the marginal trade net product, namely, the indirect effect exercised upon the costs of other producers, is interesting to us *primarily* because it makes the national

¹ The whole of the above remarks apply to joint products as well as to commodities produced in isolation. But a peculiar effect is possible when a tax in kind—not an ordinary tax in money—is levied on one of two joint products. If the elasticity of demand for one of them is less than unity, a tax in kind on that product will increase the output of both products, thus positively benefiting the consumers of the other product and, in some conditions, adding to the aggregate sum of consumers' surplus.

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dividend smaller than it might be. But this fact itself is only interesting to us *ultimately* for the reason that, generally speaking, anything that affects the national dividend injuriously also affects injuriously the sum of economic welfare. Therefore, there exists a fact precisely analogous to the one we have been discussing, which exercises an influence upon national welfare directly, and not through the national dividend, it would be mere pedantry to refuse to discuss it here. A precisely analogous fact of the kind described does exist. Just as the investment of an increment of resources sometimes yields an indirect product, not taken account of by the investor, through its effect on the productive efficiency of other people's resources, so also it sometimes yields an indirect product by affecting the *amount of satisfaction which other people derive* from the consumption of a given quantity of commodity. This form of indirect product may be either positive or negative. Among commodities, the desire for which is partly a desire to possess what other people possess, the creation of the 1000th unit adds more to the aggregate satisfaction than it actually carries itself, because it makes every unit of the commodity more common. Top-hats are examples. Among commodities, the desire for which is partly a desire to possess what other people do not possess, the creation of the 1000th unit adds less to aggregate satisfaction than it actually carries itself, because it makes every unit of the commodity more common. Diamonds are examples.¹ Among industries whose products are desired for their own sake, and not as means to any form of distinction, the creation of the 1000th unit adds to aggregate satisfaction exactly as much satisfaction as it carries itself. On the basis of this analysis, practical inferences analogous to those set out in § 4 are easily obtained. In every industry, the desire for whose products is enhanced

¹ It should be added that, when commonness or rareness is an element in the esteem in which a person holds a thing, it is often not general commonness or general rareness alone, but, in many instances, both commonness among one set of people and also rareness among another set. As Mr. McDougall writes of the followers of fashion: "Each victim is moved not only by the prestige of those whom he imitates but also by the desire to be different from the mass who have not yet adopted the fashion." (*Social Psychology*, p. 336). This aspect of the matter cannot, however, be pursued here.