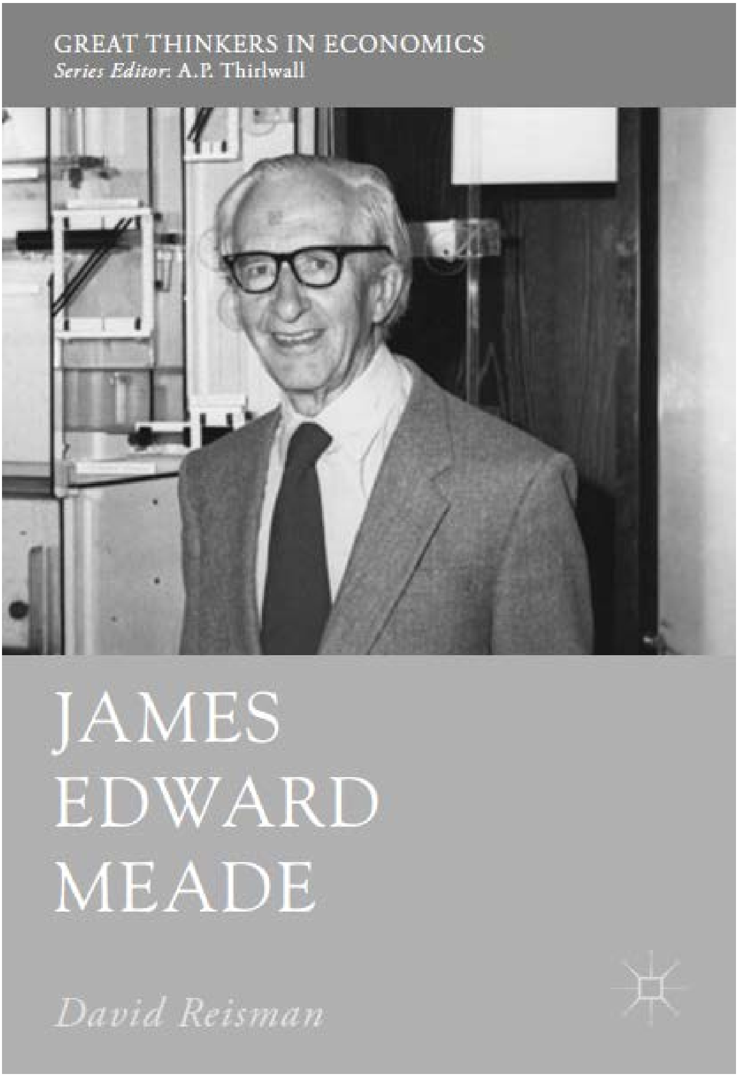
David Reisman

James Edward Meade



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Introduction

Adam Smith was a missionary. He wanted to use economic growth to improve the living standards of the 'servants, labourers and workmen' who make up the 'far greater part of every great political society': 'What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole' (Smith 1961 [1776]: I, 88). Alfred Marshall was a missionary. He looked to industry and science to empower all classes not only to purchase 'more food and clothes, more and better supplies of water, artificial light and heat' but to share to the full in 'an increase of intelligence and energy and self-respect' that had never been equalled before the white heat of steel: 'The consumption of tea is increasing very fast, while that of alcohol is stationary' (Marshall 1949 [1890]: 75n, 450, 574). Both Smith and Marshall had contemplated a career in the church. Both had decided in the end that they would contribute more to material and moral betterment if they went into economics instead.

James Meade followed in the footsteps of giants. He became an economist 'because he abhorred mass unemployment' (SWF, 13). He remained an economist because he abhorred the 'huge and growing disparities of wealth' (SWF, 13) that were distancing the haves from the excluded at

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home and abroad. Master as he was of abstract theories, restrictive assumptions, logical a prioris and mathematical models, Meade was politically and socially engaged. He called himself 'an inveterate explorer of improvements in economic arrangements' (CP III, 275). If he studied the differential equations and the simultaneous techniques, it was, in his perception, because of 'the contribution which pure economic analysis can make to the formation of economic policy' (BOP, vii). Meade pursued economic theory 'not as an end in itself' but as a means for 'improving the economic and social organisation of the country' (Cairncross 1995: 12). He was widely respected not just for the depth and breadth of his scholarship but because he had a commitment to the big issues.

Meade wanted to do good, and to do good through economics. The passion came first. Alec Cairncross and Nita Watts, who knew him well, describe him as 'both a scholar and a prophet, with a vision of how the economy should work and a clear understanding of what made it work as it did' (Cairncross and Watts 1989: 54). His principal concern, as he declared in 1957 in his LSE Inaugural Lecture, had always been with 'the contribution which economic analysis has to make to the solution of problems of practical economic policy' (PPM, 101).

In the introduction to his *Balance of Payments* he alerted the reader to the service, the duty and the relevance that would be guiding him through the maze: 'This volume is the work neither of a tool-maker nor of a tool-user but of a tool-setter' (BOP, vii). He would be making the tools and using the tools. Most of all, he would be selecting the tools. He would be choosing the tools in the light of the work which was there to be done: 'It is my settled conviction that modern economic theory—so far from being a frivolous or merely academic study—can lead to certain important and beneficial truths' (MP 2/12). Economics has consequences. Meade has consequences. Good works are always a good thing.

Meade came to economics, like Smith and Marshall, first and foremost because he was 'interested in the possible improvement of society' (SWF, 13). He never allowed the means to crowd out the end or the pyrotechnics to crowd out the priorities. Solow was only one among many to recognise what Meade was trying to do: 'Book after book is directed at urgent issues of economic policy, at Making Things Better. If you have to be obsessed by something, maximising real National Income is not a bad choice' (Solow 1987: 986).

Meade wanted economic reasoning to be applied productively for the good of all. It was not economics for the sake of economics but rather economics because the real-world problems of 'full employment', 'social equity', 'economic efficiency' and 'personal freedom' (CP II, 285) were ongoing challenges to the specialist who had the skill. Meade, Atkinson writes, 'had a vision as to how social and economic institutions could be reformed to make the world a better place, and he believed in the power of rational argument as a means to bring about these reforms' (Atkinson 1996: 90).

Of course the temptations were there. Meade knew that he was being pulled in one direction by high theory, in the other by reality and commitment. Looking back on his life, he recalled that he had 'tried in his time to be an Economist; but Commonsense would keep breaking in' (SWF, 22). Smith and Marshall had stood at the same crossroads. They had opted for both turnings because each turning was the best. Meade sought to follow his giants not just into the mixed economy but into the mixed economics which does what it has to do in order to do good. If a manifesto is required, it would have to be this: 'There is a place now for the modern equivalent of the old Political Economist' (SE, 8).

1.1 Oxford and Cambridge

James Edward Meade was born on 23 June 1907 at Swanage, Dorset. He died in Little Shelford, Cambridgeshire, on 22 December 1995. Meade's father was a man of independent means. Brought up in a High Church family, the biblical catechism by his early 1920s had given way to agnosticism: 'I do not believe in all the Christian theology and dogma' (CP IV, 268). As a Newtonian and a scientist, he found it difficult to take any idea or ideology on trust. The religious values of service, duty and compassion did, however, linger on. Once he had married into a Quaker family, he was exposed to Quaker values and the Quakerly way of life. It suited his secular egalitarianism well.

Meade's childhood was spent in Bath. Thereafter it was preparatory school, public school and ancient university. Educated at Lambrook School and Malvern College, he went on an open scholarship to Oriel College, Oxford, in 1926, where he obtained a First in Classical Honour Moderations ('Greats') in 1928 and then another First in Philosophy, Politics and Economics (PPE) in 1930.

Even as a student of classics, Meade was anxious to probe beneath the ideas of Plato, Aristotle, Euripides and Xenophon (all of them studied and cited in Greek) to uncover the 'economic basis' of the Hellenic slave society that made the cultured democracy possible. An undergraduate essay from 1927, written in his elegant copperplate script, shows that Meade had read and understood Smith, Mill and Rousseau before the age of 20. In it he wrote that freedom in ancient Athens was essentially the freedom of the few: 'It was the very existence of slavery which enabled the citizens to devote so much of their time to politics and art' (MP 2/1). Freedom was built on unfreedom. Demosthenes's father grew rich on fifty slaves. It was capitalism through and through.

The ideals of Hellenism, the very intellectual young undergraduate concluded, were never applied. The Greeks would have done better if they had lived by the respect for persons of Bentham and Mill. In the *Principles of Morals* Meade uncovered the premise that each individual must count as one: 'It is a commonplace of economic analysis, that, assuming that all men have equal needs, an equal distribution of income will give a greater aggregate sum of utils or of the economic goods than any other' (MP 2/2). In the essay *On Liberty* he found the guiding light ('undoubtedly correct') that 'the end of all economic activity is freedom': 'The individual has a right to do what he wants so long as he does not thereby harm others, while the State has the right to interfere in those actions in which one individual would harm another' (MP 2/2). The ethic is self-determination. The State is the means to its citizens' ends. The discovery of economic liberalism put paid to philosophical Hellenism. Meade became convinced that liberal economics and not Athens was the key to the good life.

The new honours degree in PPE ('Modern Greats') had been created in 1921. While Cambridge was Marshall and then Pigou, economics at Oxford had long been dominated by the English historical school, political philosophy and applied, stage-specific investigations which called into question the universal propositions of mathematical model-building. PPE in the 1920s relied at least as much on Mill's *Political Economy* as on Marshall's *Principles*. The enterprise had the stigma of being a soft option, rather like sociology which was still not taught.

Meade's 'Jack-of-three-trades' PPE was not Marshall's more focused, more theoretical Tripos. It was to change: 'By the 1930s there was little support for the PPE idea in Oxford and especially amongst the economists' (Young and Lee 1993: 26). In the late 1920s, however, PPE at Oxford was precisely the right place for a morally minded young missionary to obtain the answers he wanted. Meade explained later that he had switched from classics to economics because of the Great Depression. He thought that 'the phenomenon of mass unemployment—of poverty in the midst of potential plenty—was both foolish and wicked' (SWF, 153). Economics would put things right.

At Oxford he had been persuaded by the monetary heterodoxy of Major C.H. Douglas, engineer and social engineer, whose *Social Credit* had been published in 1924. Its theme had been an inadequacy of purchasing power due to a defective financial system. Meade invited Major Douglas to Oxford to address undergraduates. By 1928 he had moved on to the quantity theory of money and after that to Keynes. Even so, there were aspects of his earlier attachment that never went away. Sixty years later, looking back, he himself saw the link: 'I have no doubt that Douglas and Social Credit left a deep impression on me of the usefulness of the idea of giving consumers money to spend when there was a mass of unemployed men and other resources' (letter from Meade to W. van Trier dated 26 April 1989, MP 4/40).

Lasting too was the influence of the 'Cole Group'. Maurice Bowra sees G.D.H. Cole in the 1920s as a beacon in the darkness. He was, Bowra says, 'the inspiring guide of a small circle of clever young men who shared his main convictions but needed his help in thinking out what they meant in practice' (Bowra 1964: 24). Meade himself had mixed feelings about Cole: 'I had a low opinion of him as an economic analyst' (letter from Meade to W. van Trier dated 26 April 1989, MP 4/40). He was more comfortable with Cole as a social thinker. Democracy, justice, freedom, socialism and poverty were important issues. Cole convened the 'Cole Group' in order to explore what should be done.

G.D.H. Cole was Reader in Economics from 1925 to 1938 and later (effectively a refugee from an ahistorical discipline that was pushing him out) Chichele Professor of Social and Political Theory from 1944 to 1957. He was a statist and a reformer who saw no reason for a narrow approach: 'The discussion in the Cole Group made those present aware that politics and economics could not be separated and that economic problems and solutions must be seen within a political context' (Young and Lee 1993: 27). Meade gave a paper on Douglas to the Group for which the discussant was a visitor, Beatrice Webb: 'Beatrice Webb gave me hell in the discussion' (letter from Meade to W. van Trier dated 26 April 1989, MP 4/40). Among the regular members of the Group were Colin Clark, Margaret Cole and the young Evan Durbin.

The New Fabian Research Bureau, the NFRB, grew out of the Cole Group. It had backed the General Strike in 1926 because Cole believed that ivory-tower detachment was not enough. The NFRB was uncomfortable with textbook neoclassicism that footnoted the State into an embarrassing ceteris paribus. Meade took naturally to the Fabian window on the world. He was, Harry Johnson says, always 'a "price-system socialist" of the 1930s vintage' (Johnson 1978: 66). The foundations were laid in the 1930s: 'Hence his persistent concern with the application of theory to problems of economic policy, and also his idealized Fabian-socialist conception of the policy-making process and of the role of the economist in it' (Johnson 1978: 66).

Reinforcing the intellectual stimulus of the Cole Group was the Oxford Group. Many Oxford students in the 1930s (the list would include future Cabinet Ministers like Richard Crossman, Anthony Crosland, Douglas Jay, Michael Stewart and Harold Wilson) were drawn to the Labour Party. The Oxford Group was an informal club which Meade convened to discuss social and economic problems from the perspective of the Party. Roy Harrod, Redvers Opie and Robert Hall were among the participants. It anticipated Labour's XYZ Club where Meade (for 40 years), Dalton, Gaitskell, Gordon Walker and other moderate socialists met to debate. The Labour Government collapsed in 1931, the year that Meade began his teaching career.

Later, Meade recalled that he himself had only been 'Lib-Lab' in this period. He was never one of the 'real socialists' such as Cole and, in the

1930s, Gaitskell (Durbin 1985: 197). Still less had he been attracted by Marx. Many Oxford students and young academics had been drawn to Communism, proletarian populism and systemic class conflict because the Bolsheviks and the Trotskyists promised them an unprecedented mix of equity, employment and efficiency. Marx's *Capital* (in the Everyman edition, substantially abridged) was on the syllabus, often refracted for examination purposes through Cole's *What Marx Really Meant*. Left-leaning Keynesians like Joan Robinson had seen Marx as the bridge between total demand and equality. Sidney and Beatrice Webb in 1935 had published *Soviet Communism: A New Civilisation?*. Meade never thought that it was. Rather than class war, he always turned to goodwill and negotiation for a decent compromise. Partha Dasgupta, Cambridge economist and Meade's son-in-law, describes his attitude as 'let's get together and sort this thing out'. Confrontation was never his strongest suit.

No more than by Marxism was he attracted by the guild-socialist syndicalism of Tawney's *Acquisitive Society* or by the Christian Socialism of the Oxford Historical School. Emotionally and intellectually, he was suspicious of what Postan calls 'whole-hogging' (Postan 1964: 56). Meade was in favour of the left-liberalism that to him was socialism. Unlike many of his contemporaries, however, he seldom if ever demonised capitalism per se as the axial negation that explained why 'creative forces … are today imprisoned and frustrated' (Dalton 1935: 26). Meade wanted levelling up. Levelling up to him did not mean tearing down. He was in that sense a Fabian Liberal. He was always a Fabian Liberal.

Meade was offered a Fellowship and Lectureship in Economics at Hertford College, Oxford. He remained there from 1930 to 1937. Before taking up his appointment the College required him to spend the 1930–1931 academic year at Trinity College, Cambridge. The precedent was Roy Harrod who, having originally read classics and history, wintered in 1922–1923 with Keynes. Meade's mentor was to be Dennis Robertson, a family friend, who would in 1944 succeed Pigou to Marshall's chair. Keynes's *Treatise* was published in 1930 while Meade was at Trinity. As an Oxford graduate registered at Cambridge, he was entitled to a Cambridge MA 'by incorporation' (personal communication).

Meade was a part of the 'Cambridge Circus'. The other members were Richard Kahn, E.A.G. Robinson, Joan Robinson and Piero Sraffa, all of them in their late 20s or early 30s. The 'Circus' met between January and May 1931 to discuss macroeconomic stabilisation policy in the interregnum between Keynes's *Treatise* in 1931 and his *General Theory* in 1936. Meade later spoke of having had 'the unspeakable good fortune of falling under the intellectual guidance of Keynes' (SWF, 153), 'under the spell of Maynard Keynes the magician' (Meade 1983: 263): 'He was the greatest genius I have ever met' (CP IV, 251), 'among the really great economists of all time' (Meade 1983: 263), 'the decisive influence in the formation of my ideas' (CP I, 383), the thinker 'to whom I certainly owed more than to any other single man' (CP IV, 250). Meade was hypnotised by 'the magic of his personality, the versatility of his mind, his wit, his command of the English language, and his extreme cleverness' (1983: 265). Every relationship has its ups and downs. Meade also writes of Keynes's 'petulance, rudeness and quick unscrupulousness': 'I was reduced to tears' (cited in Moggridge 1992: 835).

In the 1930s the influence was mainly through the books and, at one remove, the 'Circus'. Kahn says that the transmission mechanism of aggregate demand through quantities and not prices was a major departure from the constant output and inelastic supply of Keynes's early work: 'There is wide-spread agreement—although not universal—as to the importance of the Circus in helping Keynes make the transition from the *Treatise* to the *General Theory*' (Kahn 1984: 109). Austin Robinson put it more strongly: 'I remain completely convinced—as is James Meade—that by the end of that academic year of 1930–1, the essentials of the *General Theory* model were known in outline…. Keynes was with us, perhaps ahead of us…. We in Cambridge were helping Keynes to write Keynes's own book' (Robinson 1977: 36). Meade says that when he returned to Oxford in 1931 he had in his mind 'most of the essential ingredients of the subsequent system of the *General Theory*' (Meade, cited in Keynes 1978: 342).

Pigou and Robertson showed no interest in the Circus. Keynes, not a part of the group and only up from Bloomsbury from Friday to Monday, relied on Kahn to tell him what had been discussed. Meade called Kahn 'the Messenger Angel' because he passed the good news up to 'God' (cited in Keynes 1978: 339). Meade only got to know Keynes well when they were thrown together in the war. Keynes died just after the war, in 1946.

Meade wrote a paper, later lost, on the process through which new investment triggers a multiplier expansion in real variables: 'This relation clearly implied that adjustments in total demand for goods and so in total income constituted the method by which equilibria in the macro-economy were attained' (1993: 665). Investment, via the multiplier, expands supply. Supply, via the consumption function, expands demand. Kahn, often credited with the formalisation of the multiplier, stated in his path-breaking article that his treatment was 'fundamentally based on work of Mr. Meade's that is as yet unpublished' (Kahn 1931: 187n). Kahn called the geometric series 'Mr. Meade's relation'. It filled in a gap in Keynes's own thinking in the early 1930s. Output could not be assumed to be constant. A decline in demand, unlike the flexprice adjustment in the *Treatise*, could cause a downturn in the real sector.

George Shackle credited Meade as well as Kahn with the development of 'the great battering-ram which finally breached the Classical walls' (letter to Meade from G.L.S. Shackle dated 10 June 1950, MP 4/1). He credited Meade individually with the upward-sloping supply curve of capital (assumed constant in the *Treatise*), 'long before the General Theory' (MP 4/1). Meade's *The Rate of Interest in a Progressive State* (1933), Shackle says, was a vital step on the road to the Keynesian revolution: 'In showing the necessity of considering a supply-schedule of capital-goods, Mr. Meade was in some degree a contributor to the *General Theory*' (Shackle 1938: 5n).

There is something more. Keynes in the *General Theory*explored the non-observable depths of the human mind in his discussion of the speculative motive and of animal spirits. Investment to him was not merely a right-wrong comparison of the rate of interest with the rate of profit. Meade, in a letter to Evan Durbin dated 18 November 1933 pasted into Durbin's copy of the *Rate of Interest*, had told Durbin that the unpredictable mind—"psychological factors"—was important too (MP/Special Collections). The influence of Meade on Keynes, Keynes on Meade, cannot be known with certainty. What is clear is that the period of the 'Cambridge Circus' in 1931 was a period in which Meade was growing into a genuine pre-Keynesian in his own right.

Meade returned to Oxford in 1931. He taught there until 1937. His style of tutoring seems to have been appreciated by his students. Walmsley, looking back on 1935, recalls that 'James Meade was extraordinarily good, very patient and very gentle, modest as if he himself was still enquiring after truth (as indeed he was)'. Johnson from 1931 to 1933 says 'Meade was always very ready to listen to our uninformed views and wasn't [at] all dogmatic'. Crawford from 1935 did, however, feel that the level of abstraction had come between him and the economics. Meade, he remembered, 'lectured on, or around, the work of Keynes. Although I am reasonably numerate, his explanation which included a lot of mathematics was rather above my head' (cited in Lee 1993: 15, 63, 107).

The College post required Meade to tutor the whole of economic theory. He nonetheless took a special interest, confirming that the times maketh the man, in job creation and the world economy: 'Macroeconomics and international economics (trade and finance)', Howson writes, 'were always his favourite areas' (Howson 2000: F122). At Oxford his fellow teachers of economics (there were then 12 at Oxford and 13 at Cambridge) included Roy Harrod, Charles Hitch, Robert Hall, Jacob Marschak, Richard Sayers, Henry Phelps Brown and (from 1924 to 1929) Lionel Robbins.

Robbins ran the Adam Smith Society. Meade came to its meetings. Meade was more to the Left and Robbins more to the Right. In spite of their politics, their paths crossed repeatedly throughout their long careers. Robbins, nine years older, was an intellectual influence and later a friend. Meade recalled that Robbins at Oxford had 'used his first-rate analytic mind' to show his students 'how the application of good economic theory to real problems around us could make important contributions to the formulation of wise and effective policy' (Meade 1984: 19). Cole and the Fabians were talking relevance and policy. So, through 'the ebullience and exuberant purposefulness of his exposition', was Lionel Robbins: 'He was in the old-fashioned sense of that term a great political economist' (1984: 19).

At Oxford Meade wrote *Public Works in their International Aspect* (1933) for the NFRB and, later, the *Outline of Economic Policy for a Labour Government* (1935, in CP I) in which the NFRB showed less interest. In addition there were the journal articles on trade, banking and the elasticity of substitution. In 1936 he presented a paper (later published in the *Review of Economic Studies*) entitled 'A simplified model of Mr. Keynes's system' in a symposium on the *General Theory* that had just appeared. It was overshadowed by Hicks's masterly IS-LM curves that first saw the light of day at the same conference.

Also in 1936 there was *An Introduction to Economic Analysis and Policy*. It was 'the first systematic textbook to embody the essential Keynesian framework' (Atkinson and Corden 1979: 528). In his book, Meade did not assume a closed economy but opened his discussion to the world. He emphasised, as he so often did, that the correction of aggregate demand requires cross-border cooperation. No country is an island, even in 1936.

Meade said that the *Introduction* was merely an undergraduate text, no more than a way in to 'the whole corpus of Economic Theory': 'There is nothing original in this work' (EAP, v). He was being too modest. Anthony Ashton was in the first cohort of students to use the new text. He saw that its contribution was in restoring economics to the real world where it belonged: '[I] was enthused by the idea that you could form economic policy on the basis of your analysis: most textbooks of that time started with an introduction stating that economics was a science that pursued knowledge for its own sake, and denied its practical implications' (cited in Lee 1993: 79). Meade was attracted to economics because he was attracted to policy. The *Introduction* in itself is an invocation to young students to do good.

The *Introduction* to *Economic Analysis* was the first attempt to expose students trained on Marshall's *Principles* and even on the *General Theory* to the mixed case of monopoly within competition that had been formulated in 1933 by Joan Robinson and E.H. Chamberlin. It was all in Marshall (Reisman 1986: 129–136). What was all in Marshall was not what was the reader took out. Robinson and Chamberlin had perceived that even Marshall's Regent Street shoemaker could have a falling marginal revenue curve like any other monopolist whose product is different.

Soon there would be more. Meade's Oxford colleagues Hall and Hitch were to publish their path-breaking analysis of the kinked demand curve in 1939. Imperfect competition was in the air. So was power. In the deleted Part VI ('The Economics of Utopia') of his *Introduction* Meade made what may be his only statement to the effect that exploitation and not productivity was the better explanation of the worker's share: 'Labour will not be paid a wage-rate equal to its marginal product, until all monopolistic industries have been nationalised' (MP 2/12).

There was differentiation and power. There was also Keynes. The *Introduction* was published only three months after the *General Theory*. Its author had nonetheless been exposed while a member of the Circus to the evolution of 'God's' thinking. By 1935 he had persuaded Fabians such as Durbin that expansionary policies and a budget deficit were essential in a severe depression: 'Thus, Meade laid the groundwork for the new generation of Fabians to accept the main principles of *The General Theory* and to adapt them to socialist policy' (Durbin 1985: 136). Even before 1936 he was 'the leading evangelist' for the income-expenditure model. Interviewing him half a century later, Elizabeth Durbin reported that it was 'a faith which he holds to this day' (Durbin 1985: 149).

The *Introduction* shows the influence of Hayek as well as Keynes. Meade had been reading *Prices and Production*, first published in 1931. It had, as Meade later recalled, 'suggested many very important ideas and problems' (RIPS, vii). The central message was nonetheless pure Keynes. Quantity and not just price could be the response to a change in aggregate demand. Deflation was not automatic and it was not painless. Unemployment could go up. Equilibrium might not be restored.

Meade's *Introduction* imparted new insights even as it repeated old lessons. It was more than a textbook alone. As Marshall had done in the *Principles*, Meade in the *Introduction* dispensed with the diagrams, equations and in-group jargon that were already making economics the property of an overschooled elite. His book, he said, had been written in such a way 'that any one with patience and the power of clear reasoning can understand it' (EAP, v).

The *Introduction* was a brokerage-book but it was also a statement of intent. Sometimes implicitly, sometimes explicitly, it showed that economics could contribute intelligently to the solution of pressing social problems like poverty, inadequate competition, the optimum stock of population and capital, the class gradient in access to education.

There are sections on political economy and international political economy. The *Introduction* ranged widely. Economics, Meade believed, was like that.

Social policy too was drawn into the syllabus. Fully 48 out of 388 pages in the *Introduction* were devoted to relative and absolute deprivation. Meade, writing at a time when excess capacity was being denied the opportunity to relieve the distress of the excluded, said that he had wanted to ensure 'the highest standard of living' (EAP, xiii) for all members of the community. It would mean the greatest output of the commodities that consumers most wanted to buy. It would also mean the redistribution of income such that 'the greatest possible satisfaction is obtained from the limited national income' (EAP, xiii). It was economics but it was also social reform. The Cole Group and the Oxford Group could not have taken issue with that.

Meade did not use mathematics in the *Introduction*. It would, he said, make the book 'not always easy to read' (EAP, v). It was at Oxford, however, that he was beginning to express his theories in mathematics. Not all economists of his generation did so. Lionel Robbins did not.

Meade began as a classicist. Always logical and rational, his problem-solving mindset made it easier for him to bridge the gap between arts and sciences. In fact, the higher mathematics was largely self-taught. It is a matter of debate whether his fascination with mathematics detracted from his underlying message or, alternatively, strengthened it and made it more precise.

Marshall, who had been a Wrangler (a Cambridge First) in mathematics, had said that he only employed notation in economics to lend structure to an argument. Thereafter, his rule had been to burn the mathematics: 'When a great many symbols have to be used, they become very laborious to any one but the writer himself' (Marshall 1949 [1890]: ix). Meade did not burn the mathematics but he did, where possible, put the slopes and the curves in an appendix or a separate volume. Like Marshall, he reported that it had been his practice 'to make a simple mathematical model of most of the problems before writing about them' (BOP, x). Like Marshall, he then translated the equations back, 'in order to unify the generality of what I am writing in common-sense English' (MP 17/9).

1.2 War and Peace

In Oxford in the 1930s, with Germany and Japan increasingly menacing the world order, there was a strong branch of the League of Nations Union. Meade, looking back, has expressed the opinion that the British government should have done more through the League to preserve the peace. Gilbert Murray was the national chairman of the Union and of its Oxford branch. Margaret Wilson was the full-time secretary of the Oxford branch. In 1933 she and Meade were married. They were to have four children.

In 1937, already wanting to leave Oxford for a more research-oriented position, Meade joined the Economic Intelligence Service of the League of Nations in Geneva (on leave for four years from Oxford) to write its *World Economic Survey*. He produced issues for 1937/8 and 1938/9. Tinbergen, Haberler, Nurkse, Koopmans and Marcus Fleming were in the EIS at the same time. Margaret had lived in Geneva as a child when her parents were in charge of a Quaker hostel. In 1940 when the Germans occupied France Meade and his family were, after major difficulties, evacuated back to Britain.

Meade joined the Central Economic Information Service (CEIS) in the Cabinet Office in 1940. It was the forerunner of the Government Economic Service. He had been recommended to Edward Bridges, the Cabinet Secretary, by Keynes, then at the Treasury, and Austin Robinson, who had just recruited Robbins. Austin Robinson, Cairncross writes, recognised that there would be a natural symbiosis between Meade and the young Richard Stone, then at Lloyds: 'Austin relied on James Meade "to get the logic right" and on Richard Stone to draw on his remarkable familiarity with British economic statistics' (Cairncross 1993: 79). Robinson was thus responsible at one remove for the national income accounts that Meade and Stone were to produce.

Cairncross and Watts report that Meade was a natural government economist, 'at heart a Treasury man': 'He brought a rare clarity of mind, a systematic economic philosophy, and a flair for visualizing how new economic institutions would function. He had an eye for the central issues of policy and a constructive approach to them' (Cairncross and Watts 1989: 113, 120). Meade was able to explain complex issues in a non-technical manner, with 'characteristic lucidity and logical force' (Cairncross 1993: 186). Not a word is wasted. Dalton, economist and politician, found him 'very expert on all points of theory and most ingenious in devising new formulae' (Dalton 1986: 664).

Meade (later assisted by Richard Stone) prepared Britain's first official national income, output and expenditure accounts for the CEIS. The inspiration is likely to have been Keynes's *How to Pay for the War* in 1940. National accounting goes back to the 'political arithmetic' of Sir William Petty in 1664 and Gregory King just afterwards. In the interwar years important estimates had been made by Colin Clark in the United Kingdom and Simon Kuznets in the United States. Meade and Stone may have completed the structure but many before them had contributed component insights. Others were also in the field. The Netherlands and Palestine had teams trying to tabulate the flows of new value added.

At first Meade worked alone. He prepared tables that illustrated the theory but did not quantify the magnitudes. That was to be the job of Richard Stone. 'The original conceptual framework', Angus Deaton states, 'was that of the older man' but the schema was 'still a system of empty boxes' until Stone came on board to 'help fill in the numbers' (Deaton 1993: 478, 479). An unpublished note records Meade's own recollection of the division of labour. After he had produced the theory, 'Richard Stone was then brought in to work on the statistical measurement. We worked together on it' (MP 3/1). Martin Weale suggests that perhaps Meade 'devised the framework' (personal communication) but that Stone then scaled up his sectoral estimates into the national accounts. Meade at any rate saw himself as the first into the field. Kahn was credited with the multiplier, Hicks with the IS-LM analytic and Stone with the national accounts. It was in the nature of the small British economics community that scholars shared what they knew.

Double-entry social accounts were essential—'they have formed one of the chief bases' (CP I, 152)—for the war effort, economic forecasting, full employment and, later, the post-war reconstruction. The estimates and tables were first presented outside Whitehall in a White Paper (Cmd 6261) in 1941, in the *Economic Journal* in 1941, in the *Review of Economic Studies* in 1942 and ultimately in Meade and Stone's *National Income and Expenditure* in 1944. Stone's pioneering work was recognised by a Nobel

Prize in 1984. By then (in 1977) Meade had received his own Nobel Prize for international economics. It could just as easily have been for the work he did with Stone.

In 1941 Meade moved across to the Economic Section of the War Cabinet Secretariat. It was led initially by John Jewkes and Lionel Robbins. Meade describes it as 'in reality a seminar of young academic economists chaired by their professor, Lionel Robbins' (Meade 1984: 19). Writing to Robert Hall in 1953, Meade said that its function was effectively to serve as a State within the State: 'The Section, if it is anything, is a group of professional economists who should express the reactions of professional economists without particular departmental or administrative responsibilities' (letter from Meade to Robert Hall dated 26 June 1953, MP 4/1). In 1946–1947 the leadership passed to Meade himself when Robbins returned to the LSE. Among his colleagues were G.L.S. Shackle, Ronald Tress, J.C.R. Dow, Thomas Wilson and Evan Durbin.

Meade missed academic research. He was, on the other hand, attracted by the idea of a group of economists at the centre, giving expert advice to the ruling elite and doing so at arms-length distance from 'the immediate rough and tumble of party politics' (CP I, 318). He would ideally have liked stabilisation policy to be delegated to an independent macroeconomic commission. He knew that 'that time is still far off' (CP I, 317). The Economic Section was a second best.

The Economic Section was tasked with the big issues such as rationing, pricing, wartime planning, public enterprise, demand management, hot money, capital controls, the balance of payments and the national debt. Meade, with his team, prepared documents on unemployment, the distribution of income, international monetary cooperation, the mutually beneficial nature of world-wide free trade. He wrote the first draft of the White Paper on *Employment Policy* (Cmd. 6527, 1944). He was already saying that, while competitive depreciation was a return to beggar-thy-neighbour trade-destruction; nonetheless, an adjustable peg was preferable to a fixed parity 'as a means of removing any disequilibrium in the balance of payments that might be caused through the adoption of a domestic employment policy in this country' (CP I, 264). Full employment had to come first. External imbalance should not be corrected through a strict and uncompromising gold standard that deflated the economy back to the dole queues of the 1930s.

In the Economic Section Meade was involved in the international negotiations which were seeking to twin Bretton Woods with the Havana Charter, an International Monetary Fund with an International Trade Organisation. He was a member of the Law Commission which in 1943 went to Washington to discuss trade policy with the Americans. Keynes was the driver for the International Clearing Union. Meade wanted to match it with an International Commercial Union. He is 'credited with responsibility for having coupled free trade areas with customs unions in their exemption from the general principle of non-discrimination in commercial policy' (Johnson 1978: 65). It was a contribution to the economics of regionalism and most-favoured-nation status which looks forward to his later work, both theoretical and Europe-centred, on the issue of customs unions.

Meade represented Britain at the conferences in London in 1946 and Geneva in 1947 to draft a charter for the proposed International Trade Organisation. GATT was a tangible result. Cairncross, in his Obituary of Meade, wrote that Meade, 'as much as any man', was the 'originator' of the GATT agreement (Cairncross 1995: 12). Vines describes his contribution as follows: 'Meade was one of the architects, on both the monetary side and the trade side, of the liberal world economic regime…. Meade always believed that *both* pieces of this regime stand or fall together' (Vines 2008: 489). The Great Meltdown in the 1930s was the proof.

Meade took to the *minutiae* of applied economics like a duck to water. Within the Section, he 'maintained an academic and collegiate atmosphere, in which all were free to contribute their ideas' (Cairncross and Watts 1989: 113). Outside the Section people were more of a problem. His intellectual integrity was not always given the respect it deserved. Mild-mannered and polite, he could fight his corner but was more comfortable with discussion and consensus. Briefing papers were revised without consultation by civil servants who were not the equal of Oxford and Cambridge. Recruitment and retention were difficult. Some of his own economist staff were not up to the mark. Some of the ministers found him a little too academic.

Politicians defended their ministerial secrets against outside meddlers like Meade whom they consistently 'pooh-poohed' (Cairncross and Watts 1989: 119). Hugh Dalton, Chancellor of the Exchequer following Labour's victory in 1945 and a Reader in Economics at the LSE before the War, 'did not feel a strong need for economic advice' (Atkinson and Weale 2000: 484). He denied the Economic Section access to Treasury papers lest they breach the secrecy of the Budget. As early as 1940, only twelve months into the job, Kahn was reporting to Keynes that 'Meade believes that his activities enjoy Treasury opposition' (cited in Keynes 1978: 327). Suffering from stress and overwork, Meade developed an ulcer. After two years he decided to go. Dalton resigned in the same year. Robert Hall who took over from Meade found it less frustrating to work with the new Chancellor, Sir Stafford Cripps.

1.3 LSE and Cambridge

In 1948 Meade became Cassel Professor of Commerce (with special reference to international trade) at the London School of Economics. Lionel Robbins, Professor at the LSE from 1929 to 1961, was the Head of Department.

It was a high-profile position. Although Meade himself never courted publicity, the topics of tariffs, non-tariff barriers and customs unions were in the news. At the LSE Meade developed a strong interest in the new common market that had been created in Europe by the Treaty of Rome (1957). His scholarly papers on *The Belgium-Luxembourg Economic Union, 1921–39* (1956) and *Negotiations for Benelux* (1957) met with the polite but muted reception one would expect for academic research published by the International Finance Section of Princeton University. His Hobart Paper for the Institute of Economic Affairs on *UK, Commonwealth and Common Market* (1962) would later reach a much wider audience. Its verdict hovered between yes-but and no-but.

Meade's students at the LSE included W.M. Corden, R.G. Lipsey, R.A. Mundell and, more loosely, Peter Kenen and Richard Cooper. There were some big names. In spite of that, no single disciple emerged who made it his business to perpetuate Meade's oral tradition at the School. Marshall was luckier with Pigou.

As for his colleagues, Meade early on made the acquaintance of a lapsed electrical engineer with a pass degree in sociology and an unshakeable belief in a national income machine (7 feet by 5 feet by 3 feet) that displayed the circular flow of income by means of coloured water being pumped through pipes. It was assembled in a shed belonging to W.T. Newlyn, later a famous economist in his own right. Called the Phillips Machine, Meade and Phillips wanted it to be used as a teaching aid. A reconstruction dating from 1989 is preserved in London in the Science Museum. The Museum also has a videotaped introduction to hydraulic economics by Meade. There is a photograph of Meade with the Phillips Machine on the cover of this book.

The Phillips flows were dynamic adjustment, not equilibrium stock. Feedback and lags could be unpredictable, even self-aggravating. Policy might not achieve its goal. Meade says that he owed his 'basic education in the design of stabilization policies' (CE, ii) to his discussions with Phillips on feedback loops, lagged responses and self-feeding expectations. *The Controlled Economy* documents the policy-inferences that Meade took from the engineering perspective.

Meade encouraged A.W. Phillips to write up his findings as a doctorate (which Meade supervised and Hicks examined) and to apply for a teaching post at the School. Phillips when mapping out a scatter of correlations stumbled in 1958 on the 'Phillips Curve'. It made his name. In his last-ever paper Meade said of Phillips that he was a wild man and one of a kind: 'He was a rolling stone intellectually…. He was a real genius' (Meade 1996: 18).

At the LSE Meade began by publishing his inaugural lecture, 'Financial policy and the balance of payments', in *Economica* for 1948. Since its theme was government policy to reconcile the internal and the external balance, it was reprinted in the same year as Chap. 5 of Meade's *Planning and the Price Mechanism*. In the Economic Section Meade had repeatedly been asked for his views on indicative and imperative planning. His response had repeatedly been that forecasts are a good thing but that commands are best reserved for an emergency.

It was in his LSE decade that Meade produced the two self-contained volumes of his *Theory of International Economic Policy* for which he was awarded (jointly with Bertil Ohlin) the Nobel Memorial Prize in 1977. The first volume, *The Balance of Payments*, was published in 1951, the second, *Trade and Welfare*, in 1955, when Meade was 48. Marshall in the year of the *Principles* was also 48. It is not a natural law. Smith and Keynes were 53 at the time of their great books. Jevons was 36.

Meade in his *Theory* took the view that international trade and domestic trade were both subject to the same law of exchange. Warning against the 'personification' (BOP, 17) of countries into aggregations apart, he says what everyone but the hardest-line Ricardian knows. Countries do not swap wine for textiles. Only an individual or a firm can do that. Home or abroad, it is free market prices that are the connecting link.

In 1957 Meade became Professor of Political Economy at Cambridge. He succeeded Robertson to Marshall's Chair. Nicholas Kaldor and Joan Robinson, who had spent their whole careers at Cambridge, were passed over in favour of an outsider. The presence of Lionel Robbins on the appointing committee only exacerbated the resentments. Richard Kahn and Austin Robinson already held personal chairs. Meade was also made a Fellow of Christ's College. The family resettled from Golders Green, to Little Shelford, just outside of Cambridge.

The rate of unemployment was low and growth was buoyant. Rationing had been phased out. The British people had never had it so good. There was, however, a new threat to stability. Meade's Inaugural Lecture in 1957 was entitled 'The control of inflation'. It was also submitted as written evidence to the Radcliffe Committee on the Working of the Monetary System. In 1948 he had had an old Keynesian's confidence that monetary and fiscal policy would be enough: 'With a sufficient armory of these weapons he can be sure that we shall not overdo our control of inflation' (PPM, 34). In 1957, when inflation was still moderate, he had changed his mind. Prices as well as jobs had to be written into the internal balance. New weapons would have to be found if there were not to be a trade-off at home or an external imbalance abroad.

At Cambridge Meade continued his search for the golden road to growth, employment and acceptable inflation. He was moving on from international economics. He may have felt that he had said all he had to say. At Cambridge he continued his Oxford quest to combine economic efficiency with social justice. As always, he declared, this is 'the greatest domestic economic problem' (LEE, 1) and the greatest market failure. It is incumbent upon the State to bring into being 'a socially desirable distribution of income and property' (BOP, vii). It will not be the same as the convection of purchasing power that would have been ground out by supply and demand.

The free market signals the scarcities: 'Use *must* be made of a system of prices' (EAP, 198). A decent government reshuffles the spend: it must 'make the rich poorer and the poor richer' (PPM, 28). It was Meade's message that the good society had to be a mix between market and State. It was a middle-ground message that was to last him a lifetime. The threads came together in the far-reaching and ambitious studies which he completed in the last two decades of his life when less-committed scholars would have been phasing themselves into a time-share on a Spanish Costa.

At Cambridge Meade wrote the four volumes of his *Principles of Political Economy*: *The Stationary Economy* (1965), *The Growing Economy* (1968), *The Controlled Economy* (1971) and *The Just Economy* (1976). He had presented some of the material in his second-year lectures on economic analysis. Together, the books were over 1000 pages of words and symbols, economics and philosophy. It is likely that Meade saw them as the long-promised *Theory of Domestic Policy* for which he had drafted a tentative 'list of contents' (TW, 27) in 1955.

In 1975 there was a less technical summing up. Entitled *The Intelligent Radical's Guide to Economic Policy*, its subtitle, *The Mixed Economy*, conveyed the message that it was a treatise and perhaps also a *plaidoyer* on the middle ground. Interestingly, *The Mixed Economy* had originally been picked as the title for the sixth and final volume in his *Principles* series. The fifth volume was to have been called *The Efficient Economy*. Allen and Unwin were proposing that that an even better title would have been *The Imperfectly Competitive Economy* (letter to Meade from C. Furth dated 12 October 1971, in MP 17/3). The sixth volume would have been about 'different forms of economic efficiency' (JE, 190). It would also have shown how they could be enhanced through wise regulation.

In the 1980s there was to be another set. In the 1930s when there was little inflation the economists had written about involuntary unemployment. In the 1950s they had shifted their attention to the Phillips-type trade-off between real and nominal variables. By the 1970s the focus had altered once again. Prices were going up but unemployment was going up too. It was stagnation in step with inflation. Meade's contribution was his two volumes on *Stagflation*. *Wage-Fixing* was published in 1982 and *Demand Management* in 1983.

Meade wrote only the first six chapters of *Demand Management*. The remaining sections on control feedback and econometric modelling were mainly the work of David Vines and Jan Maciejowski. It was complemented in 1989 by *Macroeconomic Policy*, much of it the work of Martin Weale, David Vines and others. Since Meade no longer had a University office, the team met weekly, exchanging drafts by post in between. As in 1982 and 1983, its subject in 1989 was the strange and unexpected problem of stagflation for which the old Keynesians seemed to have no answer beyond the suggestions made by Keynes in Chap. 3 of his *General Theory.*

Meade's last book, in 1995, is titled *Full Employment Regained?* It was written when he had been a professional economist for 60 years. It is 94 pages of combinations and permutations that sum up to a question mark. Meade never said that public policy is a piece of cake.

At Cambridge Meade was involved in two high-profile outside reports. In 1959–1960 he led a team enquiring into the population problem in Mauritius. Malthus was racing against limited resources in a crown colony all too aware that staple sugar would not long be enough to feed the people. Meade in *The Economic and Social Structure of Mauritius* advised that the Mauritians would have to diversify into infant industries. They might even have to introduce tariffs because the alternative was worse.

Later, in 1976–1978, Meade chaired a committee established by the Institute of Fiscal Studies to enquire into taxes in the United Kingdom. Meade was an elder statesman and an obvious choice. He had a reputation for being energetic, enthusiastic and committed. While he had not published on the detail of the tax system, he had an unequalled knowledge of the public sector and a range of theoretical insights to contribute. The IFS wanted a lateral thinker. They did not want a textbook teacher who would fail to see the broader picture.

The committee had 11 members. Meade describes his cast as 'a number of first-rate economic theorists and of leading practitioners' (CP I, PP). Among them were John Flemming, John Kay and Mervyn King. The Deputy Chair, Donald Ironside, was especially valuable because of his background in accountancy and his willingness to sacrifice billable hours far in excess of duty. What is a revelation from the Committee's papers is Meade's own fluency with actuarial calculations and tax law. Few academic economists could have worked out the alternative scenarios in the detail that he did.

The Meade report, *The Structure and Reform of Direct Taxes*, was published in 1978. Officially it was a 'joint effort' (SRDT, xv). In practice, as John Kay recalls, the Chairman's own vision extended far beyond the topics like the labour-managed enterprise, the social dividend, the progressive expenditure tax and equality as a public good on which Meade had published so much since the 1930s: 'We were full members of the Committee. It was also true that anyone who imagined that someone with as fertile, lucid and definitive a mind as James Meade would allow others to write the report of a committee of which he was chairman was naïve. The Meade Report as it was published bears the stamp of James on every page' (Kay 1999).

The Meade report builds on 'a reasonable base of political consensus for our mixed economy' (SRDT, xv). Yet there is more. At the same time as it is seeking 'to achieve broad agreement on the shape of the tax structure', it is also suggesting small changes that would improve still further a going concern: 'Nothing can become politically possible unless it is first proposed and discussed by some body of persons' (SRDT, xvi). 'Some body of persons' have the duty to shake up the tyranny of the status quo. Intellectuals have consequences.

Meade retired from Cambridge University in 1969. He was 62 and it was five years before the normal age. While his managerial experience in the Economic Section, his Cambridge research group and the IFS Committee demonstrate that he was able to stand his ground, still he was too nice for the civil war in his Faculty. Max Corden recalls that first and last he was a scholar: 'I found him reticent, very polite, and indeed the essence of an English gentleman … with the utmost humility' (Corden 1996: 383). David Vines puts it more succinctly: 'He wasn't an operator' (private communication).

Personality clashes made him think seriously about his future. Stone, regarded as insufficiently theoretical, had been under pressure to relinquish his post as Director of the Department of Applied Economics. Invitations to staff meetings were not always sent. Meade was depressed by 'the quarrels between those subsequently labelled "Post-Keynesian" and those in the faculty who researched the mainstream of economics' (Atkinson and Weale 2000: 491).

Meade was felt to be too neoclassical, too insensitive to class struggle, in a divided, often hostile, Faculty. Joan Robinson who had spent so much time with Keynes accused him of not being Keynesian enough. There seems not to have been any personal animosity, and Meade seems not to have been overly sensitive to casual unpleasantness. Martin Weale, 50 years younger but always treated as a friend, states, 'I can't imagine anyone not getting on with him unless they were really difficult' (personal communication). An extremely supportive wife and family will have made a difference. So did his hobbies, wood-working in the late afternoon and *Lieder* practice in the early morning. He attended music lessons and sang in his College choir. It was, however, time to go.

Meade retained a Professorial Fellowship in the University, together with a Senior Research Fellowship at Christ's College. Over the years he accumulated honorary doctorates from the Universities of Basel, Bath, Essex, Glasgow, Hull, Athens and Oxford. He became a Fellow of the British Academy in 1951. In 1964–1966 he was President of the Royal Economic Society. He had been awarded the CB in 1947 for his wartime work in the civil service. Later he was offered a knighthood. He turned it down.

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2

Social Policy

The free market is efficient. It is also unfair. Automaticity, unregulated, tends to produce 'a very undesirable distribution of real income' (LEE, 22). The poor are left without their basic necessities. The rich are empowered to squander and waste. It is not right. Bounded inequality is what makes market capitalism thrive and grow. Excessive inequality is an affront to elemental ethics.

Meade was 'appalled by the gross inequalities … in modern society' (IR, 68). Functional inequalities must be preserved and motivation protected. It is the 'gross inequalities' that are bringing the good name of the economic thermostat into disrepute. Meade said that he was 'at heart an incurable egalitarian' (IR, 68). Although a market economist, he also wanted to see 'a tolerably equitable distribution of money income and property so that no individual can command more than his fair share of the community's resources' (PPM, 10). No individual should take out less. No individual should take home more.

Fair shares are not identical shares. 'Tolerably equitable' does not mean primitive communism. What it does mean is that a social ethic must be allowed to override the market-determined reward in the interests of the greater good. It is a mix. The subtitle of Meade's *Planning and the Price*

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Mechanism is *The Liberal-Socialist Solution*. Market but also State, Meade wanted to take the best from both worlds. Social thinkers like Hayek called the third way a house of cards: 'By the time Hitler came to power, liberalism was to all intents and purposes dead in Germany. And it was socialism that had killed it' (Hayek 1976 [1944]: 22–3). Meade, putting compromise before the extreme either-or, believed that the collaboration of opposites was built to last.

2.1 Legitimation by Consent

Price signals track demand and supply. The free market reflects the distribution of income and wealth. Revealed preference is only the polite name for *who* has *what*. If the allocation of purchasing power falls short of what the relevant community defines to be 'tolerably equitable', then the market-clearing price cannot be regarded as the price that maximises the felt well-being of the whole. It is soiled information. Meade's liberalism is social-ism. It is not the classical liberalism of Gladstonian laissez-faire. Where society believes the endstate to be unjust, the market will have to be managed until it fits.

Meade was an economist who had a presence in mathematics and social philosophy. Had he wanted to do so, he could have developed a 'Meade's Theorem' to rival Pareto's Law or Kuznets's Law. The fact that he did not do so is important in itself. The statistical evidence made its own case for redress. Prewar as much as 75 per cent of the stock of property had been owned by only 5 per cent of the population (PPM, 37). Postwar, the skewness was at least as great.

It was stinking fish. It was 'a really fantastic inequality in the ownership of property' (LEE, 33). Meade knew that it was a 'really fantastic inequality' because everyone else knew that it was a 'really fantastic inequality'. The benchmark is 'a *socially acceptable* distribution of income and wealth' (SWF, 36, emphasis added). The ideal is only the ideal because it has been pronounced legitimate by the surrounding consensus. The surrounding consensus knows what it means by an '*intolerable* contrast of poverty side by side with great riches' (LEE, 1, emphasis added). If the *vox populi* says that 75 per cent is stinking fish, then stinking fish is the rock upon which even a Cambridge professor must build his church.

It should not be one-person-one-vote but nor should it be 75 per cent. Ordinary people do not go to extremes. The consensus has a preference for a 'tolerably equitable' distribution but not for dead-level shares. The consensus believes that parents should do what is right for their lineage to come: 'Most people would agree that some moderate belt-tightening by the present generation was a proper sacrifice … in order to improve the standards of future generations' (JE, 51). The consensus believes that dirty or distasteful employment should attract additional rewards: compensating differentials 'would to most people (including the author of this volume) appear fair and desirable' (JE, 55).

Most people would say it. There is 'widespread agreement' (PPM, 3). In politics as in economics, revealed preference must be given the last word. It is not a problem. Casual empiricism confirms the a priori conjectures. Every decent person wants the same thing: 'no shocking inequalities of income and property' (PPM, 3), 'no excessive riches', 'no grinding poverty', 'fair play in between' (IR, 92).

T.H. Marshall in postulating a 'hyphenated society' had contended that each citizen is home to not one motive but a mix. Writing to Meade a year after the publication of Marshall's important essay on 'Value problems of welfare capitalism', Marshall declared that his ideas and Meade's were 'fairly close together' (letter from T.H. Marshall to Meade dated 6 June 1973, MP 4/23). In the capitalist market economy the axial principle is possessive individualism. In the modern welfare democracy it is the collective ethic: 'Status differences can receive the stamp of legitimacy in terms of democratic citizenship provided that they do not cut too deep' (Marshall 1992 [1950]: 44). The ethic is more than individual self-seeking and the majority vote. It must be traced to a shared orientation that is the property of the whole *sui generis* and not of the isolated monad.

Classical liberals are deeply sceptical of the very idea of a collective consciousness. There is not much Durkheim in their Mill. Milton Friedman had serious doubts about responsible politicians and sensitive bureaucrats in touch with a reified group mind. Echoing the insights of

Buchanan, Tullock and the public choice school, Friedman commented about Meade's *Radical's Guide* that no one in the real world is as self-denying as Meade imagines: 'I cannot conceive of mobilizing public interest attitudes to establish the kind of far-reaching and dedicated agenda for intervention that you describe in your book' (letter to Meade from M. Friedman dated 20 August 1975, MP 4/26).

Friedman does not deny the existence or the function of altruism. What he says is that people are more likely to demonstrate Smithian 'sympathy' if they are genuinely unable to recognise their own stake. A constitutional settlement in Friedman's view protects the moral sentiments precisely because multiperiod conservatism hides the ego from itself.

Friedman was willing to concede the possibility of other-regarding conduct so long as the decisions made were far removed from the revealed here-and-now. The Institute of Economic Affairs, Meade felt, was less balanced. While he was prepared to allow the pro-market think-tank to publish his occasional papers, Meade told its Director, Ralph Harris, that he had serious reservations about its one-dimensional ethos: 'I admire the work in many ways and appreciate its value; but I believe that it has emphasized one aspect of reality to the exclusion of another important strand. Man is an *individual* and very much also a *social* creature' (letter from Meade to R. Harris dated 10 February 1987, MP 4/38). Man is a mix. It is consensus and not the shopkeeper principle that provides a way in to the broad social middle.

2.2 Social Policy as Utility

Utility is all in the mind. Economics is not engineering. Economics is psychology, sensation and perception. Economics is the second-best mystery after the will of God. Jevons says: 'Value depends entirely upon utility' (Jevons 1970 [1871]: 77). After that he says: 'Every mind is thus inscrutable to every other mind, and no common denominator of feeling seems to be possible' (Jevons 1970 [1871]: 85). Satisfaction is measured in utils, the sky in bleus, good health in hels. It is just a game. Utils, bleus and hels do not exist.

Alfred Marshall knew that the invisible mind is always a risk. Unlike Jevons, however, he made the leap of faith that a person's a person for a'that: 'A pound's worth of satisfaction to an ordinary poor man is a much greater thing than a pound's worth of satisfaction to an ordinary rich man' (Marshall 1949 [1890]: 537). Marshall was prepared to go by gut. Holding out for pure utils, measured bleus and observable hels, he would not have been able to draw any policy-inferences that would contribute to the betterment of his society. Economics would then be no more than a game for graduates. Marshall wanted it to be more than that.

Meade was a horse from the same stable. Knowing that he could not access the hidden mind of real-world men and women, he was prepared nonetheless to follow the *Principles* and to rely on intuition and empathy supported by the everyone-knows: 'Common sense demands that we should compare different men's satisfactions' (EAP, 209). Comparisons are being made all the time: 'Most people would agree that to give a crust to a starving beggar would give more satisfaction than to give it to a rich and replete alderman returning from a City dinner' (TW, 68). So that is that. If most people would agree that the shadow is tracking the substance, then, on a balance of probabilities, there is a reasonable chance that the invisible iceberg is more or less where the representative median believes it to be.

Social policy is a magical mystery tour. Every economist knows that optimality in the sense of Pareto is an allocation of scarce resources such that 'it is impossible to make any one citizen better off without making someone else worse off' (TW, 8). What is needed for social improvement is, however, not just the theory of the summit but some practical means of identifying its location. Meade felt that Marshall had shown the way. In a state of radical unknowledge, both political democracy and the economic market are fall-back proxies for common sense.

Utility is individual and subjective. Social well-being is the simple adding up of the parts. The *summum bonum* of the whole is nothing other than 'the maximization of the sum of individual economic welfares' (TW, 5). It is the Benthamite absolute of one-added-to-one: 'We shall attempt to judge all acts of policy from the point of view of the effects upon this total sum' (TW, 5).

Interpersonal comparisons are a utilitarian exercise in respect for persons. Listening and learning puts the *ought-to-be* into the *is*: 'The greatest amount of satisfaction can be derived in this way' (EAP, 207). Money can be made the measure of value. Consumer's surplus can be quantified. Income can be redistributed from replete aldermen to starving beggars based on the consensus of opinion that the marginal utility of household budgets is not always and everywhere the same. Felt utility goes up when purchasing power is reallocated from large balances to small. The psychological gain exceeds the psychological loss. Total satisfaction in the nation moves on to a higher plane because the citizens and their leaders have taken a view on the intensity of desire.

It is an important result. Maximum utility cannot be calibrated 'unless we are prepared to make comparisons between the satisfactions of different citizens' (TW, 69). Prepared perhaps; but still it is a heroic assumption. People differ in more than spendable assets alone. Respect for persons must extend to non-pecuniary distance factors such as intelligence, assiduity, family responsibilities, anxiety-thresholds, *joie de vivre* or a medical condition that necessitates a special diet. To citizens with abnormal wants or needs, 'presumably, the addition of an extra dollar per annum may mean more than it does to the others' (TW, 69).

The inveterate sourpuss always expects the worst. The utility monster can never get enough. Meade knows that there is more to the utility maximum than differential income alone. Putting Marshall before Jevons, however, he is prepared to concentrate on the monetary differential and to impound the other distance factors in the *ceteris paribus*. It is an economist's ranking-scheme. It is not the only one.

Consensus broadly shares the economist's opinion that spendable resources are out of joint. Economic evolution does not have an 'equalising effect' (TW, 69).The self-stabilising market is not delivering the bliss that most members of the community believe to be 'unequivocally desirable' (TW, 68). For the national stock of utility to be at its maximum, the State must intervene in the circular flow to reallocate the real, existing endowments.

It is a big responsibility. Although the greatest happiness of the greatest number is not directly observable, the State is nonetheless expected to assign 'distributional weights' which reflect the 'desirability from a social point of view of changes in the distributional pattern of utilities' (JE, 46). It is required to reallocate disposable incomes in such a way as to make the differential satisfactions broadly the same for all. Where the equilibrium does not maximise total satisfactions, the economists, acting as the dentists with whom Keynes said they had so much in common, should recommend policies that would fix a sub-optimal economy trapped in unemployment or inequality. Meade, like Keynes, may be read as the heir to John Stuart Mill and the great utilitarians who wanted social reform because it would shift perceived well-being on to an even higher plane.

The State will fall back on tax-and-spend to balance out the marginal utilities: 'The attainment of the condition of optimal distribution may thus require the taxation of high incomes and the subsidization of low incomes' (TW, 69). It will use monetary policy to defend the wealth-stock of future cohorts: a high interest rate is conducive to the postponement of been-and-gone consumption. It will cut the profits-tax: there will be higher living standards and more jobs later on but the utility from the sacrifice will have been deferred. Distributive justice is inter-temporal as well as inter-personal. Politicians must be strong and public-spirited if they are to speak for the great chain of nationhood and not simply for the felt utility of the here-and-now. Meade assumed that more often than not they would not betray their nation's trust.

The process should continue up to the point where 'it is impossible to increase the sum of individual welfares merely by transferring income from one citizen to another' (TW, 8). That will be the *optimum optimorum*. Beyond that point the State will not be able to facilitate any further gain in utility through socially validated transfers from the aldermen to the beggars for whom the marginal income is 'of special importance' (TW, 69). At that point the visible hand will bow out. Market automaticity will do the rest.

2.3 Social Policy as Ignorance

Meade and John Rawls were theorists of equality and freedom. Meade had read Rawls: he says that he derived inspiring insights from 'Professor Rawls's great book' (JE, 10). Rawls had read Meade: he says that his

Theory of Justice owes much to Meade's *Efficiency, Equality and the Ownership of Property* (Rawls 1972: 273n). Both Meade and Rawls saw in the other's social philosophy a powerful confirmation that 'equality is an efficient tool for raising total utility' (JE, 45). Equality will always increase the sum total of utility. Everyone knows that. Levelling will always enjoy the support of the representative citizen in the street.

Meade and Rawls both reach the conclusion that *ceteris paribus* we are all best off when we all spend the same. Meade puts it as follows: 'If all citizens had the same needs and tastes, then an equal distribution of spendable incomes would be desirable both to maximise the sum total of individual utilities and also to equalise utilities' (JE, 112). Rawls identifies a broadly similar endstate: 'All social values—liberty and opportunity, income and wealth, and the bases of social support—are to be distributed equally' (Rawls 1972: 62). It follows that a pro-poor policy must *ceteris paribus* always be a desirable policy. Meade says so: 'One should always adopt that type of policy which did most to raise the welfare of the poorest members' (JE, 50). Rawls says so: 'Social and economic inequalities are to be arranged so that they are … to the greatest benefit of the least advantaged' (Rawls 1972: 302). Both Meade and Rawls are saying that the most deprived have the strongest claim.

It is levelling but it is also *ceteris paribus*. Neither Meade nor Rawls has any desire to kill the golden goose. Both Meade and Rawls make an exception for differentials and incentives that, increasing the total cake, would ultimately be 'to everyone's advantage' (Rawls 1972: 62). Meade is all too aware that the philosophical optimum and the economic optimum might clash: 'There is a very real trade-off between efficiency and equality' (LEE, 148). The optimum population is not just the headcount 'which maximizes satisfaction per head' but, and more fundamentally, the census 'which provides the greatest real income of commodities and services per head' (EAP, 263).

What matters to ordinary people is not the utility but the living standards that make the utility possible. The good life is matter as well as mind. Equality by itself can yield utility. It is not enough. Motorcars and beefsteaks do not fall from Heaven.

Dead-level equality is unlikely to generate the deferred gratification, the assiduity and the risk-taking that would over time make everyone better off. Time-and-a-half is more likely to get the work out. Both Meade and Rawls accept that disparities in utility will sometimes have to bend before differential achievement because that way lies the GDP.

The similarities are striking. There is also the blue water. The destination may be the same. The road map, however, is not. It makes a difference to the texture of the proof.

Rawls accounts for consensus by invoking a veil of ignorance, 'purely hypothetical' (Rawls 1972: 21), such that no decision-maker can know his personal and private stake. Meade, more in touch with common usage, argues that ordinary people actually know who they are. Interest and ideology, gender and age, black and white, rich and poor, proletarian and capitalist, once the veil is drawn aside the consensus may give way to conflict because self-interest may put a serious strain on the common purpose.

A little knowledge is a dangerous thing. The veil drawn aside, the result can be a dystopia in which the enforcer State might have to impose a 'political public choice' (JE, 17). Without the man on horseback there might be neither law nor order. Ignorance cannot paper over the cracks. It is too late. Ordinary people know who they are. Common sense told Meade that ignorance in the sense of Rawls did not make much sense at all.

Ignorance is unrealistic. Yet uncertainty is economics. Meade could have invoked the inherent unpredictability of history-to-come to argue that each self-interested loss-averter, imagining the costs and benefits of the unknowable, might find it rational to protect himself through a levelling social policy. The future, as Buchanan and Tullock say, is the ultimate black box: 'Here the purely selfish individual and the purely altruistic individual may be indistinguishable in their behavior' (Buchanan and Tullock 1962: 96).

We are all the same in the black box. We are all narrow maximisers once the lights come on. Unknowledge was the window on the world of Buchanan, Tullock and Rawls. Meade preferred to take human beings as they are. A rich man situated behind the veil could undeniably think himself into the poor man's distress: 'But this does *not* mean that an actual rich man puts himself in the poor man's shoes.... He may nonetheless advocate redistribution because he thinks it fair and just' (letter from Meade to D. Mueller dated 12 June 1973). Self-interest in the real world is not unbounded. Most people some of the time care.

Compassion and not just self-interest lies behind the real-world voting decision. People want to do what is fair and just. They also like to live in a society that bears the stamp of rectitude and cohesion. Meade, speaking in 1986 at an Alliance meeting of the Social Democrats and the Liberals, used the term 'enlightened altruism' to capture this desire to invest in a gracious environment that has scraped away the barnacles that divide: 'It will be pleasanter for everyone including the well-off to live in a society where poverty, unemployment and confrontation do not breed stress, delinquency and crime' (MP 9/60). People want a good society. It is not a society behind the veil but a real, existing society that they are determined to make good. They are willing to pay non-negligible taxes in order to make their ideal into shared and collective institutions.

2.4 Social Policy as Community

Meade as an economist could have explained the propensity to share in terms of the purely selfish stake in a precautionary safety net. To some extent it may be implicit in what he says about the welfare State. Ordinary people value their social insurance and their national health service because no one can foresee a future accident or illness. The fear motive keeps even the archbishops awake at night. What is important is not how much but how little he actually says about the stake of the *homo economicus* in the more equal society. *Ex ante* calculation has its place, and nowhere more so than in economics. Even more salient is, however, *ex post* relief. The mugger's victim lies bleeding on the ground. No one but a bad Samaritan crosses the road because An Other is not An I. British people do not cost-benefit a fellow citizen who is obviously in need.

Richard Titmuss treated voluntary blood donorship as a 'practical and concrete demonstration of fellowship relationship' (Titmuss 1973 [1970]: 273). He traced the levelling propensity to 'the will of society to move towards a more equal society' (Titmuss 1974: 508) and the National Health Service to 'the expressed wish of all the people to assist the survival of some people' (Titmuss 1963: 39). The welfare State to Titmuss was more than a my-welfare-State. It was a *Gemeinschaft* in the tradition of Tönnies. It was the spirit made flesh of One Nation that cares. Meade shared Titmuss's perspective that people are by nature communitarian as well as economic animals. Not Hobbesian but hyphenated, the consensus is in favour of levelling because that is what good neighbours do. No one wants to bowl alone.

Socialised beings extend a helping hand because no ego is an island where fellow creatures are in need. It is a Pandora's Box. Need can be relative as well as absolute. Deprivation can be another name for social distance. So long as the Queen is housed in Buckingham Palace, Lord Shirefox will regard his stately home as a shaming demonstration that he is second best.

Absolute poverty is hunger and cold. It is the lower depths where the individual or household is stranded 'below some objective standard necessary to keep body and soul together' (JE, 51). Relative poverty includes absolute poverty but goes beyond it. In the case of relative deprivation, the poor are those members of the reference group who have 'a great deal less than most people in the society in which one is living' (JE, 51). It is all a question of the frame of reference. A family in Britain is called poor if it does not have a washing machine. In Somalia the cut-off is shelter and food.

Relative deprivation does not stop short at the out-of-work sleeping rough. It extends to all members of the peer group whose economic status is 'a great deal less than most'. Comparing themselves with 'most' and not with the Queen, the poor are those whose weekly shop does not meet 'the general standards of the community in question': 'People are poor if they are much worse off than the other members of the community in which they live' (JE, 52). People are poor if their standard of living is 'greatly below that of their neighbours' (JE, 53). They are equal in law. In economics and in self-presentation, the fellow nationals are nonetheless a tribe apart.

Equal respect is the creature of time and space. In Britain where absolute poverty has become a minority affliction the relatively deprived have not gone away. In spite of the Supplementary Benefits and productivity growth, there remain many members of the national reference group who are 'greatly below' the bar: 'A substantial number of families are living below the minimum standard' (CP II, 323). Their basic necessities are not being met by the economic market. The welfare State must fill the gap.

It is Titmuss on social integration as moral constraint. It is also Meade, who situated his economics of resource allocation in a matrix of community involvement and social duty. Right and wrong come first. The motorcars and the beefsteaks are the proof that the We has already spun its web. As Meade said in 1984: 'Human society can work only if there is an accepted strict code of social conduct—that one does not steal or murder even if it is to one's advantage and even if the police are not there…. If all social conduct rested on the fear of punishment, human society would collapse' (MP 4/35). An accepted and strict code makes both capitalism and exchange possible. Like Marshall, like Titmuss, Meade was a great preacher.

2.5 Social Policy as Compensation

A free market economy has its winners and its losers. The nation as a whole benefits from creative destruction and dynamic upgrading. The workers and the businesses that are crowded out by change are the collateral damage who lose their livelihood and their self-respect (Reisman 2001: 113–122). Titmuss knew that randomness could never be a fair market price. Not a sparrow falls but the bell tolls for all of us. He concluded that it was morally wrong and intellectually inappropriate to relieve the victims with charity when in truth their claim is for redress: 'They are part of the price we pay to some people for bearing part of the costs of other people's progress' (Titmuss 1968: 133).

Meade was on their side. Adversely affected by economic change, they suffer 'needless hardship and anxiety' (CP I, 359) through no fault of their own. It is 'not just', not 'politically expedient' (CP III, 381), that some should bear the brunt of structural change that enhances the well-being of all: 'A rich developed country should surely search for some solution which enables such victims of progress to be treated with relative generosity' (CP I, 400).

The unemployment dole and the retraining allowances are not a gift but an entitlement: 'Properly planned, there need be no individual hardship' (CP III, 282). Compassion internalises the diswelfares of change. It does more. Without egalitarian policies to put right a previous wrong, the hardship of the structurally unemployed could erupt in 'serious civil disorders' (CP I, 405). The next General Strike or march from Jarrow could be triggered by international freedom of trade or the robotisation of human labour. The haves owe it to themselves and not just the have-nots to ensure that the spillovers from GATT (General Agreement on Trade and Tariffs) or technological displacement do not disrupt the ongoing social order.

It is sound economics as well as good ethics. Meade is aware that, in the tradition of Pigou, Hicks and Samuelson, there might be some scope for the sunrise to compensate the sunset and still retain a utility-surplus for itself. Were it to do so, the secondary consequence of fairness would be 'an increase in economic efficiency' (TW, 71). In the long run the nation will experience faster growth when the rust-belt is converted into a financial hub and redundant miners move into service employment. Compassion can also be an investment. In the short run, there will be a hiatus.

Spontaneous transfers are unlikely in a market economy. Only the State and not private business can pay the compensation. It is duty-bound to do so. Carefully considered, the transfer is not a gift but rather the price a responsible society pays to its members to purchase their consent for something new. It is not a private contract but a social contract. Equality yields utility. The consensus wants to do what is right for its own.

2.6 Social Policy as Empowerment

Liberalism in the sense of Herbert Spencer is freedom *from* the State: 'All socialism involves slavery' (Spencer 1969 [1884]: 100). Liberalism in the sense of T.H. Green is something more. It is the freedom *to* flourish and *to* unfold: 'The mere removal of compulsion, the mere enabling a man to do as he likes, is in itself no contribution to true freedom' (Green 1891

[1880]: 371). To T.H. Green, State intervention is an essential complement to market capitalism. His passion for progress, prosperity and improvement inspired a generation of young idealists like Graham Wallas, L.T. Hobhouse, Evan Durbin and John Hobson who sought salvation through collective action and the caring State.

Green 'firmly located the search for justice within the world rather than postponing it to the hereafter. Morality was essentially the working of reason within a rational world' (Clarke 1978: 14). Without adequate education, without decent housing, without affordable health, there would be neither an equal start nor an open road. Freedom *to* underlies the radical reforms of the Asquith Liberals in the run-up to the First World War and of Attlee's Labour Government in the reconstruction that followed on from the Second. New Liberal or Fabian, the agreed-upon task was to level up.

The dole is relief but retraining is empowerment. Meade was in favour of opening doors as well as providing handouts. In 1936 he was recommending that everyone should have 'the same opportunity of satisfying his needs' (EAP, 209). In 1975 he was calling for 'State action to promote equality of opportunity' (IR, 15). Where the opportunity to train for top jobs is restricted, the result, economically as well as socially 'undesirable' (EAP, 213), is impeded competition, blocked entry and monopoly rents in excess of the marginal product. Freedom *to* would level the playing field. It would give the ambitious and the able the chance to make the most of themselves.

Freedom *to* is a reason for labour exchanges to disseminate information about openings and for an in-touch educational system to teach marketable skills. Scholarships and loans could be used to relieve the bottleneck windfall in scarcity occupations. New industries could be attracted in to declining regions. Allowances could be provided for relocation and rehousing. Social policy is a topic in efficiency as well as equality. The natural rate of unemployment would fall and the rate of economic growth would go up. Empowerment has third-party spillovers. All members of the community live better once the slack has been taken in.

Social policy should take the form of complements to mobility and competition. The umbrella should not extend to concessions and privileges which narrow the way up. Professions and unions should not be licensed to exclude frustrated outsiders nor a minimum wage push job-seekers on to long-term benefits. Rent controls which make private letting 'totally unprofitable' (CP II, 327) should go: 'grossly inequitable and grossly inefficient' (PPM, ix), they contribute to homelessness and discourage new builds. Price ceilings which direct the subsidy to the rich as well as the needy should go: they are 'a grossly wasteful form of social service' (PPM, 41) precisely because they are unfocused and untargeted.

The message is clear. Meade (like Herbert Spencer) wanted the inputs and the outputs to be sold at their market-clearing price but (like T.H. Green) wanted the opportunities and the outcomes to be corrected by public policy. Meade, in common with Amartya Sen, was an advocate of 'substantive freedoms' that would enable the 'elementary capabilities' (Sen 1999: 36) to thrive and grow. The National Health Service should keep the social capital of all social classes in good repair. Appropriate education should prevent lives from being stunted and quality potential from lying fallow. Equal opportunity is in the interest of the society as a whole. Fiscal correctives come later. The primary task is to ensure that every citizen has a real chance.

It is authority at the beginning and authority at the end. In between the origins and the destinations it is exchange: 'Any desired redistribution of income should take the form of a direct transference of income from one set of persons to another, so that every one is still free to choose between different commodities at prices which measure their marginal costs' (EAP, 230). It is Asquith as well as Attlee. It is Lib as well as Lab. It is the middle way.

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3

Taxation and Expenditure

The State provides benefits in cash and kind. It levels up the opportunities and levels down the outcomes. Taxation augmented by expenditure brings about a 'desirable distribution of income and property' (JE, 214). It moderates the 'intolerable contrast of poverty side by side with great riches' (LEE, 1). Social engineering makes the society more equal and more equitable. It does so in such a way as to protect the integrity of market signals and to contribute actively to economic growth.

It also conforms to the broad social consensus. Democracy alone can validate *how much* or indicate *how far*. Shaped by the intellectuals and the politicians but never created ab initio in a vacuum, the will of the people may be trusted to support the middle way.

3.1 Taxes on Earning and Spending

A punitive rate of personal income tax is a disincentive to productive activity: 'Nothing more can be achieved by making the tax system more progressive at the upper end' (PPM, 39). Meade saw no case for the confiscatory marginal rate of 98 per cent that was imposed (admittedly

D. Reisman, *James Edward Meade*, Great Thinkers in Economics,
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only on large accruals of investment income) in Britain in the 1970s. It is counterproductive to redistribute income by squeezing the high earners to such an extent that there is a diminished incentive to produce (PPM, 40).

Not only should the marginal rate be reduced, the gradient should be flattened. There should effectively be one band for the great majority of taxpayers. Only at the top end of the scale should a surtax be added to the standard rate.

An egalitarian would not normally recommend a proportional tax. Meade, however, was an economist as well as a Fabian. He feared that the well-to-do might be driven into tax avoidance through capital appreciation or paper speculation that contribute little to real growth. He also knew that unincorporated small businesses would be less inclined to reinvest or to raise their productivity if bash-the-rich policies were clawing back the partners' profits. A nation that wants a growth dividend cannot afford to make policy on the basis of ideology alone.

As for corporate incomes, Meade had a preference for a flat-rate tax. Retained earnings should not be exempt. An allowance against tax would encourage excessive reinvestment of loanable potential that might more economically be employed outside. By the 1980s Meade was experimenting with the idea of progressive taxation levied not just on business incomes but on headcount as well. In keeping with the idea that small is beautiful, he was proposing that the marginal rate should rise with the number of employees. Some workers might be priced out by the de facto tax on jobs. It would not be a problem. In a fully employed economy they would find new jobs. Some of those jobs would be in the small-firm sector.

Earning is one loop of the circular flow. Spending is the other. Nicholas Kaldor in *An Expenditure Tax* had proposed in 1955 that the incidence be shifted from one flow to the other. He had recommended the same departure in the Appendix C that he had written for Beveridge's *Full Employment in a Free Society* in 1944.

Kaldor built on the proposals for indirect in place of direct tax that had been made by lateral thinkers like Hobbes, Mill, Marshall and Pigou. Meade built on Kaldor. He did so most prominently in the proposals of the Meade Committee in 1978. The climate was propitious. All three major parties were leaning towards purchase or value-added tax.

A tax on expenditure in the 1930s might have aggravated the overhang of saving in an economy already starved of aggregate demand. By the 1950s the new normal had become full employment. In an unpublished letter to *The Times* Meade in 1978 indicated that savings, lower in Britain than in other, more successful economies, were not a deflationary drag but rather a trigger for growth: 'Savings are dangerous only insofar as they are not accompanied by a corresponding increase in real investment expenditures' (unpublished letter from Meade to *The Times* dated 23 February 1978, MP 6/2). Investment replaces consumption as a source of demand. If for some reason it is not enough, 'monetary and fiscal measures' would be devised to encourage businesses to plough back what they might otherwise have taken out as family income or distributed dividend.

It would be government that backstopped the market if investment opportunities, never exhausted, were not taken up. They would be. Post-war go-go was not the pre-war Depression. If anything, the greater danger was not too little spending but too much. An expenditure tax was de facto a built-in stabiliser. It would contain the demand-pull before it fed through into inflation or diverted potential exports to the domestic market. The tax exemption would be an incentive to abstain and accumulate (TW, 100). Small capitals would become medium-sized. Bank accounts, investment trusts and mini-portfolios would become the norm. In Marx's socialism every citizen becomes a worker. In Meade's socialism every citizen becomes a capitalist.

The flight of funds into tax-avoiding consumption is a market failure: 'It is only by spending, not by earning or saving, that an individual imposes a burden on the rest of the community in attaining his own ends' (Kaldor 1955: 53). The expenditure tax reunites the private with the social calculus. Pigou-like, it would close the gap.

There is also a citizenship spillover that operates through the presentation of self. Consumer goods are status-markers. An expenditure tax, particularly where it is progressive, has the effect of bringing living standards more closely together. Progression by definition is pro-poor. The expenditure method damps down conspicuous ostentation. Money never spent is never taxed. History, moreover, is not sheltered. An expenditure tax makes no distinction between spending from current income and spending made possible by long-hoarded potential. A tax levied on monetised assets and not just on rolling balances 'falls more heavily than progressive income tax on the wealthy who are financing high levels of consumption out of capital resources' (SRDT, 33). Their spending catches up with them. Visible living standards become more equal.

The tax discriminates between individuals to the extent that it is progressive. It does not differentiate between the consumables themselves. Neither Kaldor nor Meade wanted any distinction to be made between the caviar of the rich and the offal of the poor. Kaldor made it clear that there was no reliable way of opening the black box: 'Any scaling of commodities according to their degree of luxuriousness or essentiality is a highly arbitrary one' (Kaldor 1955: 22). The black box should be taxed as a whole. The caviar and the offal should be left to the saloon-bar bore.

In spite of its advantages, Meade must have known that his expenditure tax was unlikely to be adopted as it stood. The overheads of administration would be high. Progression necessitates a person-by-person assessment. The take might fall short of the direct tax it would replace. Most important, it would be a radical departure: 'We cannot jump by one revolutionary movement from the existing tax structure to a completely new one' (SRDT, 3). *Natura non facit saltum.* It is all in Marshall.

Countries like India (Kaldor 1956) and Ceylon (Kaldor 1960) had experimented with a Kaldor tax. It had not proven a success. When Meade presented his proposal to a committee at the British Treasury, he was met with what he saw as 'unmitigated hostility' (letter from Meade to G. Howe dated 23 November 1977, MP 6/2). The upshot was that the Chancellor of the Exchequer had personally to remind him that Westminster politics is not a Cambridge seminar: 'The objectives must be achieved as far as possible by moulding and reshaping the present structure on a foundation of principle—rather than contemplating any kind of replacement unless the cost for that is proven to the hilt' (letter to Meade from G. Howe dated 23 November 1977, MP 6/2). Meade did not press the point. He could see that the time might not—yet—be right for the fiscal upheaval which he knew to be right.

This section has been concerned with taxes on income and taxes on expenditure. It is obliged to conclude with an outlier. Owner-occupiers often believe that they neither pay rent nor receive it. Meade believes that they are mistaken.

Before 1963 imputed rent ('Schedule A') was taxed as annual income in the United Kingdom. In 1963 home-ownership was made tax-exempt. Since the rich are more likely to own their homes, and to command more living space, the result of the exemption was 'to give a very valuable tax advantage to owner occupation over tenancy' (SRDT, 54). Meade argued that the exemption should end. Schedule A should be reimposed.

Yet the poor too must pay more. Meade argued that council rents should rise to the market-clearing level. At the same time, council tenants must be given a right-to-buy. It will increase their stock of wealth as well as enhance their geographical mobility. The lock-in of public housing and the postcode lottery will come to an end. The social dividend will make private purchase more affordable. The local authorities will hive off the housing business. It is swings and roundabouts. Once the council tenants have bought, they will be taxed on the fair rent that they pay themselves.

3.2 Taxes on Capital and Wealth

It is not the flow of earnings but the stock of possessions that is the cause of the greater inequity. In 'most competitive economies' there is 'a much greater degree of inequality in the distribution of income from property than in that of earned income' (JE, 169). Incomes are unequal. Property is more unequal. The social distance is too great.

Unequal wealth generates unearned purchasing power: 'The main cause of inequality of incomes is inequality of income from property' (EAP, 212). The accident of birth grandfathers the market command. Reinvestment at compound interest makes the fortune exponential. Inheritance of land and capital perpetuates the cumulative head-start. Assets pay for private and higher education that yields a supra-competitive return. Ownership means security, independence, influence, freedom and status. It facilitates a better network of lucrative contacts. A nest-egg allows the employer to last longer than the worker in a strike.

Small agglomerations of wealth are in the social interest. Saving is the way in which the less endowed level themselves up into solvency, home ownership, bequests and small businesses which create employment and add new value. The problem is not wealth per se but 'only fairly large concentrations of wealth' (SRDT, 516). Economic growth does not narrow the distance but actually increases it. It is a self-aggravating inequity that social policy in the form of the tax system 'should be designed to disperse' (SRDT, 516).

A wealth tax would directly disperse the endowment. Levied at a progressive rate but with a generous threshold, it would fall disproportionately on 'large amounts of wealth' that have the character of intertemporal and intergenerational privilege: 'This argument justifies a tax on the holding of wealth (an *annual wealth tax*) or a surcharge on investment income as a rough and ready proxy for an *annual wealth tax*' (SRDT, 512).

Earned income is achieved and merited. While it should nonetheless be taxed and surtaxed, still it can be justified as in some sense 'the fruits of a man's own skill, enterprise and effort' (SRDT, 512). A stock of wealth, inert and passive, cannot be said to be equally deserving of a reward. A wealth tax is the answer. The glaring disparities will be planed down: 'A large and progressive capital levy would promote social equality more effectively than any other single measure' (CP II, 288).

The net effect depends on the rate and the threshold. A token wealth tax would be no more than a symbol. A swingeing wealth tax would be more egalitarian but it would come at a cost. It would severely disrupt the capital markets if shares and bonds were sold to finance the levy. It would cause hardship to pensioners and other savers whose lawful expectations had not been honoured. It would not be 'politically feasible' (CP IV, 91) if the cut-off were low enough, the catchment universal enough, to generate the necessary yield. There are the overheads of administration, valuation and enforcement which eat up the revenues. There is the possibility that a major liquidation of wealth would tip the economy into deflation and recession which would destroy jobs.

The list goes on. An annual levy could be a disincentive to work and save. An occasional levy could engender the expectation that it might be repeated. Where the rate of interest is high or property prices rising, the wealth stock will renew itself unless and until a further wealth tax is imposed. All things considered, a tax on the stored-up stock should not be imposed.

The benefits, financial and social, are not in question. The barriers, however, are all but insuperable. Meade, backing down, decided in the end that 'we should not go' for a tax on wealth: it 'really lies outside the range of what is practicable or suitable in our evolutionary methods of social and economic reform' (CP II, 312). Our people, basically, do not want it. Crosland in *The Future of Socialism* had reached the same conclusion (Crosland 1956: 311–18). His argument, Meade says, was 'exceedingly well put' (CP II, 312n).

Neither Crosland nor Meade was eager to take the bull by the horns. In the Cabinet Secretariat in 1947 Meade had already made up his mind not to shake up a going concern. A levy on wealth would permit the retirement of the national debt but would also impose real hardship on all but the asset-poor: 'If any appreciable net saving is to be gained from a capital levy … the levy itself must fall in large measure on the relatively small and medium-sized properties as opposed to the very large properties' (MP 3/11). Even then it would not be a paying proposition. A levy would only generate a 'disappointingly small direct net yield' (MP 3/11).

An explicit tax on the total stock was impractical and unsuitable. Meade as a moderate preferred to make haste slowly through stock-reducing taxes that operate easily and painlessly at the margin. Of especial value was a tax on the capital gains that are realised at the point of sale.

Meade is aware of the pitfalls. Paperwork rules out the assessment of unrealised gains. It limits the number of assets that are caught in the net. Such selectivity alters the relativities and magnifies the second best. Jewellery, if excluded, skews resources into unproductive consumables. Production-lines, if included, become less attractive to the profit-seeking investor. Socially, both the diamonds and the forges count as private and national wealth. Economically, the distinction is as palpable as passive and active. Any tax on assets that diverts resources from industry and employment is a tax on performance and growth as well. It is minus-sum levelling down that contributes nothing but spite to economic well-being.

A tax on wealth, a tax on the unearned income from wealth and a tax on the capital gains that accrue to wealth are three ways to flatten out the peaked concentration. There is another. At death the whole of the asset stock changes hands. The end of life is the final realisation. Death duties, focused and planned, have the attraction that they 'encourage a wide dispersal of inherited wealth' and 'reduce very large concentrations of such wealth' (SRDT, 513).

In order to attain these objectives Meade proposes that the tax should be levied on bequests. This would encourage the sequential sub-division of the estate. Talking Marxism, it would ensure a wider dispersion of the shares and bonds that distinguish the capitalist class. Talking achievement, it would reduce the extent to which a rentier drone can benefit from 'the luck of inheritance' (SRDT, 512) without having to add value for himself.

The recipient's bequests should be taxed at a progressive rate. The life-cycle savings of altruistic parents would in that way come into the take. The negative side-effect, that parents might avoid tax through consuming what their nation needs for its capital, is savings lost that Meade chooses to disregard. What he emphasises instead is the benefit to the social fabric as a whole.

A progressive rate over the recipient's lifetime is an incentive for the donors to parcel out their inheritance into multiple accessions: 'The result is a true redistribution of private property from wealthy to less wealthy owners' (JE, 202). While he does not propose a solution to tax avoidance through trusts, Meade does recommend a tax on inter vivos gifts to ensure that the estate is not alienated in advance of the ultimate capital transfer.

3.3 The National Debt

A nation should match its outgoings to its revenues. In good times it should aim at a budget surplus. In bad times it should budget for a deficit. Over the course of the cycle it should plan for a balance. It should not tolerate a continuing national debt. In the three position papers he wrote in 1945 as the representative of the Economic Section on the National Debt Enquiry, in a contribution to the *Oxford Economic Papers* in 1958, throughout his writings on public-sector economics, Meade argued consistently that the national debt was a 'serious and real economic burden' (CP II, 312). It could not be left to run on.

A country that relies on debt finance may be likened to a country weighed down by a fixed parity. The need to float new instruments forces it to keep its rate of interest artificially low. It may have to do this even if domestic inflation would suggest a higher rate. Public finance would be precluding the use of the rate of interest to ensure internal balance. The tail would be wagging the dog.

Debt held internally, although a simple transfer within a single community, diverts tax revenues into service and repayment which would otherwise be spent to meet domestic requirements. As taxes go up, so saving and effort are likely to go down: 'A large national debt blunts economic incentives' (CP II, 314). Without the deadweight of the debt the tax rates would not be as high.

Where a tranche of the national debt is held externally, the position is doubly difficult. Not only is there a strain on tax finance but the money must be remitted across the exchanges. Additional exports must be generated or the burden passed back to the reserves. Neither scenario will be self-sustaining.

The national debt should be eliminated. Repudiation is out of the question: it is unfair to existing debt-holders and a dishonourable breach of contract in itself. That leaves three possibilities. The debt could be bought back with the budget surplus accruing in the upswing. Tax rates could be raised expressly to make possible the redemption. A once-for-all wealth tax or capital levy could be imposed. The third option can be ruled out. Capital gains taxes and death duties are already trimming the wealth. They are part of the tax finance that feeds the budget surplus that repays the debt.

Once the national debt has been eliminated the State should take care never again to live beyond its means. War and reconstruction were exceptional circumstances. In peacetime the clinics and the roads would have to be paid for out of tax. Keynesian full employment policies are not a license perpetually to overspend. Nor is the welfare State. The clinics and the roads will have to wait.

It is not a counsel of despair. It is, however, an invitation to grow. The natural dividend complements the transfers. In order to 'improve the lot of the poorest sections of humanity', a nation redistributing from the toffs to the slums must also 'rely on rapid and far-reaching growth of output per head' (IR, 119). In that way the poorest sections will gain and no one will be made worse off.

It is not the politics of envy but the politics of betterment. Meade states his ideal with great clarity in the never-published Part VI of his *Introduction to Economic Analysis*: 'An election fought principally upon the issue of equality against inequality of income is out of place so long as there are still methods by which the income of the poor can be increased without any diminution of the income of the rich' (MP 2/12). State education is likely 'mainly to benefit the poorer members of the community' (MP 2/12). By its very nature it is selective discrimination at the margin. The education of the poor is being financed out of the increment, the natural dividend. We all go up together.

Growth will generate new and unclaimed capacity. It is virgin territory. It can be claimed for tax without the need for a national debt. It is a plus-sum game. As Crosland writes: 'Rapid growth is an essential condition of any significant re-allocation of resources' (Crosland 1974: 75). It is all in Crosland. It is all in Meade.

3.4 The Social Dividend

Meade called for a 'clean sweep': 'Let every citizen in the country receive automatically each week a social dividend…. Scrap all the other social benefits' (IR, 88, 89). It was a proposal to which he repeatedly returned.

In 1935, in his 'Outline' (CP I, 77), in 1936 in the (deleted Part VI of his) *Introduction* (MP 2/12), in the war years in the Cabinet Secretariat (MP 3/2) and in 1948 in a paper for the Labour Party's Research Department (CP II, 289), he had been calling for a citizenship reward payable as-of-right to every man, woman and child. In *Planning and the Price Mechanism* in 1948 he was stressing the need for 'some great act of rationalization', some 'architectonic reform' (PPM, 5) that would ensure a floor standard of living for all.

In 1972 there was the Sidney Ball Lecture on 'Poverty in the Welfare State'. In 1975 there was the *Intelligent Radical's Guide*, in 1978 the

Meade Report, in 1995 *Full Employment Regained?* Throughout his career, Meade was exhorting governments to 'ensure incomes to everyone at the basic minimum standard' (CP II, 324). No one should have less.

Meade in 1948, having advocated the minimum standard for more than a decade, was being too modest when he attributed this 'stimulating proposal'—'it deserves the most careful and serious examination' (PPM, 44, 46)—to Lady Juliet Rhys Williams. She was the President of the Women's Liberal Federation, Member of the Liberal Party Executive, active social reformer. In *Something to Look Forward To*, Meade said, she had become in 1943 'the first proponent' (PPM, 43) of basic income for all. She had brought the esprit de corps of Dunkirk and the Blitz to the shops and the market stalls. Meade had not been the first: 'No, no, Lady Juliet Rhys Williams, not JEM' (letter from Meade to Sidney Golt dated 24 July 1973, MP 4/24).

It is not clear why Meade was determined to erect a smokescreen over his predecessors and his roots. Coming to Keynes from Major Douglas, he had learned from the social credit movement that every citizen of 'Great Britain Limited' is a 'tenant-for-life' in a common concern: 'Every man, woman and child …. is to be entitled to share equally in the dividend' (Douglas 1933 [1924]: 185, 207). Douglas, like Keynes, was concerned about the difference between total demand and total supply. Free money would return the unemployed to work: 'Finance has to follow production instead of, as in the normal case, production having to follow finance' (Douglas 1933 [1924]: 135).

The possibility of a 'state bonus' had in fact been discussed even earlier, not just by Meade himself in the 1930s but by Charles Fourier, Bertram Pickard and Mabel and Milner—'it must be ours like the air and the sunshine'—in 1918: 'Every individual, all the time, should receive from a central fund some small allowance in money which would be just sufficient to maintain life and liberty if all else failed' (Mabel and Milner 1918: 7). Juliet Rhys Williams handed on the message that membership is the sole criterion. Ethically speaking, equal citizens have an equal claim: 'By transforming every taxpayer into a beneficiary and every beneficiary into a taxpayer the solidarity of the nation should be greatly increased' (Rhys Williams 1943: 190).

The hungry, the unemployed and the disabled are entitled '*as a right*, and not out of pity' (Rhys Williams 1943: 157) to monetise their share in the national income. So, however, are the successful, the assiduous and the thrifty. Rhys Williams argued that the independent were being unfairly treated by their welfare State. They were being left at the gate because, unlike the drunkards and the work-shy, they did not require public assistance to satisfy their basic needs.

We are all bound one to another by an implicit social contract. A person who acknowledges 'the duty of maintaining the wealth of the community and of contributing all he can' should not in fairness be denied his return gift merely because the 'unity and happiness of the nation' (Rhys Williams 1943: 157, 197) stop short at the inclusion of the deprived. Meade was very much in sympathy with Rhys Williams's assertion that no equal citizen should ever be treated as second-rate.

The social dividend is an unencumbered entitlement. It is not remuneration for a tradeable supplied nor compensation for the inability to field a quid pro quo. Ascribed and not achieved, it is paid to every citizen simply because every citizen has an unconditional right to a universal payout. It is on a par with the unquestionable right to some education and some medical care. Whether Meade's social dividend or Titmuss's classless hospital, it binds the nation into one.

The citizen's income is a tax-free allowance, cost-of-living indexed. It should be fixed at the poverty line as currently defined by the Supplementary Benefits level (SRDT, 269). Take-up would be across-the-board. The dividend would not be means-tested and not income-related. Nor would there be any commitment for the idle to seek paid employment. In work or out of work, the dividend, slightly less for young children and slightly more for large families, would be basically the same. It would make the distribution of income more equal.

The citizen's income contributes to felt independence and freedom of choice. The non-waged who want no more than the basic guarantee have the opportunity to put self-directed recreation above soul-destroying toil 'if they choose that way of life' (CP II, 344). It emancipates the Hippie from the Puritan work ethic of nine-to-five. It allows the drop-out to smell the roses without the informal sanctions of a judgemental community. At the same time it leaves open the option of top-ups and better living standards. The aspiring who want more than the citizenship entitlement can pursue paid employment without having (as is often the case with social welfare) to sacrifice their unemployment and disability benefits. Capitalists would be encouraged to take risks without the fear of destitution. Workers would be able to enter the labour market without the loss of income maintenance that keeps them on the dole. Labour force participation would rise. That in itself is economically plus-sum where manpower is in short supply.

The social dividend would be politically acceptable: everyone would welcome the State-assured security. The universal payment would eliminate poverty: no person would have to live on starvation wages. The lump sum like the voting-card would protect dignity and self-respect: there would be no shaming loss of face because there would be no triage.

The social dividend, Meade anticipated, would take the place of the existing benefits. The welfare mishmash, not doing its job, is 'an extraordinary inflated administrative muddle with overlapping and uncoordinated results' (IR, 88). There are family allowances and unemployment benefits, council flats and cold-weather top-ups, sickness pay and rent rebates, tax-free personal allowances and variable rates of fiscal claw-back.

Some grants are means-tested and taxed. Others are as-of-right and inviolate. Some are local. Some are national. Some perpetuate unemployment because there is a cut-off beyond which the poor-in-work cannot claim. Some, like the food subsidies, benefit all classes and not just the needy. Some have a work-test. Some have no work-test. Separately administered, differently funded, often unintelligible, a threat to pride, a source of stigma, the welfare services are a jungle. Selective or universal, all should go. In their place there should be the social dividend. No one would need to claim. The take-up would be 100 per cent.

The social dividend will be expensive. Money will be freed up when the transfers State and its pricey bureaucracy are phased out. New revenues will be generated by enterprises, nationalised or private, in which ('Topsy-Turvy Nationalisation' [FER, 60]) the profit-seeking State holds a share. National Assets, replacing the National Debt which would be repaid, could grow to as much as 'one half of the real capital of the country' (letter from Meade to Ben Pimlott dated 10 March 1989, MP 9/103).

A peace dividend will allow public finance to be redirected from defence. Economic growth will generate a fresh increment. It will not be enough. Mainly, the money for the social dividend will come from tax.

While savings would not be taxed, all personal allowances and exemptions would be terminated. There would be a new tax on 'obnoxious activities' (FER, 65). It will raise revenue as well as reduce pollution. Income tax rates would go up. The Sidney Ball Lecture anticipates a standard rate of income tax of up to 40 per cent (CP II, 342). The Meade Report gives a target rate of 37.5 per cent (SRDT, 508). The marginal surtax rate might hit 60 per cent (FER, 53). There will be a superstandard levy on unearned income.

Meade knows that the rates will be high. That is not a problem. He is an optimist. Ordinary people, persuaded as to the need, will be prepared to accept some reduction in their personal incomes. They will not be opposed to 'some reduction in total national output as a price for an improvement in its distribution' (LEE, 91). The consensus cares. There is more to life than money alone.

A new way of life produces a new social ethic. Citizens in Meade's ideal future will be more sociable, less driven by the 'unbridled urge for unlimited growth and unnecessary consumerism' (LEE, 91). Meade is assuming that most people will be willing to make sacrifices for a more equal way of life, that a critical mass of citizens will remain in employment despite the income guarantee, that the dividend itself will give fellow citizens the sense of a common stake. It is blood donorship translated into income maintenance and, beyond economics, into the new socialised man.

Nationhood is elusive and class is strong. Yet money matters. As all classes will be at risk from capital-intensity, perhaps it will be displacement by automation as well as the Blood Samaritan that will create the requisite consensus in a world where full employment no longer means what it did. In his last-ever book Meade predicted, not without anxiety, that '"chips and robots" will continue to replace unskilled manual workers' (FER, 35).

That was in 1995. Since then even highly skilled professional jobs are being threatened by touch-screens and distance-learning. Labour-saving technology shunts even the highly educated into the reserve army of the structurally unemployed once the lowest wage exceeds the competitor machine's marginal product (EG, 68). On the reserve army Marx is putting Keynes on demand expansion to rout. Some will do well. It will be a 'Brave New Capitalists' Paradise' for the 'multi-multi-multi millionaires' (LEE, 38), in the market for a cook or footman. It will be less of a Brave New Paradise for the rest of us, priced out by a microelectronic arm or a driverless drone. It is not just the blue-collared who have a stake in the social dividend.

3.5 Nature and Nurture

Market liberals believe in an equal start and an open road. The endstate to them should be an aristocracy of merit and not of birth. Liberal socialists believe in achieved status levelled up and down by the State. Meade, like other social democrats, wanted moderate equalisation superimposed upon a fair race in which not all runners can expect to be first.

There was achievement. There was fine-tuning. Yet there was also a grim third party in attendance at the bounteous feast. James Meade was one among many in post-war Britain who believed that the social environment could be socially engineered but that the innate endowment would forever be trapped in the genetic drift. The pursuit of equality was being held back by the biological bedrock. Random luck aside, the pattern was to-whom-that-hath-shall-be-given. There was nothing that sociology or economics could do about that.

Meade had a lifelong interest in the irreducible essence. Selective breeding had been tarnished by Hitler, the Nazis and the wartime genocide. Both before and afterwards, however, thinkers as diverse as Marshall, Keynes, Beveridge, Laski and Titmuss had recognised that there is more to a real, existing person than a passive lump of clay. Meade once called himself 'a radical in politics, but a believer in Eugenics' (LEE, 58). His Keynes Lecture in 1973 on 'The inheritance of inequalities' shows his sensitivity to the physical integument that favours some but holds their socially equal fellow citizens back. It was not just Malthus but Francis Galton that had an influence on the optimum population. Meade served as Treasurer on the Council of the Eugenics Society. Keynes had been its Director.

The social eugenicists made it their concern to produce 'a race of people with inborn perfect social behaviour' (LEE, 106). If the fertility of the more intelligent rises and that of the less intelligent falls, then the strong inference must be that biased childbearing would 'improve the genetic make-up of the population' (GE, 279). The choice of a spouse equally favoured by the biological lottery makes the genetic multiplier an intergenerational inevitability. Random mating would equalise the profiles but debase the average. Nature triumphs over nurture. It is better for the nation if the meritocracy propagates with its own.

All citizens should be assisted, in the tradition of T.H. Green, to develop their intrinsic potential. Because, however, some contestants will have native abilities that are not up to the mark, there should also be an up-and-doing policy to restrain the multiplication of the losers and the misfits. Family planning is a part of the war on poverty. Meade called for 'measures which encourage some differential fertility in favour of those whose earnings are high' (LEE, 58). He also called for measures which keep down the birth rate in social groupings where earnings are low. Low earnings are a proxy for low productivity. Low productivity is a proxy for low capacity. A nation which wants a rising standard of living must reduce the proportion of low-achievers whose mental abilities have plateaued below the norm.

The less-intelligent should be given the help they need to practice self-control. It comes under the heading of 'measures designed to enable everyone to avoid having more children than they want' (JE, 212). The poor might have difficulty in paying a Pigovian tax on births. Subsidies, in contrast to a tax, are a better way of inducing them to reach their targets. Family allowances would cost the taxpayer more.

The less-intelligent should be advised on family planning, offered free contraception and tempted with free abortion. They should be paid a lump sum for voluntary sterilisation: money is 'an important incentive to the relatively poor parent' (JE, 212). The nationwide birth-control service should seek out the low-income and offer them the assistance that they need: 'Many such families take no initiative in seeking family planning help but welcome such help when it is brought to them' (Meade 1967: 9). Meade stops short of 'Platonic police-state measures' (JE, 212). A problem parent cannot be compelled to undergo a vasectomy. Compulsion would lie outside the remit of a free and liberal democracy.

The privileged classes need less State support to achieve the number of wanted children. The high-flyers are better informed about birth control and better placed to pay for it. The result is that the fertility rate at the top of the pyramid is already matching parents' specific tastes and preferences. Unfortunately, it is less than the amount of alpha material that their nation requires them to supply. The problem is the spillover externality. The answer is all in Pigou. A subsidy should be paid to 'married couples with large families in the higher ranges of the progressive scales of taxes' (JE, 213). Differential fertility should be twisted in the national interest. That done, a higher proportion of the population would come from the elites that possess the more valuable genes.

The implicit assumption is that the intelligent will intermarry with the intelligent. It is all in Marshall, that 'the best and strongest of the race' (Marshall 1949 [1890]: 64) ought for their country's sake to keep their potential within the club. Assortive mating keeps the nation on course. Random mating is less patriotic. Meade's reaction is that it is always a risk to water the wine. Mixed marriage across the achievement divide mixes the good with the unfortunate. In the end there would be 'no more geniuses, and no more dullards, but only men and women of mediocre ability' (JE, 186). Michael Young saw what this would mean for personal and national betterment: 'A high I.Q. man who mates with a low-I.Q. woman is simply wasting his genes' (Young 1961 [1958]: 174).

Liberal socialism did what it set to do. It promoted nearly all the people with an I.Q. of 130 and above into a new upper class based not on birth but on brains. Streamed education is the means by which 'the brilliant few' and 'the restless elite' are winnowed out from 'the failures' and 'the rejected' who receive precisely what they deserve. Once the society had been reconstructed around talent and achievement, 'school came to last for life' (Young 1961 [1958]: 75). Intelligence was matched to job. It was 'the highest expression of efficiency and humanity' but it also drove the excluded into populism because no one wants to be tested and found stupid: 'The division between the classes has been stronger than it used to be' (Young, 116, 123).

Meade, like all egalitarians, had to wrestle with Michael Young's paradox of social engineering. He recognised that progress and equity were pointing him in one direction but integration and cohesion in another. An equal paperchase does not guarantee an equal finish: 'There is one possible unequalising effect of a greater opportunity for the able and lesser opportunity for the unable to obtain their share in a given amount of education. The dud who is educated may be able to earn as much as the clever man who is uneducated' (MP 9/16).

Education gives the dud a chance at the glittering prizes. It does not, however, equalise the dispersion of incomes so long as the clever man too is able to enter his innate ability in the race: 'If the clever man is educated and the dud is uneducated, the inequality in earnings may well be increased. This is an aspect of Michael Young's Meritocracy. It may be juster and more efficient economically; but it does not necessarily lead to greater equality of earnings' (MP 9/26). The clever who have a superior genetic endowment go from success to success. The duds perpetuate an underclass that hews and draws if it does anything at all.

Meade, like Michael Young, did not know what to do about the new and achieved form of stratification. In the one camp there will be the meritocrats. In the other camp there will be the duffers. An equal start and an open road might not eliminate but actually 'increase social divisions' (JE, 168). It is not capitalism but capacity that will ultimately divide the nation into the thinkers and the helots who have no common culture but the television soaps.

Even so, education should still match the nature of the beast. Meade does not say precisely what kind of schooling would best satisfy both his economic and social objectives. Hazarding a guess, it is probable that he would have favoured streaming by intelligence over the catch-all comprehensive that regresses bright children to the lowest common syllabus. At the same time he would probably have recommended selective discrimination and compensatory funding in order to give extra support to catchments of special need. Smaller classes and better equipment would be an investment in mobility of the have-nots as well as a good thing in itself. Intelligent children will be empowered to escape the vicious circle of urban blight. Less-intelligent children will not make much progress up the social pecking order. Holland Park Comprehensive or sink secondary, a duffer is a duffer regardless of where he went to school.

There is also Eton and Harrow, Lambrook School and Malvern College. The private sector sells enhanced life-chances to a privileged minority. Meade speculated aloud about what this might mean: 'Is this compatible with individual liberty and with experimentation in educational methods?' (CP IV, 209). Perhaps he thought it was not, but he also knew that outright abolition would be an excessive infringement of a law-abiding minority's freedom of choice. If the fast track was a negative spillover, then the superior facilities were a positive one. All four of Meade's children were educated in high-achieving private schools like Perse and Westminster. His daughter Carol says that this was not a 'discontinuity' in his thought but the proof of his sense of responsibility: 'He felt it was the best thing to do for one's children' (personal communication).

Tawney called the ancient public schools 'an educational monstrosity and a grave national misfortune' (Tawney 1964 [1931]: 145). He had no reservations in demanding that Winchester and Rugby be wound up in the interests of equity and uninhibited mixing. Meade was in two minds. Whatever reservations he may have had, he also believed that liberal socialism should opt for constructive levelling up and not for smash-and-grab. Destroying proven excellence is not the kind of educational policy that decent people can support.

Nature and nurture confronted Meade with a conflict of loyalties. Taxation and expenditure, however, were the means by which he sought to reconcile the opposites. Taxes redistribute the incomes and the assets. Citizens with superior genes share their monopoly rent with their country. Spending paid for out of the natural dividend will possibly equalise the teaching. The intergenerational drip-drip of death duties over time drives the affluent into high-quality State schools. The guaranteed social dividend gives every citizen an equal share in the national wealth. Fewer children at the bottom mean more resources per child and larger bequests even for the less gifted. More children at the top mean that a growing proportion of the population is recruited from the classes that are likely to contribute the most to the national product. Economics has the final say.

Productivity differentials cannot be clawed back until they are earned. Biology makes it difficult ex ante to chart an equalising course. Taxation and expenditure are the middle way. Ex post they do what they can to narrow the distance.

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4

Growth and Development

There is the *why* and there is the *how to*. Meade knew that he had to say why a growing economy is a good thing and a stagnant economy a philosophical bad. His answer was consensus. Most people want a reliable improvement in their standard of living. They want an expanding supply of jobs to match a rising population. They want a natural dividend to pay for essential public services that correct a social failure. Growth in itself is not the Good Society. It is for all that the precondition for the Good Society. It is a vital precondition. The economist who wants to be a missionary has no alternative but to go for growth.

It was not always so. Smith, Malthus and Marx were all dynamic thinkers who modelled growth in order to model betterment. Even Ricardo described the march to the stationary state as a disequilibrium process where all is flux. In the 1870s, however, their vision of the economy as perpetual evolution gave way to the comparative statics of Jevons, Menger and Walras. The marginal revolution, ascribing a windfall of manna to an unknowable deus ex machina, took factor endowments to be fixed. They made allocative efficiency and not restless mutability the centrepiece of their theory.

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Keynes, confronted with excess capacity and a capital glut in the Depression years, continued the practice of starting from *here*. The production possibilities maximum was a frontier that had to be reached. Keynes was prepared to leave it for future generations to say how it should be moved outwards to the right: '*In the long run* we are all dead' (Keynes 1971 [1923]: 65). Keynes, Meade says, had not been very 'interested in the process of change from one short-period equilibrium to another' (BOP, 350). There had not been much change in the 1930s. Marshall's short period would be enough for an economy that was not investing in fixed plant.

There are, however, no final acts in economics and the tide was to turn. In 1939 there was Harrod and in 1946 Domar. The Harrod-Domar model, inspired by the Keynesian propensity to save and the investment multiplier, states that cyclical fluctuation is inevitable around the upward trend and that growth itself might be retarded by the lag in internal correctives. In 1943 there was Rosenstein-Rodan. He called for a Big Push to orchestrate the sectors into a great leap forward. In 1953 there was Rostow. He extrapolated a natural law of economic stages from the historical experience of the vanguard economies. In 1954 there was Arthur Lewis. He viewed backward agriculture as the source of surplus labour that would generate domestic savings for the industrial take-off. Then there was Meade.

Even in the 1930s a thinking reformer like Meade could see that mathematical rigour could never take the place of a rising national product. It was all in Marshall, who in the *Principles*, in *Industry and Trade* and in the uncompleted *Progress: Its Economic Conditions* (Reisman 1987: 3–117) had said that economics was nothing so much as the science of moving up. Meade was living in exciting times. In the post-war period the new issues had become early reconstruction in Britain and Europe and the economic development of the ex-colonial territories. Meade knew that comparative statics would not be enough to refloat the steel industry or lift village India out of the poverty trap. In both the richer and the poorer countries, the responsible economist had no alternative but to go for growth.

4.1 Reinventing Growth

Meade would have been a better growth economist if he had not planted the seeds of change in the permafrost of fixed endowments. The frozen and the unfrozen are not natural complements. Meade dealt with dynamics in *Trade and Welfare* (1955), the *Neo-Classical Theory of Economic Growth* (1960) and *The Growing Economy* (1968). By the 1970s he had moved on. Perhaps he realised that his models were too abstract to capture more than a selection of the relevant variables. Perhaps he had learned from his fieldwork in Mauritius and from the trade unions at home that, like the theory of trees, it is never easy to design general propositions which are trapped in time and space.

Trade and Welfare, being the second volume of his *International Economic Policy*, had to play by the Ricardian rules. Meade knew that the endowments would be constant only until reality moved them on. He knew that comparative advantage is the story of deploying existing capital and inherited labour into the uses that best maximise their relative productivity. Yet he also knew that history does not end at the moment when all resources have been shifted into the areas where their marginal product is equally high. Reallocation has consequences. Change leads to change. Paretian optimality is only a beginning.

In *Trade and Welfare* Meade suggested that the freedom of trade, internal and international, was likely to give a 'favourable jolt' (TW, 469) to the supply of resources. The competitive market pulls the economy out of the low-level poverty trap. It frees up spendable income which then powers a subsequent expansion in the national product.

Rising incomes are a necessary, but not a sufficient, condition. Excessive consumption can retard the accumulation of capital: 'Private citizens may save out of their current incomes much less than it is in the interests of society that they should save' (TW, 32). The invisible hand in the buoyant 1950s might not be generating sufficient resources for investment just as in the Keynesian 1930s there had been no antidote to oversaving but the hands-on State. Market failure was introducing a kink into the process. The State had to intervene by means of a budget surplus that tops up private saving with public abstention.

Politics is a part of the model. Yet growth is not the State's only maximand. Welfare transfers, tariff protection, immigration controls, taxes and subsidies all have a feedback effect upon disposable income: 'What is desirable on distributional grounds may well be undesirable in its effects upon the world supply of savings, and vice versa' (TW, 68). Public policy is an ingredient in the cake. The effect can go either way.

Labour as well as capital has an endogenous element. The optimum population is not independent of the rate of accumulation. Large families spread disposable income and diminish per capita withdrawal. Yet a larger population, because it has a larger effective demand, also means that economies of scale are more likely to be exploited and capital fully utilised. The division of labour is a function of the size of the market. A static theory that holds the factor endowments constant does not capture the induced changes that validate themselves in growth.

At the time of *Trade and Welfare* Meade was aware that fixed endowments are difficult to reconcile with a self-sustaining dynamic. In his *Neo-Classical Theory of Economic Growth* he sought to show that even equilibrium economics could be used to produce a model of self-stabilising progress that had no natural tendency to gravitate into inertia or rest.

To simplify his argument Meade made a series of highly restrictive assumptions. Few, if any, economic theorists have set to sea in so problematic a craft. Meade assumes a closed economy, competitive conditions, flexible prices, homogeneous inputs, putty-clay malleability of capital and depreciation by evaporation at a predictable rate. He assumes a central bank that fine-tunes its interest-rate with 'foresight and precision' (EG, 3) in order to keep the cost of living constant and investment compatible with full employment. He assumes that there is no Keynesian Treasury with an independent fiscal policy.

Meade assumes that there are only two sectors: consumer goods and investment goods. There are no scale economies, internal or external, that would displace the average cost. There is no marketing and salesmanship that would differentiate the perfect competitors. There is no businessman of genius who breaks the mould. There would be no need for creative destruction in a fully informed business environment where, calculating objectively, there is but a single rational choice.

Meade assumes perfect foresight. There is investment and technical progress that in the long run transforms the long-lived plant. In spite of that, there is no depreciation by sudden death and no deviation from the course so prudently charted. There is no windfall profit and no self-inflicted bankruptcy. Meade is prepared to assume away the 'importance of uncertainty and errors of forecasting' (EG, ix). He concedes that 'the most serious criticism' (EG, xi) of his model is precisely the assumption that in business there is a single right answer known with absolute certainty by all the businesspersons. Meade says that he 'will do better in the future' (EG, xi). Perhaps he made good on his promise in *The Growing Economy*.

Meade knew that his assumptions were restrictive. Joan Robinson found them so arid, so artificial that they made the deductions useless. Meade, she complained, 'starts from some doctrine which he wishes to defend or some proposition that he hopes to establish, and sets about finding the least unplausible-looking assumptions that will lead to the conclusions that he requires' (Robinson 1961: 360). It was the cart before the horse. It was a circular argument which in the end 'insulates the analysis from contact with reality' (Robinson 1961: 369).

Joan Robinson felt that Meade was assuming what he would have found impossible to prove. She asserted that it made little sense to situate an ongoing process in a two-period straitjacket of equilibrium states. Supporting her charge would be Meade's account of the circumstances in which the rate of growth of the national income will be constant. Taking the elasticity of substitution between the factors to be unitary, assuming technical progress to be neutral, it follows 'that if the growth rate of the capital stock is equal to the growth rate of the national income, then the growth rate of income will be constant' (EG, 34). It is a valid deduction but that is all. Meade concedes that the simplifying assumptions ultimately mark it out as 'a special case' (EG, 30).

Meade knew that critics like Joan Robinson and Roy Harrod believed that his high theory shed little light on real-world betterment. Since he wanted it to be useful and since the natural dividend was the sine qua non, he was bound to take the implication of time-wasting very seriously. What Meade was reasoning is that his simplifying a prioris, second best though they were, were the only way to escape from the thicket of radical complexity. As he wrote to John Hicks: 'I entirely agree with you that my model is quite incomplete in avoiding the basic problems of incomplete foresight etc etc which make up so much of the real problems of dynamics. But … it is worth doing what one can even if one realises that it is not everything' (letter from Meade to J.R. Hicks dated 5 July 1961, MP 2/12). Something is better than nothing. Meade asserted that he was not running away.

Meade as an economist had been socialised into the neoclassical worldview. In his perspective, and with all of its imperfections, his neoclassical model seemed to him no more than 'new wine in old bottles' (EG, 1). It was distilled from what every market liberal knew about free enterprise, perfect competition, economic homeostasis and factor payments 'equal to the value of their marginal products' (EG, ix). It is not a simplifying fiction but 'a very realistic assumption' (EG, 5) to contend that the substitution of inputs and outputs must proceed up to the point where no further gains can be made in the light of the prevailing price vector. Intuitively, it makes sense. It is, after all, the core of the market credo.

Meade says that his model may have 'limited usefulness' but that it has 'real usefulness' (EG 1) nonetheless. It is not an 'unprofitable procedure' (EG 2) since it builds upon tried-and-tested analytical tools that have stood the test of time. It is in this spirit that Meade presents his optimistic account of a self-equilibrating growth path that is the polar opposite of the self-aggravating knife-edge of Harrod and Domar. Steady-state economic advance in Meade's neoclassical model is all a question of getting the prices right. Macroeconomics is microeconomics writ large. Full employment and capacity operation will occur where the factor payments are in balance with one another and with the selling price of the final product. Economic growth is not the higher mathematics. It is no more than thee and me when we reveal our preferences and complete an exchange.

The share of the gross domestic product accruing to each distinctive input is determined by the marginal product of the factor multiplied by the number of units employed. This is the link with Meade's theory of distribution and through it to his theory of saving. Not all economic groupings have the same propensity to save: 'The rich can easily become rich while the poor may merely stagnate' (GE, 150). Any change in economic structure, any bias in technological advance that favours one input over another, will have an impact on saving, on investment and on growth itself.

Capital complements labour. Diminishing returns to manpower set in as more of the variable input is applied to a fixed capital stock. Yet capital itself is growing and that may keep the productivity of labour high. Where the growth rate of total output exceeds the growth rate of the nation's population, the real income per capita will be rising.

The response of the supply of labour to the rise in living standards is more difficult to model. Life expectancy rises as malnutrition drops away and medical care becomes more accessible. The link with fertility is more tenuous. On the one hand parents can better afford the luxury consumer-durable of a large family. On the other hand the decline in infant and adult mortality means that a precautionary oversupply of family carers for old age becomes less necessary.

The opportunity cost rises as the participation rate of women in the non-domestic labour force goes up. The paid-out cost rises as education and training lengthen the child-dependency years. Expense may militate against the breeding of the quantity supplied. Yet economics is not all of human life. The factors that determine family size are not 'primarily' economic (EAP, 264). Meade reaches the conclusion that the number of hands, like the invention of new technology, is an exogenous variable. It is 'determined for us by non-economic outside forces' (EG, 19). It cannot be known in advance.

Exogenous variables are even more prominent in *The Growing Economy*. In 1968, amplifying what he had written in 1960 and revised in 1962, Meade put social flesh on the 'cold economic calculus' (GE, 188) of his earlier *Neo-Classical Theory*. It is possible that his fieldwork in Mauritius in 1961 had alerted him to the importance of institutional and behavioural variables.

One illustration of his broadened coverage is his treatment in *The Growing Economy* of time-preference. The Keynesian consumption function tracks the response of marginal saving to incremental income. Growth becomes the cause of growth. Yet the ability to put money aside should not be confused with the willingness to do so. Some cultures are imbued with deferred gratification and Weberian self-denial. Other cultures have internalised current satisfaction above altruism to the benefit of future generations. Habits and customs have an effect on the intercept and not just the slope of the savings relationship: 'In no part of the subject matter of economics is it more necessary to supplement economic analysis with sociological and other studies' (GE, 188).

Social consensus is subject to the fallacy of composition. What one can do, all cannot. Meade acknowledges that shared conventions may generate a volume of savings which the individual in isolation believes to be optimal but which the individual in society knows to be deficient. It is a prisoner's dilemma in which the dominant solution is the State. The listening democracy must compel the weak-willed Ulysses to overcome the short-run temptations which he knows to be incompatible with his higher objective of economic growth: 'The body of citizens in their joint governmental role may be more farsighted than in their separate individual roles as private savers' (JE, 207).

It is paternalism by consent in the form of an expenditure tax rather than an income tax if less obviously a reason for the progressive death duties that decimate the investible balances of lifetime savers. In the end, the growth will be worth the sacrifice. The sensitive State will have delivered the economic well-being that the people's referendum puts first.

Saving is one illustration of coverage that is greatly expanded in the *Growing Economy*. Business decision-making is another. In the *Neo-Classical Theory* the entrepreneur is treated as a human computer who instantaneously arbitrages the returns within his portfolio in the light of the outside discounting rate. In the *Growing Economy* the entrepreneur is expected to navigate in a world of change, volatility and expectation. In the *Neo-Classical Theory* the assumption of stationary conditions ensures that each actor has perfect knowledge of every other. In the *Growing Economy* each actor must make his own way through the unknowledge of disequilibrium. Meade states that 'accurate forecasting of future prices is a necessary condition for the maintenance of equilibrium through time' (GE, 321). Indeed it is, and once it is relaxed the true function of the entrepreneur comes into its own.

In *The Growing Economy* Meade fills the gap left in the *Neo-Classical Theory* by making the 'estimating and bearing of risks and uncertainties' (GE, 414) the function of a fourth factor of production. It is not blind automaticity that churns out the market-clearing price but rather half-informed speculators, each trying to turn an imperfect forecast into a differential advantage: 'It is here that the real social function of entrepreneurship lies' (GE, 417).

It is all in Marshall, where it is the 'exceptional business genius' with 'a notable power of visualizing the future' who makes a *perpetuum mobile* out of a stationary state: 'Where no considerable risks are run, there can be no great progress' (Marshall 1949 [1890]: 250, 539). Even so, it is also curiously tame. Meade's entrepreneur is not so much a chancer and an innovator in the sense of Schumpeter (Schumpeter 1976 [1942]: 83) as a statistician and an empiricist who ferrets out the core Walrasian number.

Meade's entrepreneur is first and foremost a problem-solver in the sense of Kirzner. A fund-manager rather than a battlefield commander, he spots an unexploited inconsistency and returns the prices to equilibrium (Kirzner 1979: 111, 119). Marshall's world-historical capitalist never steps into the same river twice: 'A score of Tatas might do more for India than any Government, British or Indigenous, can accomplish' (Marshall 1925: 458). Meade's small-scale undertaker is less likely to attack the done thing than he is to restore order to a troubled matrix. Bringing peace and not a sword, the entrepreneur is an economic arbitrageur whose comparative advantage lies in turning disharmony into 'actual economic profits' (GE, 418). The magnitude of that profit is the measure of the entrepreneur's marginal product.

Entrepreneurship is number-crunching but it is also flair. Meade acknowledges that the entrepreneur cannot really make a perfect forecast of a market reality that is yet to come. Even the most alert of gamblers is obliged to trade in the dark. At least there are estimates, heuristics and 'initial hunches' which, suitably corrected by experience, have the function of converting 'pure uncertainties' (GE, 438) into probability-weighted risks. The model would be Frank Knight on guarded extrapolation from historical frequencies (Knight 1971 [1921]: 235, 272). It would be Keynes on the unknowable precautionary versus the weighted speculative motive (Keynes 1973 [1936]: 170).

Entrepreneurship to Meade is the gravitational pull of the market-clearing price. Winnowing is the 'social mechanism' through which the correct answer drives out the wild guess. Successful entrepreneurs in that way make a valuable contribution to allocative efficiency: 'There will be a strong tendency for the use of the community's resources to be guided by those who both are not too averse to facing risks and uncertainties and also are skilled at making good forecasts of future prices' (GE, 419). It is natural selection. It is a part of growth.

4.2 Mauritius: Malthusian Economics

Malthus had made clear in 1798 that development is a race between supply and demand. Population increases in the geometric ratio of 1, 2, 4, 8. Production increases in the arithmetical ratio of 1, 2, 3, 4. In the end there will be misery and vice, famine and death. Niggardly nature will never be the equal of the demographic multiplier (Malthus 1970 [1798]: 73–4). Poverty and hunger are afflictions that even a growing economy cannot escape.

In the *Neo-Classical Theory* Meade had expressly distanced himself from the Malthusian apocalypse: 'However great the growth rate in the total population may be, sooner or later the unemployment percentage will tend to fall' (EG, 54). Competitive prices and flexible wages will ensure ceiling operation in line with the 'natural rate of growth' (EG, 63). Rising affluence will generate savings that will be ploughed back in the essential complement of capital: 'The rate of growth in the demand for labour will be higher, the higher is the proportion of income saved' (EG, 49). If the market does not ensure full employment, there is always the second string of demand management. Monetary policy with perfect foresight keeps investment and income on course. Starvation is not a part of the system. Life is good.

Life was good in 1960 and it was good in the North. It was not so good in the South. Meade was exposed at first hand to the surplus labour and the population explosion of the Third World when he served as Chairman of the seven-member Economic Survey Mission to Mauritius. Its conclusions were published in 1961 in *The Economic and Social Structure of Mauritius* and in the *Economic Journal*. Meade integrated the demographics of Mauritius into his Presidential Address to the Royal Economic Society in 1966. His lecture coincided with the 200th anniversary of Malthus's birth.

It had been 200 years but Malthus was not dead. He had simply relocated to the underdeveloped South. When he went to Mauritius Meade saw at first hand that biology could still bring about the ruination of a country: 'In many parts of the world … however we might define an optimum population, there would be a general consensus that the optimum was exceeded' (CP, II, 454). It was happening in Mauritius: 'If the marginal product of labour is less than the average output per head, the population is greater than the optimum' (EAP, 268).

The unprecedented explosion in population, Meade said, is 'possibly the most important political-social-economic development in the world to-day' (CP II, 451). By 2000 there will be three times as many people on earth as there were in 1950. There will not be three times as much food. The future will be standing room only. Left to the invisible hand, human life will truly be nasty, brutish and short. Mauritius is the harbinger of what is to come.

Mauritius was a small island in the Indian Ocean. It was a British colony, taken from the French in 1810. It became independent in 1968. Mauritius was 720 square miles in area. Its population in 1960 was 614,000 and its population density 900 per square mile. The natural increase in population, at 3 per cent per annum, was one of the most rapid in the world. If fertility rates remained at their 1958 level and health services continued to improve, the headcount would reach three million by 2000 and the standard of living would fall to physical subsistence: 'Compound interest is a powerful force' (CP II, 376). Even if each woman were to have no more than three children, the labour force would still rise by 50 per cent within 15 years. Unemployment was 15 per cent at the time when Meade went to Mauritius. A quarter of the unemployed were under 21. They were locked out of their first job. They did not have much hope (ESSM, 59).

Three groups of experts were sent out from Britain to make suggestions. Before the Meade Report in 1961 there had been the Luce Report on *Employment, Unemployment and Underemployment* in 1958 and the

Titmuss Report on *Social Policies and Population Growth* in 1960. The proliferation of reports suggests that the British government was becoming desperate. As the Meade commission stated, 'time is now very short', the outlook is 'grim', even 'catastrophic', change is 'unmanageable', and 'economic disaster' is just round the corner: 'The economic future of Mauritius is dominated by its population problem' (ESSM, 37, 38, 39, 230).

The Meade report is about population. Yet it is about production as well. In the spirit of Malthus, it is about the demand for value-adding labour and not just the supply of the redundant and the useless. Abortion and contraception can keep the numbers within sustainable limits. That is true by definition. Yet cancelling out an existing negative is a poor substitute for translating a social ill into an earning asset. The Meade report, recommending family planning as it had to do, refused to make a reduction in the number of workers the 'predominant objective' (ESSM, 35) of economic policy. The 'major objective' was and had to be 'to keep unemployment as low as possible' (ESSM, 59): 'The theme of our report is the need for the adoption in Mauritius of a whole series of policies all of which have the *single purpose* of stimulating expansion … in order to give productive employment to a much larger working population' (ESSM, 32, emphasis added).

It was the *single purpose*. It was economic activity ranked above sociological tidying-up. It was Keynes in the 1930s. It was the *Neo-classical Theory* in 1960. It was the *Introduction to Economic Analysis* in 1936. Meade had long been thinking about the optimum population. What he said in Mauritius is that too little employment is as great a social shortcoming as too many mouths to feed: 'An increase in the level of essential social and productive investment is the first need of the Mauritian economy' (ESSM, 8).

Investment and production were essential if new jobs were to be created for an increasing population. The growth in employment had to be at least 5 per cent per annum. The giant sugar plantations could not absorb the increase. Yet they were the backbone of the Mauritian economy. More than a third of the gross domestic product and 97 per cent of all exports (99 per cent including molasses and refined derivatives) came from sugar. The percentage was even higher if sugar-related infrastructure was factored in. Mauritius did not produce its own foodstuffs, clothing, machinery and industrial raw materials. Its high marginal propensity to import, at 0.40, severely limited the capacity for monetary and fiscal policy to create jobs by the fulcrum of demand. Mauritius found it economic to concentrate on monocrop exportation and to rely on imports for all the rest.

It is comparative advantage but it does not create jobs. There are a small number of large estates, some with onsite factories to extract sugar from raw cane. Efficiently managed, the planters knew how to raise the productivity of their workforce without inflating their payroll. Mauritius was rich in labour while uncultivated land and loanable savings were scarce. In spite of that, the sugar estates did not find it cost-effective to adopt labour-intensive technology merely because labour was plentiful and cheap: 'It is one of the main merits of this use of the price system that it will not choose inefficient techniques in order to make work for work's sake' (CP II, 378). Manual weeding and dockside stevedores mean more work opportunities than imported herbicides and state-of the-art cranes. Per bag of sugar, however, people are lower-profit than machines and sugar planters are nobody's fool.

Efficiency is a deterrent to employment. So is the price guarantee. In Mauritius the entire crop is bought up by the Sugar Central Board at a minimum price that satisfies the inefficient and the efficient producers alike. This floor, together with the Commonwealth Sugar Agreement which assures foreign sales, makes sugar 'a more or less gilt-edged investment' (ESSM, 21). About 80 per cent of Mauritian sugar was entering the United Kingdom duty-free (ESSM, 27, 53). Surprisingly, perhaps, the guaranteed price did not increase the supply of jobs. The reason was excess supply. Mauritius was already producing more sugar than it could sell: 'Production will soon exceed the outlets' (ESSM, 18). The planters had no incentive to take on additional workers so long as they were trading in a bubble which one day was likely to burst.

The primary sector could create some employment if it were prepared to diversify into cash crops such as potatoes, groundnuts, tea and tobacco. As the price of sugar is guaranteed while that of other food products is not, there would be little incentive for the farm-owners to move across. The tertiary sector could create additional jobs if it were able to develop into high-income-elasticity services such as hotels, catering and tourism.

High-end holidays were not going to happen. Jamaica had made a success of luxury resorts. Grande Baie would always be held back by cyclones, distances and a lack of foreign investment. Looking backward, the Meade report may have sold the leisure market short. In 1960, however, there was no way of knowing how rapidly world travel would expand.

The primary and the tertiary sectors would not create the labour-intensive openings that would keep the growing population in work. That left manufacturing. Mauritius, with relatively cheap labour, could adopt the model of Hong Kong (ESSM, 11). Some new industries such as paper and alcohol could draw upon the by-products from sugar. Others could concentrate on low-end consumables like kitchenware, shoes, soap, matches, toilets, beer, packaged pork and textiles for which there would be an internal as well as an export market. Mauritius was importing almost all of its clothing and much of its food. The importation of essentials was putting pressure on the balance of payments. The strain would become ever greater as the population continued to grow.

Industry is tempting. Yet the downside is always there. Imported raw materials, low value per unit bulk, are expensive to ship. Domestic demand is too shallow for economies of scale. Foreign markets are half a world away. Mauritius lacked financial intermediaries, risk capital, technical expertise, vocational training, infrastructure like roads and electricity. Large families meant smaller family savings.

There was also a lack of entrepreneurship. In the *Neo-Classical Theory* the business leader is a rational calculator in the sense of Kirzner. In the report on Mauritius it would be the creative destroyer in the sense of Schumpeter that would make the engines hum. Needed are 'men who can see the possibility of financial reward by starting new enterprises, are prepared to risk their own money in so doing, and are capable of assembling the necessary elements into a viable whole' (ESSM, 122). So dominant is king sugar that the scarce factor of entrepreneurship will often have to be attracted from the plantations—and the 'inducements lie largely in the hands of the government' (ESSM, 123). The neoclassical model focuses on savings, investment and technology in the absence of the State. In Mauritius the State was invited to be proactive. Meade said that it had to take a lead.

4.3 Mauritius: A Strategy for Development

The first step is to take stock. There were too many people. There was too much sugar. Mauritius would be nasty, brutish and subsistence if it continued to put all its eggs in one basket. It had to diversify into manufacturing.

4.3.1 Labour

Mauritius had relatively inexpensive labour but also relatively belligerent unions. The aim of the unions was not to proportion wages to marginal product but rather to redistribute the profits of exploitation. Wages in vanguard sugar had risen by 45 per cent between 1956 and 1959. Productivity had not risen by 45 per cent. The reason for the divergence had been 'the political awakening of the underdog' (CP II, 379). At the top there were the capitalist Franco-Mauritians. At the bottom there were the working-class Creoles. Firebrands compared the divide to Marx's bourgeoisie, forever at war with Marx's proletariat. The tension between the classes was so great that, as Meade saw it, 'the outlook for peaceful development is poor' (CP II, 467).

The workers were not prepared to tighten their belts. Wage rates were uneconomic. The consequence was inadequate savings, expensive exports, slow growth and a depleted tax take. It was difficult to attract foreign investment so long as days were being lost to strikes. The manufacturing sector would not be able to create new jobs so long as the labour force was alienated.

The Meade report does not bridge the gap between equity and efficiency, distribution and growth. The possible trade-off between markets and morals would better be postponed until the urgent problems of production and population had been addressed. All that the Meade report does is to exhort the union leaders to be more public-spirited, and the government to integrate union leaders into crucial decision-making bodies.

It would be worth the short-term sacrifice. Wage restraint would create jobs for outsider labour. Young entrants would have something to do.

Malthusian pressures will be alleviated. Marxism would give way to food on the table: 'Social conflict may be especially acute in an overpopulated country' (CP II, 456). Since the solvent to conflict is growth, the workers and their unions should not stand in the way of jobs.

4.3.2 Commodity Price Stabilisation

The Sugar Central Board provided a guaranteed market at a guaranteed price. It believed that it had no choice. Monoculture is a pyramid balancing on its point. Such an economy might 'totally collapse' (CP III, 289) if principled free traders cut loose the anchor: 'A 50 per cent fall in the price of sugar would cause a 25 per cent fall in the real income available in Mauritius for consumption or capital development' (CP III, 286). A free market in sugar could drive Mauritius into the dodo trap. The Sugar Central Board was the only way to rescue the Mauritians from rootless laissez-faire.

It had long been accepted that the world prices of primary produce were subject to major fluctuations year-on-year. Meade recognised that the volatility was a fact of life: 'The prices of primary produce, when they are traded freely on uncontrolled markets, are subject to violent fluctuations' (MP 4/39). Nature is niggardly, the weather unpredictable, the price-elasticity of both supply and demand low. In 1950, Prebisch and Singer had gone beyond the short-run swings to predict a secular deterioration in the long-run ratio of primary to secondary prices (Prebisch 1950: 8–9; Singer 1950: 475). The consumption of necessary foodstuffs tails off beyond a critical level of income. Substitutes and synthetics compete with natural rubber and cotton. The agricultural sector is less and less able to cover the cost of manufactured consumables and real investment in imported capital.

When he went to Mauritius Meade had been exposed to a decade of debate on the darkening terms of trade. He was receptive to the thesis but never fully convinced. There had 'in the past', and for 'periods of years' (CP III, 285), been an undeniable downward trend in commodity prices. It had mitigated the beneficial impact of aid (MP 4/7). More recently, and ‘at least for the time being’ (CP III, 285), there had been an improvement. World population and global purchasing power had gone up. Industrial raw materials like copper and tin are not subject to the same Engel Curve that accounts for the oversupply of bananas and tomatoes. Meade was too cautious to share any long-run prediction but his own. He conspicuously sidesteps the Prebisch-Singer prediction through an *agnosco* like ‘with what truth I do not intend to discuss’ (MP 4/39). The short-run was different. Year-on-year, the prices of primary produce were unstable.

It was not just the Mauritians but Prebisch’s own United Nations Conference on Trade and Development that was asking Meade to advise on how to keep dislocation, deflation and depreciation at bay. His position-papers, later published in the *Lloyd’s Bank Review* in 1964, *World Agriculture* in 1964 and the *Scandinavian Journal of Economics* in 1978, reflect his exposure not just to sugar in Mauritius but to wheat in wartime Whitehall and, at the same time, to Keynes’s insightful papers in 1942 on the international stabilisation of commodity prices that Keynes proposed to fund through his International Clearing Union (Keynes 1980 [1942]). They all concluded that the market is a good servant but a bad master.

Meade had long been interested in commodity prices. In the case of Mauritius, the Sugar Central Board was performing a useful function in providing a guaranteed market at a guaranteed price. The Board held buffer stocks, buying and selling to keep fluctuations within a target range. It was the theoretical counterpart in agriculture to a central bank’s Exchange Equalisation Account that leans against the oscillations caused by ‘ill-informed and perverse speculation’ (CP III, 325) in the market for foreign exchange.

Foresight is needed and storage costs money. Perishables rot. Even so, Meade reflected in the mid-1950s, ‘it appears preferable to stabilise commodity prices by means of buffer stocks rather than by agreements which depend upon the fulfillment of national quotas, such as the International Wheat Agreement’ (MP 4/7). Quotas are uneconomic: since relative costs mutate over time, the progressive will not be able to leapfrog the stagnant unless there is an active market for licenses (ESSM, 18). Quotas, moreover, are asymmetrical. Because nations seek windfalls even as they talk stability, it is regrettable that hardly any 'internationally recognised procedure' gives to the consuming nations 'as much influence as the producers' (PPM, 113).

There is a further problem. Quotas are unworkable. Countries, like oligopolists, have a tendency to cheat: 'Once one exporter breaks loose others are likely to follow' (CP III, 316). Undercutters are 'dangerous' (PPM, 112) precisely because they destabilise a market that the quota itself had been introduced to control. In any cartel there will be free riders who agree to the restrictions and then secretly flood the supply. There are many producers and few policemen in the world market for tin, cacao or petroleum. Each counts as a 'large group' in the sense of Olson. In the *Logic of Collective Action*, in 1965, Mancur Olson had shown that deception inevitably restores evanescent agreements to uncoordinated free prices.

The upshot was that the Meade report ranked buffer stocks above national quotas. Exhortation would not be enough. Public money would have to be spent. The Sugar Central Board had seriously distorted the market for sugar. Rather than calling for the elimination of the controlled price for the staple, the Meade report advised that the same administration of prices be adopted for even more agricultural commodities: 'The institution of marketing organisations which will provide an assured market at guaranteed minimum prices for crops other than sugar cane is an essential prerequisite for the stimulation of these other lines of agricultural production' (ESSM, 21). Farmers will not venture out of protected sugar so long as incomer potatoes are not also protected.

Encouragement is being piled on encouragement. Distortion is being piled on distortion. The Meade report calls not for the suppression of the Sugar Central Board but for a Central Agricultural Marketing Board that would mimic the old board's floors and ceilings. The new board should receive a 'limited annual grant' from the public budget. It should undertake to buy from producers, at 'reasonably generous prices' (ESSM, 21), their whole harvest of named primary commodities. In case of oversupply it must pay for marketing and storage.

If the glut is prolonged or the long-term trend is unmistakeably down, the Board should cut its intervention price for future years. As Keynes had said, the 'economic price … should be the aim of international policy' (Keynes 1980 [1942]: 125). The Board can also rebuild its reserves by means of a 5 per cent levy on producers that would have the secondary benefit of inducing them to limit their supply (ESSM, 21). If there is no trend but only cycles, the Board could become self-financing. It could balance its losses in good years against its gains in bad.

If all else fails, the Board could petition the government for export subsidies and import restrictions. Price rises would then stimulate domestic supply without any fiscal outlay. Shifting the burden to the domestic consumer, there is, however, a new risk that the workers will seek compensation through higher wages. Price rises could make Mauritian goods less competitive. To solve one problem is to create another.

The world can provide assistance to the Board. Developed countries could make long-term contracts for bulk purchase that would fix both the quantity and the price. It is foreign aid but it does freeze in place a time-stamped status quo. Through stultifying the operation of the price mechanism such cross-border support tends to 'prevent progress and fossilize outdated and inefficient economic systems' (MP 4/39). That was the experience of Mauritius where a 'propped-up price' had removed the incentive for wealthy sugar barons to diversify into new lines of activity such as labour-intensive manufacturing that would 'help to raise the incomes of the poverty stricken Indian workers' (MP 4/39). Well-intentioned policies have unintended consequences. An international sugar agreement might be making the poor even poorer.

Yet there is another way in which the world can help the Mauritians to escape from the poverty trap. It is not aid but trade: 'In my view far and away the most important development in world commercial policy is that the rich industrialised countries should get together to agree to open their import markets more fully' (MP 4/39). Irrespective of what the boards and the governments do at home, there is no substitute for trade creation which increases demand, improves the balance of trade and feeds through into investment.

4.3.3 Public and Private

The Meade report squares the circle. It concludes that second-best can be made into a plus-sum compromise. If market distortions cause domestic prices to rise, the State can respond with a cost-of-living subsidy. It can sell imported rice below its market-clearing price in order to restore the real wage. It can supplement family incomes with a social dividend paid for out of tax.

Public finance is superior to private. If earned incomes were to be augmented through a minimum wage, the businesses would have a smaller pool of profits to reinvest. Tax revenues would fall. Capital-intensive technology would be substituted that reduces the pool of jobs. State support is the better alternative. The losers will not lose. The gainers will nonetheless gain. While the source of the public finance is left unexplained, at least the social spillovers will be safe.

The Meade report said that Mauritius should move horizontally into new crops. It also recommended that Mauritius should move vertically into industry and trade. First principles dictate that private enterprise should be given every opportunity to do its best: 'In the ultimate analysis, industrial development in a free society must depend on the personal efforts of individuals' (ESSM, 158). Where activities and functions 'can be better performed by private individuals or agencies' (ESSM, 240), the State should not hesitate to privatise and deregulate. Where, however, the market sector is not yet equal to the challenge, it is the function of the State to correct the social failure. Business people with 'ability', 'determination' and 'a good idea' must be able to count on 'the whole-hearted cooperation of the government in all reasonable ways' (ESSM, 159). There must be an 'atmosphere of confidence' in which the private sector can turn to the public sector to help it promote the national objective of growth.

Technical and managerial education will be needed. From the shop floor to agricultural extension there was a shortage of skill. Roads, irrigation and ports will be needed. Private business cannot supply the infrastructure on which it depends. Government procurement will be needed. Public purchase would support a captive market for domestic start-ups.

There are also loanable funds. Small firms cannot rely on commercial banks and, still less, on share-issue: 'Risk capital will only go where the rewards are likely to be highest' (ESSM, 124). The government would have to fill the gap. In Mauritius there was already a government-funded Agricultural Bank. It lent mainly for sugar and food processing. It should expand into industry and rename itself the Mauritius Development Bank.

Needed too was oversight. While the Meade report did not assign great importance to a national plan, it did see a role for the leaderly wisdom of an Industrial Development Board. The Board would spot up-and-coming new industries and in general provide 'guidance and knitting together' (ESSM, 30). It would be under the direction of a 'really well qualified industrialist' (ESSM, 30). Its chairman, from the private and not the public sector, should already have demonstrated his business experience and acumen.

The government should encourage the concentration of industry. It should construct ready-to-occupy industrial estates and provide grants for the relocation of labour. There are network externalities where related industries are co-situated. The Meade report does not assign primary importance to industrial zones. Meade had, however, written more fully in defence of the 'economics of conglomeration' (TW, 258) in his *Trade and Welfare*, published five years earlier.

Birds of a feather flock together. Meade's receptiveness to congregation recalls Marshall's 'industrial districts' (Marshall 1949 [1890]: 221) such as printing in Paternoster Square, cutlery in Sheffield or journalism in Fleet Street. Geographical agglomerations like Silicon Valley, Shanghai Pudong or Wall Street multiply the spillovers that shift the cost curves down for all: 'Communications and transport between the firms producing components for each other will be easier; there will be a pool of skilled labour from which each firm may draw as its own activity fluctuates; know-how, skill, and technical ideas may be more easily spread' (TW, 258).

Contact is an earning asset. Geographical proximity facilitates 'atmosphere-creating external economies' which spread and perpetuate themselves throughout the industry: 'Knowledge may then be automatically available to all other firms setting up to produce X in A' (TW, 256).

Locational knock-ons are a public good. That is why the government ought to prime the pump: ‘The temporary subsidisation of the first firm may be socially desirable; but this would not be so because infants have to learn but because infants teach each other’ (TW, 257). The State should pay a start-up subsidy to the university of life. It is seed-corn. Once the informal education is in the air, the State should put its money in a better-paying asset.

4.3.4 The Infant Industries

If Mauritius were to industrialise, she would need a protective tariff. Free trade would come later. In the earlier stages of her transition she would have to keep foreign competition out.

Export-led growth was not possible. Economies of scale would not be reaped until domestic producers had secured their critical mass. Mauritius would therefore have to reach its take-off through import substitution: ‘It is only if consumers in Mauritius are prepared to satisfy a large part of their additional requirements by purchasing these products from Mauritian producers that the necessary economic expansion can take place’ (ESSM, 31). Domestic demand in a low-income territory like Mauritius was too thin to provide ‘a sufficient market for large-scale production’ (CP II, 379) so long as competition from abroad was crowding into a limited space. A choice would have to be made. A tariff would force the Mauritians to prioritise their sources of supply.

The home market is ‘still not large enough to support profitably and without tariff protection many of the commoner manufacturing industries’ (ESSM, 123). A tariff would insulate infant industries, ‘for a period of some years’ and at a ‘relatively high’ level, ‘where there is a good prospect of stimulating the production in Mauritius’ (ESSM, 31). So long the ‘period of years’ is not forever, a short-run tariff would be ‘perfectly legitimate’ (EAP, 377).

Things will change. As the domestic market expands, ‘some industries started now behind a tariff wall may find protection less necessary or even unnecessary in the future’ (ESSM, 123). Incomes will rise and the population will grow: ‘This market in ten or fifteen years’ time will comprise nearly one million people' (MP 5/8). In the fullness of time Mauritian industries will have had the chance to become competitive in home and foreign markets. Where in the long run they are unable to survive the protection should be terminated and they should be allowed to fail. Meade may be underestimating the resistance of a vested interest to the loss of an incumbent's concessions. It is economics versus political economy.

GATT and its Rounds must make an exception: 'The underdeveloped countries have a good case for giving some special state help to the introduction of some new lines of activity' (CP III, 161). Nothing, however, is ever simple. Tariffs solve some problems but they create others. Multiple objectives mean multiple inconsistencies. Meade highlights three instances where protection can divide a nation rather than unifying it around a consensually accepted goal.

The first conflict relates to jobs. Meade advised the Mauritians that a protected industry should be 'one that is likely to employ an appreciable amount of labour' (ESSM, 168). One of the reasons why he opposes investment allowances is that they provide a stimulus to capital-intensive technology. The population in surplus, 'this is the reverse of what is desired' (ESSM, 28). Yet Meade also knew that productivity had to be competitive if Mauritius were to industrialise and export. Jobless growth might be the price of prosperity. Meade did not tell the Mauritians how to optimise the trade-off. Perhaps he believed that the appropriate mix could be determined only by negotiation and compromise.

A further conflict relates to price. Meade says that a policy of protection and import substitution must not adversely affect 'the cost of living to the poor' (ESSM, 165). Raw rubber for local manufacture may be imported at a discretionary rate. Rubber shoes must be rationed by a protective duty. Low-income Mauritians will be shepherded into the locally produced option. Foreign shoes, if they entered tariff-free, would cost them so much less. They clearly have much in common with low-income Englishmen who pay a discriminatory price for their sugar because the Sugar Central Board in Mauritius had artificially inflated the price.

A third conflict relates to revenue. As Mauritius was already raising a third of its public finance from tariffs, any change in the mix of duties would have to be revenue-neutral. The numbers may not add up. An exclusionary rate protects local industry but restricts public spending. The government would have to find an alternative tax-base or do without infrastructure which is the sine qua non. The Meade report flags up the possibility that the multiple drains will 'spell inevitable ruin' (ESSM, 13). The implication is that growth itself will generate the funds that will make the growth self-sustaining.

Growth costs money. An across-the-board cut in company tax from 40 per cent to 30 per cent (ESSM, 162) would prime the pump but leave a gap. Cuts in public spending would have to be made. Support to religions (a Mauritian tradition) could be trimmed. Long leave for civil servants could be abridged. Administrative waste could be pruned. Child allowances could be stopped at three children. The balanced budget could be suspended. It might not be enough. And what should the government of Mauritius do then?

Meade changed his mind between 1955 and 1961. In the report on Mauritius he argued that a protective tariff was the proper policy tool. In *Trade and Welfare* he had said that loans, grants, subsidies, foreign aid or a private market for venture capital would be a better choice. Transfers 'would achieve the desired redistribution without the introduction of the inefficiencies introduced by otherwise undesirable protective policies in the poorer countries' (TW, 567). Infancy as such, he had said in 1955, 'provides no argument for even temporary state support' (TW, 256). That, however, was before he met Mauritius.

4.4 Mauritius: Demography Again

In Mauritius the population was increasing more rapidly than the opportunity for employment. The 'ultimate catastrophe' (CP II, 377) was in sight. Without a unified strategy, Meade and his team warned, 'we see no future for the Mauritian economy' (ESSM, 230).

Emigration was not the answer. While free trade should extend to the mobility of inputs as well as commodities, Meade knew that it was easier in practice to shift capital than it was to export human beings. Only the more skilled Mauritians would be able to make a new life for themselves in Britain or Canada. The brain-drain would deplete the pool of skills left behind. Sooner or later, the countries of immigration would themselves become 'severely over-populated' (TW, 569). Once, moreover, the surplus in Mauritius had left the island, new births would rapidly refill the pint pot. It was not a long-term solution.

Biology and not economics was the real reason why in 1961 Meade was surprisingly receptive to Britain's restrictive Commonwealth Immigration Bill. Explaining to Richard Wollheim, philosophy professor and social activist, why he was seemingly on the side of Mr. Shirefox and Colonel Blimp, Meade asserted that the limits were not inherently racist in themselves but rather a necessary barrier to universal overpopulation: 'I … consider the world population explosion to be, second only perhaps to atomic warfare, the greatest threat to human welfare' (letter from Meade to R. Wollheim dated 23 December 1961, MP 4/11). If Britain did not shut the door, Malthusian replacement would automatically restore the numbers.

Migration was only a short-run safety-valve. In the long run it would have to be family planning. Catholics and others, 'by their terribly effective illiberal influence in this matter, are responsible for an untold amount of future human suffering' (MP 4/11). Laissez-faire would not generate its own turning points or steer the population to its optimum. There is 'little probability' (EAP, 264) that market automaticity would generate the requisite turning points. Gravity will not do the job. That leaves birth control: 'In such cases decreased fertility alone provides a basic cure' (EBDP, 153).

Birth control is more than know-how and contraception. It is more than cheap sterilisation. It is also a general willingness to limit family size. Richard Titmuss and his team, following their own visit to Mauritius in 1960, had proposed that welfare benefits be employed as social levers. Family allowances would discriminate in favour of the three-child family. State payouts would be made for voluntary hysterectomies. Family size may not be 'primarily' economic but still poor people listen whenever money talks. First Titmuss and then Meade, the intention was to nudge the parents at the margin but in no way to force them into choices that they did not want to make (Reisman 2001: 37–39, 155).

Meade and his colleagues knew what Titmuss had proposed (ESSM, 12, 38, 164). They made guidance without stigma 'a necessary part' (ESSM, 230) of their own overall strategy: 'In an overpopulated underdeveloped country such as Mauritius low wage-rates combined with a social-security system constitutes a very sensible economic framework' (CP II, 387–8). The imaginative use of the social security system would be analogous to a Pigovian tax or subsidy. It would lend support to a positive externality. It would act as a bulwark against antisocial pollution.

Three years after their visits, Meade and Titmuss were both pressing the publishers (unsuccessfully) to combine the two reports in an omnibus paperback. They both sensed that they had done something of lasting and general importance. Meade put it as follows: 'Mauritius has every problem that a tropical underdeveloped country could exhibit—an extreme population explosion, reliance on a single product, a racial and religious problem, an extreme form of the educational outlook and problem of such communities, a great deal of unemployment, etc.' Mauritius, he said, is 'a first-class microcosm of the underdeveloped half of the world' (letter from Meade to P. Witt dated 14 July 1962). He knew that the two reports, one on social and the other on economic policy, stood a real chance of making a difference to a poor country with an unsustainable rate of population growth.

Malthus had been there before. In 1798 he had said that the answer to the misery and vice of an overpopulated country lay in poor relief, highly selective, but most of all in the 'preventive checks' that were inevitably released by economic growth and cultural embourgeoisement (Malthus 1970 [1798]: 72, 76). It was sociology in an unbreakable partnership with economics.

Meade had long seen that the real solution to the population problem lay in 'new wine' decanted into 'new bottle'. The 'new wine' would be 'a philosophy of freedom'. The 'new bottle' would be 'the possibility of material plenty'. Combined, they would afford a vision of progress that would give people a stake in the future: 'Better economic conditions themselves tend normally to a better regulated and more restrained sexual life. Treat men like men and they will breed like men; treat them like rats and they will breed like rats' (MP, 17/3). Malthus had been there before. Economic growth and cultural embourgeoisement would be the automatic mechanism that would solve once and for all the overpopulation problem.

Better economic conditions open the door. It was the first time that Meade had written about population. Meade's proclamation appeared in 1928 in the student journal *Departure*. It was the organ of the Thomas More Society at Oxford. Meade was then 20 and just converting from Classics. Three decades on, and writing about Mauritius, he was equally convinced that economic development was the sine qua non. Only rats breed like rats. People behave like people. Utopia, England or Mauritius, the first step is to get the economy right.

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The International Economy

The recent past had been trade wars, competitive devaluations, idle capacity and unexploited potential. James Meade, the witness to the Depression of the 1930s and the reconstruction that followed the war, believed that there was only one way to convert reciprocal beggar-thy-neighbour policies into overall well-being. It had to be 'the rebuilding of a liberal international economic order' (TW, 570) on the solid Ricardian principle of comparative advantage: 'There is no doubt real economic gain to be achieved if each country specialises further on the production of the goods which it is best fitted to produce' (CP III, 230).

Wine goes one way. Textiles go the other. Prices gravitate to marginal cost. Living standards rise. Economic interdependence underwrites perpetual peace. The mercantilist Thomas Mun, putting into economics the bellicose nationalism that had just seen off the Spanish Armada, had said that one country's gain is another country's loss: 'We must ever observe this rule; to sell more to strangers than we consume of theirs in return' (Mun 1664). Meade was strongly opposed to narrow-horizoned nationalism that destroyed trade and wasted resources. Throughout his career he argued consistently for an international division of labour in which not

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one country alone but all countries together would be in a position to reap the gains from trade: 'As an ideal, all countries should simultaneously agree to a policy of complete Free Trade' (EAP, 377).

5.1 First Principles: Free Trade and the Flexible Par

In Geneva in 1939, just after the outbreak of war, Meade completed a short book on *The Economic Basis of a Durable Peace*. With two young children and a third on the way, he was concerned about the future in a world where Britain might be the new Poland. He was also determined to make a contribution to the war effort in the way that he knew best. As an academic and an economist, he wanted to argue a reasoned case for post-war freedom of trade: 'Its fundamental validity is clear' (EBDP, 76). Exceptions could be made for developing countries like Mauritius. In the long run, however, it would be world free trade that would make the family of nations thrive and prosper.

5.1.1 Coordination and Cooperation

It had been a decade of distortion. Sovereign legislatures had relied upon tariffs, quotas, licenses, export subsidies, State trading monopolies, sponsored cartels, quantitative restrictions, exchange controls, labyrinthine customs procedures and subsidies to national carriers to keep the foreigner out. Each was attempting to skew its trade flows at the expense of its potential partners. What one can do, all cannot. The resentment and retaliation engendered by such narrow opportunism was 'detrimental to the interests of the international community of nations' (EBDP, 88). Mutual disarmament was the only way to end the non-shooting war. The solution was an economic League of Nations in which exports and imports on the model of guns and tanks would be governed collaboratively by multinational concord.

Exchange rates were exacerbating the mutual animosities. Britain had left the gold standard in 1931. Except for the United States, the major trading powers rapidly followed suit. Floating parities became a non-tariff barrier. The competing countries were under-pricing and under-selling. Meade recognised a powder-keg when he saw one. There was a need for an International Bank, International Clearing Union, International Monetary Authority or International Monetary Fund (CP III, 62). Terms like these were in common usage by Keynes, Meade and others in the wartime civil service. A multinational body, recalling the golden age of 1870–1913 and anticipating the Bretton Woods agreement in 1944, would be in a position to stabilise the ratios. It would function *as if* a world central bank.

The Monetary Fund should ideally supplement the sovereign currencies with an additional currency of its own. Gold had been a non-national money. Both Keynes (1980) and Schumacher (1943) in the early war years were proposing a non-national bancor under the administration of an International Clearing Union. In the air was the internationalisation of the unit of account, of spendable liquidity and of precautionary reserves. Meade was a part of the debate. In the *Introduction to Economic Analysis* in 1936 he was calling for an International Exchange Equalisation Account (EAP, 376). Loosely modelled on the Bank of England's Exchange Equalisation Account, it would be financed by the member States and held at the newly established (in 1930) Bank for International Settlements. Over time an ever-greater share of national reserves would be banked in the pool.

The reserve pool would act as a supra-national shock absorber to damp down speculative and transitory fluctuations in the members' rates of exchange. While there would not be a restriction preventing the members from depreciating without authorisation, the Fund would be able to deny reserves to any country that did so. In that way the new institution would contain uncertainty until a long-term solution could be found.

The sovereign States should do more than share liquidity and agree on the parities. The Bank for International Settlements should convene regular meetings at which the governors of the respective central banks would discuss interest-rates, demand management, economic growth and unemployment (EAP, 375). They would propose targets that would reflect each country's need for internal and external balance. Money to a Keynesian has a clear interface with real variables but also with other countries. Keynesian policies have to be coordinated across the borders if adverse repercussions are to be limited and free ridership blocked off.

One country on its own cannot reflate the world economy. Nor can it contain inflation where the expansionary pressures are coming in from abroad. In a global market, what one country can do is dependent on the policies that are adopted by its neighbours. Meade in the 1930s was already an advocate of multinational negotiation. There was no other way.

5.1.2 Deflation and Depreciation

In the short run a country with an international deficit can live on its cushion of reserves and its accommodating finance. In an emergency it can ration imports through tariffs and quotas. In the long run it must find a more permanent way of returning its balance of payments to health.

So long as exchange rates are fixed, the answer will be deflation. As David Hume had explained in 1752, domestic wage and price levels will have to adjust downward until an increase in exports or a decrease in imports has restored the international deficit to equilibrium (Hume 1955 [1752]: 63, 77). His automatic self-stabilising specie flow mechanism is similar to the built-in stabiliser which corrects a regional mismatch within a single nation trading with a single money (BOP, 295). A province or state cannot devalue or protect. All it can do is deflate in order to attract its fellow nationals to buy more of its goods.

Deflation is Hume. It is not Meade, who declared that the principle of international adjustment through price-tags was 'happily dead and buried' (CP III, 151). Institutional arrangements were not on its side. Downward flexibility in the real world was being impeded by lagged responses, market rigidities and imperfect competition. In 1932, foreshadowing his much-later theory of stagflation, Meade was blaming the unions for making money wages sticky downwards: 'The trade unions' resistance to wage reductions must be overcome' (CP III, 5).

Hume had assumed that the transition to the new market-clearing vector would be near-instantaneous and trouble-free. Meade, like Marshall and Keynes, recognised that correction takes time. The incidence of austerity in the first instance would fall not on nominal variables but on real output and employment. The restoration of general equilibrium involves national product as well as price. Joblessness could rise from a hypothetical 1 per cent to as much as 5 per cent (CP III, 162–3). The ratio of 1:5 is a sacrifice that only a hard-line monetarist in the 1930s would have been prepared to accept.

Deflation is problematic. The alternative is depreciation. Exchange rates had been unfixed for five years when Meade's *Introduction to Economic Analysis* was published. Despite fears of strategic depreciation or a wage-price spiral, Meade in his book said that he had come to regard supply and demand not as an embarrassment but as good as gold: 'A country which is not on the gold standard will … be free to concentrate upon its internal monetary policy in order to preserve a high level of employment, and can leave the exchange rate with other countries to find that level at which the payments and receipts in its Balance of Payments are equal' (EAP, 325). Meade in 1936 said that on balance he had no problem with a variable rate of exchange: 'The criterion … for the correct rates of exchange is to be found simply in the Balance of Payments' (EAP, 320).

5.1.3 A Supervised Float

There is, however, a caveat. Sovereign States will often desire to manipulate their exchange rate in order to enhance their competitive advantage or to price jobless labour into work. It is all in Mun: 'One country's favourable balance is another's unfavourable balance' (CP III, 10). One country's surplus is another country's deficit. Meade, aged 25, in his first-ever published paper, was already instructing the nations that they had no right to do what they liked in their own economy. Two-country or multi-country, exchange rates have distributional consequences.

Depreciation is acceptable where a deficit is 'appreciable' (EBDP, 63), where a 'fundamental disequilibrium' (CP III, 43) has not reversed itself, where a 'fundamentally changed economic situation' (CP III, 18) has rendered a change in parity 'necessary' (EBDP, 58). Depreciation is not acceptable where the change is made 'unnecessarily' (CP III, 37) by a country not actually in deficit or where an existing peg has not been kept stable for 'considerable periods' (CP III, 18).

The International Authority must have a watching brief. Its supervisory role looks forward to Bretton Woods. Even if the peg is not tied, still it would go against the spirit of good neighbourliness for the Authority to be too permissive. The Authority should first offer wider bands. It should provide bridging loans and emergency liquidity. It should observe the strict test of moral hazard: 'It is unwise to issue the new reserves simply to countries which are in deficit, since this may delay adjustment' (MP 9/40). Only when nothing else is possible should the Authority legitimise a recalibration of the rate.

One thing that the Authority must never do is to force a member State to compromise on full employment. A sovereign government must have 'complete freedom to adopt an appropriate internal monetary policy' (EAP, 374). If the pursuit of internal balance pushes its external balance into deficit, then a State must have the right to do what is needed to keep its own people in work. A fluctuating rate cuts the international position loose. Accompanied by free trade and the suspension of capital controls, it is 'a very sensible division of economic functions' (CP III, 163).

Meade throughout his career returned repeatedly to the policy-mix he had first defended in the *Introduction to Economic Analysis*, the *Durable Peace* and the NFRB papers in the 1930s. It was something that he never outgrew. Internal balance comes first. Policy-makers should 'forget' (CP III, 235) the balance of payments. Exchange rates should be adjustable provided they are under 'the supervision of international institutions' (CP I, 360). A 'truly supranational authority' should be assigned the task of keeping tempting depreciation and even 'misguided speculation' under 'public control' (CP III, 240, 242). Meade believed in a mixed international economy just as he was in favour of a sensible mix of exchange and authority at home.

The idea of a 'truly supranational authority' did not appeal to Milton Friedman. A strong advocate of 'exchange rates freely determined in open markets' (Friedman 1953: 203), Friedman saw no reason why administrators and politicians should lean on the price of foreign exchange any more than they should tinker-tailor the price of pins.

Friedman had shown his paper on flexibly floating rates to Meade but 'these discussions failed to produce sufficient agreement' (Friedman 1953: 157n). Once his essay was in print Friedman again approached

Meade to try to narrow the distance between them: 'Given really flexible exchange rates, the main impact of inflationary or deflationary policy will be on the country that inflates or deflates. They have domestic reasons for doing neither. I see no further "obligation" imposed by external relations.… The great virtue of flexible exchange rates is *precisely* that it avoids the necessity of international coordination of internal policies' (letter to Meade from M. Friedman dated 27 January 1953, in MP 4/3).

Friedman was saying that it was impossible for an economy simultaneously to be both free and managed. Meade was replying that the middle ground was not always and everywhere a chimera. It was a philosophical disputation between Friedman's *Capitalism and Freedom* and Meade's *Radical's Guide*. Agreeing on the need for a flexible par, Meade could not accept Friedman's contention that national or multinational politics had no constructive contribution to make: 'Since heavy inflation in the end is a serious calamity domestically for the inflationary country, there may be some danger for that country itself in going into a flexible-exchange-rate system until it is sure that it can keep its own domestic inflation in moderate bounds' (letter from Meade to M. Friedman dated 10 February 1953, MP, 2/3).

Meade's reply does not directly address Friedman's issue. Meade is saying that flexible rates will only be viable in a country that has brought intolerable inflation under control. Friedman's argument is, however, that intolerable inflation will not occur once the people of a country become aware of what a depreciation in the par will cost. Friedman believes that the money supply should be made subject to a rule. Fine-tuning in the sense of Meade is not necessary if there is a constitution in the sense of Friedman.

5.2 The Law Mission: A National Interest?

Meade was seconded from the Cabinet Office to the Law Mission in 1943. It was chaired by Richard Law, Minister of State at the Foreign Office. Keynes was then preparing the ground for the international clearing union that he was about to negotiate at Bretton Woods. Meade's task in the Law Mission was to plan for an international commercial union that would match stable parities with freedom of exchange.

Many in 1943 were expecting the return post-war to mass unemployment. Some Americans told the Law Mission that global free trade was desirable for the narrowly macroeconomic reason that aggregate demand would create American jobs for American workers. Meade confided to his diary that he had not been taken in by the 'silly American line', 'of course … not true': 'Increased exports give employment, but increased imports take it away again' (CP IV, 172). Some jobs come. Some jobs go. Free trade is goods in shops. It is not an employment agency for American or British workers on the dole.

The silly Americans had failed to see that inputs are not outcomes. They would have been less silly if they had read their Ricardo and their Mill: 'The only way to achieve the conditions in which one can establish freer trade and more stable exchange rates is for countries to adopt suitable domestic policies for maintaining employment' (CP IV, 106). Internal balance comes first. Trade and the par are better discussed later, once Keynesian economics has restored full employment and moved the nation to its production possibility frontier.

Different nations have different priorities. Meade was a *British* author. His position as a member of the Law Mission and throughout his life was that his own country had a special stake in buoyant world trade and the international division of labour: 'In the long run a wide adoption of the free-trade principle is of essential importance for the United Kingdom' (CP III, 152).

Britain needs to export because she needs to import. Situated at the centre of multiple and overlapping webs, she has a unique stake in multilateral trade and capital flows. The splendid isolationism of a hermit kingdom is not an option for a country that is of necessity open for business. It is not only her openness but her elasticities of demand that keep her trade negotiators forever on their toes: 'Why we need a clearance of trade barriers is because we import necessities which we cannot ourselves make and export manufactured goods with which other countries can dispense or which they can make for themselves' (CP IV, 172).

America may be different. Speaking specifically of his own country's external position, Meade clearly thinks that it is shaky and exposed.

Britain imports industrial raw materials for which there are no close substitutes. She exports discretionary manufactures 'of a luxury or semi-luxury character' (PPM, 110) which are an invitation to the interloper. Nothing is guaranteed except comparative advantage. Wine is exchanged for textiles. That is how a small island nation earns its crust.

Meade as a member of the Law Mission was arguing for the specific needs of Britain even as he was defending the universal truths of Ricardo. The Americans saw things differently. The Law Mission returned to Washington in 1944 and held further meetings in London and Geneva. The tangible outcome was Cmd 6709 on *Proposals for Consideration by an International Conference on Trade and Employment*.

The conference was duly held at Havana in 1947. Further negotiations for an International Trade Organisation (ITO) had, however, to be abandoned when the Americans withdrew. They felt that multilateral free trade was not, carefully considered, in their national interest. What survived from 1947 was, however, the most-favoured nation clause which found its way into the General Agreement on Tariffs and Trade (GATT). GATT stood for 'a negotiated all-round reduction of barriers to world trade and payments' (CP III, 161). The Americans were prepared to sign up to GATT even if they had backed away from the ITO. Meade had some grounds for believing that multilateralism was not dead but only sleeping.

The explicit concern of the Law Mission was the post-war international system. The implicit charter was to consolidate the North Atlantic alliance: 'The essential first thing to work for is, I am sure, a close Anglo-American understanding' (Meade, in Howson and Moggridge 1990: 107). Meade was in no doubt that the United States, still hesitating after 30 years, was obliged by its size and power to take over the role of hegemon that had made the British bulldog feared and respected in the long nineteenth century: 'American "imperialism" would be much preferable to American isolationism and complete withdrawal. One cannot hope for a new international order without a nucleus of interventionist force of which the USA one hopes would form the core' (Meade, in Howson and Moggridge 1990: 107).

Meade in the Law Mission appreciated that the British national interest was heavily invested in the reluctant superpower. America had to recognise that the work begun in 1934 in the Reciprocal Trade Agreements Act could not be lost merely because narrow patriots wanted to build a fence around their destiny. The facts were plain enough. The British century was over. It was America that now had the bombs and the gold.

America also had a persistent surplus on her balance of payments. Throughout the 1940s and the 1950s, economists like Keynes and Meade were arguing strongly that America was putting its own national interest above the hunger for dollars on the part of the world as a whole. In 1942 Meade called for an 'effective mechanism which makes the creditor countries responsible' (CP III, 29). In 1955 he demanded that America reduce its interest rates, run a budget deficit and tolerate faster inflation in order to increase its imports. It should cut its exports and slim down its excess reserves. Instead the Americans were relying on dear money and a budget surplus to combat the rise in prices (CP III, 162).

The United States had resisted discriminatory restrictions on its exports. It had rejected a tax on its foreign surplus. Measures such as these, Meade observes, would have been 'very favourable to us' (CP III, 42). The Americans had walked away from their 'duty' (CP III, 214; BOP, 117) to reflate in a world slump or to recycle the reserves that were causing maladjustment and disequilibrium world-wide. It is not right. Meade's appeal to 'duty' and not to interest is a reminder that he regarded the dollar famine as a moral shortcoming. The deficit countries had to practice austerity until they were forced into depreciation. The surplus Americans were free to do what they liked.

The United States was refusing to do what was needed to rescue the deficit countries from slow growth and stagnation. By 1961 West Germany had been added to the list (CP III, 233). Germany had not been willing to take off the brakes or reduce its international surplus. The Germans had not been doing their duty: 'Being an unrepentant internationalist, I should like to see the international supervision of this obligation' (CP III, 150). It did not happen. Agreements made at the Plaza in 1985 and the Louvre in 1987 were soon broken. Germany continued to create unemployment abroad through containing inflation at home. Her national interest was trapped in the Weimar Republic. It was international political economy rather than international economics. That is the way it was.

5.3 The LSE Lecture: Tools and Targets

In 1947 Meade delivered his inaugural lecture at the LSE. His topic was 'Financial policy and the balance of payments'. His conclusion was that direct controls to restore Britain's international balance would be grossly inferior to a 'proper use of the money and price mechanisms' (PPM, 76).

Britain in the 1930s had experienced mass unemployment. She had needed low interest rates to stimulate aggregate demand. At the same time she had also had an international deficit. She had needed high interest rates to suck in reserves. In the 1930s Britain had needed both low interest rates and high interest rates. It had been a 'tragic dilemma' (PPM, 84).

The position in 1947 was different. Near-full employment had been restored but at the cost of rising prices and a balance of payments deficit. In 1947 it was the case that both internal and external balance could be ensured by the same macroeconomic strategy. A rise in interest rates would damp down home demand, attract foreign capital and release British goods for export. It would not last forever. Once recession loomed, the age-old conflict of objectives would resurface.

Mundell in 1962 was to propose the following solution to the assignment problem: 'Monetary policy ought to be aimed at external objectives and fiscal policy at internal objectives' (Mundell 1962: 70). The rate of interest had the dual function of influencing home investment and triggering capital flows. Facing two ways at once, it would not normally be able to hit both targets. In 1952 Jan Tinbergen had said the same. He was to be awarded (in 1969) the Nobel Prize for his breakthrough. In his *Theory of Economic Policy* he had recommended that the number of instruments should be equal to the number of objectives. Each tool should be paired with the target on which it has the greater influence. As with Jevons and Menger, Harrod and Domar, Tinbergen and Meade did not know that the other was thinking along the same lines.

The 1947 lecture, like the *Introduction to Economic Analysis* in 1936 and the *Balance of Payments* in 1951, acknowledged that there was a dilemma. Tinbergen, Meade said, was on the right track: 'The simultaneous attainment of two targets requires the use of two weapons' (Blueprint, 14). Johnson and Nobay regard it as the essence of Meade's open-economy macroeconomic theory: 'The essential contribution of Meade's work can be expressed as the understanding that to achieve the two policy objectives of full employment and balance of payments equilibrium, a country's policy-makers had to command and use fiscal policy instruments, one to control the level of aggregate demand in relation to supply capacity and one to govern the distribution of demand (both domestic and foreign) between domestic and foreign output' (Johnson and Nobay 1975: 214).

That was the theory. Then there were the exceptions.

Meade, for one thing, was reluctant to sign away the creative use of the par. Meade was never in favour of a gold-standard straitjacket that would prevent the 'money and price mechanisms' from determining the appropriate rate of exchange. Automaticity puts paid to the external imbalance: 'The rates of exchange between the various national currencies must be allowed to fluctuate' (TW, 564). The answer is to go for full employment at home but for the balance of payments to be managed by a supervised float. It remains a policy variable and a choice.

Meade, furthermore, saw no reason to assign monetary policy and fiscal policy to specific and differentiated targets. It was more common for him to treat 'domestic budgetary-cum-monetary policies' (CP III, 301) as if they were a multitask arsenal.

This was true in 1948 when he said that by 'financial policy' he always meant the mix of monetary and fiscal policy (CP II, 286). It was true in 1989 when he stated that 'we use the term financial policy to embrace both' (MAP, 12). It was true in 1984 when he reiterated that the truth is the whole: 'One is not *a priori* linking one weapon to one target (e.g. tax rate to control GDP and interest rate to control the budget balance and investment ratio); one is designing the best possible package of tax rate and interest rate to obtain the most desirable package of GDP level and investment ratio' (CP III, 342).

Meade bundles together the two modes of demand management: 'There is … no obvious reason to believe that fiscal and monetary policy will differ in any essential way in their relative effects on prices and outputs' (CP I, 325). They differ in the path. Tax cuts have a quick effect on consumption. Interest rates act more slowly through the investment multiplier. They do not differ in their function. Their function, acting together, is to manage the level of demand. In later works like *Demand*

Management he included the foreign exchange position as a third influence on domestic demand. Total demand includes the export demand. Every student knows that.

Meade did not impute any unique properties to the money supply. Distancing himself from Milton Friedman, he called it 'Mumbo-Jumbo' (FER, 18), a 'will o' the wisp' (CP I, 325). Money is difficult to define. The break with near money, as the Radcliffe Committee had contended in 1959, is all but impossible to spot: 'It is entirely arbitrary where one draws the line' (DM, 54).The velocity of money, varying with the interest rate and with expectations, is neither stable nor predictable (FER, 17).

Meade therefore was strongly opposed to the use of money supply policies in the early 1980s. Mrs. Thatcher was not an economist. In an important letter to *The Times*, bearing the additional *gravitas* of Alec Cairncross and Henry Phelps Brown, Meade advised the Thatcherites that their experiment could only end in tears: 'The proposition that control of the quantity of money provides an automatic pilot for control of the movement of costs and prices in the contemporary economy remains to be tested…. In our belief that proposition is neither warranted by analysis nor borne out by experience' (Meade et al. 1980: 15). Money matters. Other variables matter too.

5.4 *The Balance of Payments*: Prices and Expectations

Meade's great work, *The Theory of International Economic Policy*, is in two volumes. Each is accompanied by a mathematical supplement, published separately.

Volume I, *The Balance of Payments*, appeared in 1951. It was a new book but also an old one. In it Meade built on and extended the economic ideas that he had been refining since the 1930s. He integrated the income and the price effect in a general equilibrium context. He concentrated on two targets (internal and external balance) and two tools (the exchange rate and financial policy) in a manner that recalled the Bretton Woods settlement and later formed the basis for Swan's well-known diagram (Swan 1963). The building blocs were Smith on the division of labour and Ricardo on the gains from trade. The outcome would be a movement outward in the world efficiency frontier under the good guidance not of quantitative restrictions and direct controls but of 'a properly working price system' (PPM, 80) and 'the forces in a free competitive market' (BOP, 326).

The invisible hand knows best. Flexible prices, market-sensitive wage rates, floating exchange rates all contribute to the attainment of general equilibrium. Reinforced by Keynesian macromanagement that steers the internal balance into full employment and non-inflationary growth, price adjustments are 'a perfectly adequate technical instrument' (BOP, 325). Rationing and administered prices destroy well-being. Freedom and trade move the world economy to the highest-attainable level of utility.

Harry Johnson is less than charitable about Meade's obsession with the *tâtonnement* and the auctioneer. Meade, he objects, secures his twin balance 'on the assumption that everything else can or should be adjusted to permit the attainment of these objectives by liberal methods' (Johnson 1951: 828). Johnson all but accuses Meade of loading the dice: 'The logical sequence by which the theoretical analysis leads to the endorsement of the methods of general price adjustment in preference to direct controls depends at various points on personal opinions…. The ideological element must be accounted an essential part of the study' (Johnson 1951: 812).

If there is a bias, then that in itself is a mystery. Ideologically speaking, Meade was in favour of State intervention even as he was in favour of market signals. That is what is meant by the third way. What is possible nonetheless is that Meade, always pragmatic, felt that some areas of social life were better suited to self-determination while in others good outcomes were dependent on the political lead. Welfare was State through and through. The international economy, David Greenaway has suggested, probably was not: 'Whereas his work on international economic policy is redolent of Meade the neoclassical economist, with its emphasis on marginal analysis and optimal intervention, his writings on domestic economic policy are those of Meade the Keynesian with their emphasis on intervention and his unshakeable belief in the ability of reasonable men to effect such intervention' (Greenaway 1990: 292).

Perhaps Meade felt that the huge global market was intrinsically more competitive, the smaller home market more likely to fail. Perhaps, and this gloss makes sense, Meade never intended that his pure theory should be taken as anything more than a first approximation. A two-country exposition that assumes fixed endowments and timeless adjustment was never meant to be the last word on globalisation. Meade knew that the real world was more complex than the textbook assumptions alone. Pure theory is not economic policy.

Fritz Machlup was critical not just of Meade but of all neoclassicals when he objected that Meade had no right to take 'the equilibrium concept as a standard of performance' (Machlup 1958: 18). If economics is to be value-free, Machlup said, then there is no a priori reason to value the market-clearing price more highly than incessant and purposive search.

Search, however, opens yet another door. Signals recorded in the vacuum of general equilibrium are not indicators of relative scarcity but simply frozen memorials to a past that is no more. History is bunk. In his *Balance of Payments* as in his *Growing Economy*, Meade had to come to grips with the disequilibrium nature of imagined prices that are yet to come.

Meade was aware that he was abstracting from 'adequate time', adaptive processes, transitional states and 'the gradual working out of such long-run adjustments' (BOP, viii, ix). He says that this was because he found the 'new dynamic tools with their difference equations and differential equations too complicated' (BOP, viii). It is not a very convincing reason. Life is complicated. Gravity is comforting. Paretian peacefulness leaves everyone better off (BOP, 330). Paretian equilibrium is a fiction which adds to the world sum of utility. It may, however, be a fiction nonetheless.

The core of Meade's theory makes little allowance for flux. The periphery is more receptive to uncertainty. Unknowledge is endemic in the international economy once unyielding gold has given way to a flexible par. Mistakes can be made. Perpetual error-correction puts them right. Speculation is good. Conjectures and refutations help to 'iron out large price movements…. The rate of exchange is thus more stable. It varies less in extent and less quickly': 'It is too little, not too much, speculation which produces large speculative profits' (BOP, 220). Markets are made. Speculation is the mechanism by which the guesses modulate the swings.

Speculation, destabilising where it is 'excitable and hysterical', can also be 'useful' where professional dealers, 'competitive and well-informed' (CP III, 168), have convergent expectations that damp down the risks and uncertainties of foreign trade. Profit-seekers have a private incentive to be rational. Specialist professionals bring their best-possible expectations to the market for foreign exchange. In that way the market produces its own imagined prices. Only history-to-come can know if they are indeed the correctives that will make the markets clear.

Informed expectations make the amplitude of adjustments less. There is no guarantee that the cobweb of gambles will get the values right. Where private speculators are not successful in making a market that makes sense, there is no alternative but for the government to enter the game. Meade proposes that the monetary authorities hold buffer stocks of foreign currency similar to the buffer stocks of cacao and rubber they keep in store to stabilise the market for primary produce. The monetary authorities should use these reserves to lean against 'grossly excessive', 'ill-informed' and 'anti-social forms of speculation' (BOP, 224). Leaning against the prevailing winds, the public sector is not seeking to replace the automatic self-stabilising mechanism which, like Hegel's God, works through real-world men and women. Instead, the wise and thinking bureaucrats are setting out to 'anticipate more correctly than private speculators the future course of exchange rates. And in so far as they do so they will make a profit at the expense of the private speculator' (BOP, 224).

Omniscient Leviathan emerges as the speculator supreme. Public purchases and sales guide the market for foreign exchange 'towards what it would have been if there had been free competitive speculation with correct foresight of future movements' (BOP, 224). The schoolmasterly State knows the equilibrium. The silly market does not. Welcoming the sensible market when it behaves, Meade is less friendly to the silly market when it acts at random on ill-founded guesstimates which are 'temporarily catastrophic' (BOP, 295).

The State knows and the market does not. The roles can be reversed. The International Monetary Fund has been known to postpone a small depreciation until the final correction has had to be 'cataclysmic' (CP III, 239). Exchange is silly. Authority is silly. The task in the mixed economy is to select the right speculator for the job.

Meade, forced to choose, came down in the *Balance of Payments* in favour of moderate regulation. He recommended continuing controls on both the short-term and the long-term capital account. The current account could be set free to follow its own natural law. The capital account in 1951 was not yet mature enough for full self-government. Hot money and the herd instinct were suggesting to him that equilibrium on the capital account should be purchased through direct controls and not a market parity. The ideological bias was not nearly as clear-cut as Harry Johnson had contended.

In the here-and-now there would be controls. In the long run there would be the open global market. Freedom would bring Meade's policy recommendations into line with the national accounts: 'By equilibrium in the balance of payments we do not mean an equality between current payments and current receipts. We are concerned with the balance of all normal current and capital payments and receipts' (CP III, 214).

Alongside the wine and the textiles there had eventually to be the money. Meade had said so in 1936: 'From the international point of view, capital should be free to move in search of the highest yield' (EAP, 369). Capital would migrate from a lower-return to a higher-return territory. The outcome would be the law of one price. A superior marginal product would receive a superior factor reward. A glut in one market would relieve a famine in another. World productivity would rise.

Ricardo had assumed that final products would cross the borders but that the factors of production would not be venturing abroad. Meade in 1936 had said that 'this assumption is to a large extent true' (EAP, 361). That, however, was the 1930s. By the more liberal 1950s he was pointing to the revised position of foreign direct investment as well as manpower movements in extended global exchange. The world factor market that had linked the continents between 1870 and 1914 was back in business. Even so, international mobility was not an issue to which Meade devoted much attention in the *Balance of Payments*. In the short run, free trade in the *Balance of Payments* would mainly be the wine and the textiles. The capital account was still too volatile to be entirely de-controlled.

In the long run, it would nonetheless be 1870–1914 again. Meade believed that surviving restrictions would have to go. A free trader who wants to promote the 'efficient use of the world's economic resources' (BOP, vii) cannot be other than 'outward-looking', 'internationalist' and 'radical' (CP III, 279): 'As an ideal, all countries should simultaneously agree to a policy of complete Free Trade' (EAP, 377). That was the ideal. Still to come, however, was *Trade and Welfare*. It was second-best.

5.5 *Trade and Welfare*: From Utopia to Second-Best

The second volume begins where the first volume leaves off. Comparative advantage, unrestricted exchange, a flexible peg—trade should be enough for the highest-possible standard of welfare. But it is not.

A 'utopian criterion' is being employed when the decision-makers adopt a specific, named policy but 'assume that all other policies are of an optimum nature' (TW, 8). A 'second-best criterion' is the rubric that is being used when they alter a single policy but 'assume that all other policies continue to be just what they happen to be at the moment' (TW, 8). All other policies, however unsatisfactory, are not called into question. Duties on wheat imported from Canada are reduced. Tariffs on wheat imported from Poland are held constant in the ceteris paribus. There is no grand design. There is no philosophical binding. Each issue is addressed in isolation. A distortion distorted is distorted piecemeal. The triumph of the ad hoc makes the disequilibrium worse.

International trade should be free. Economic policy, however, must start from *here*. If tariffs or controls already exist, then policy-makers might have no choice but to answer them with controls or tariffs of their own. The theory of second-best dictates that policy should be formulated not on the basis of an ideal absolute but in the light of a real, existing 'divergence between marginal values and costs' (TW, 565). Welfare might go up if a brace of divergences were to be removed. If, however, 'one is to be kept, it may be better that both should be kept' (TW, 565). Second-best may be the better choice.

The benchmark in a free market economy is normally taken to be powerless competition embedded in a homeostatic process. The real world differs from the 'utopian marginal conditions for economic efficiency' (TW, 252). Monopolies and monopsonies make product and input prices inflexible. Externalities introduce a wedge between private and social cost. Governments weigh in through quotas and rationing, minimum wages and maximum hours. Each deviation, private or public, puts up the price and cuts into the quantity. Each fall from grace impacts upon some other fall from grace. Everything is linked to everything else. Nothing in political economy can stand or fall on its own merits.

International trade globalises the imperfections. Meade, short-run exceptions made for newly developing economies, consistently argued for the elimination of tariffs and non-tariff barriers. He knew that restrictions were welfare-destroying in each country and for the world as a whole: 'In the long run a wide adoption of the free-trade principle is of essential importance' (CP III, 152). Yet he also knew that the pitch had been queered long before Smith and Ricardo set out their stall. We today start not from the *tabula rasa* but from queer: 'If there are a number of existing divergences between marginal values and costs, then the reduction of one of these divergences—the others all remaining unchanged—will not necessarily lead to an increase in economic welfare, but may well reduce it' (TW, 102).

The world is a Babel of preferences. Meade knew that, precisely because each country has its own social welfare function, it might be difficult to secure supra-national consensus on a bundle of utility-maximising policies. All politics is local. Open markets will not necessarily have an equal appeal in each of the sovereign nations. There is more to the good life than optimality in the sense of Pareto.

One nation votes for equality, the environment and a strong trade union movement. Another nation is in favour of cost-effectiveness, innovation and privatisation. Each nation has a consensus which by and large reflects the median wants of its own domestic groundswell. Each culture is, however, in some way different from the culture next door. The relative weight placed upon the utopian norm will not always and everywhere be the same.

Deviation by agreement muddles the economists' logic. Each departure from the allocative ideal is not only inefficient in itself but snowballs additional divergences in the world economy as a whole. A subsidy to rail transport, intended to make life easier for the low-waged and the out-of-work, is also a hidden concession to the export trade. A start-up grant to a sunrise industry not only brings economic activity to a depressed region but allows the beneficiaries to undercut foreign competitors through selling below the social opportunity cost. Ad hoc politics is a slippery slope.

Each nation is unique. In spite of their differences, there will nonetheless be an intellectual overlap. Most, if not all, nations want to enjoy a rising standard of living. If there is a general agreement that unfree trade is holding them back, then cupboard love will do the rest. Unilateralism debases the terms of trade of a self-sacrificing first mover. Bilateralism is a closed-ended bargain that does nothing for forgotten third parties. Only multilateralism will be able to make the swords into ploughshares. That way lies plus-sum advance: 'A general agreement to reduce obstacles all round would then be to the benefit of each country' (TW, 566). A general agreement would win consensus. It would be the people's choice.

Cooperation, whether through NATO, BENELUX, GATT or the IMF, is essential. Without 'all-round international agreement' made real by 'supernational policing' (TW, 570), the warring antagonists will never have the confidence in their fellow players to spike their guns. Negotiation is indispensable if the world as a cartel is to move towards the global welfare peak.

Agreement will facilitate advance. By itself, however, it will not eliminate the 'domestic distortions' that make the world so higgledy-piggledy. There will be progress but there will not be perfection. The final equilibrium will still be second-best.

Lipsey and Lancaster could see that it all made sense. Opportunistic responses underpinned by partial solutions were unlikely to lead to an overall maximum: 'In a situation in which there exist many constraints which prevent the fulfillment of the Paretian optimum conditions, the removal of any one constraint may affect welfare or efficiency either by raising it, by lowering it, or by leaving it unchanged' (Lipsey and Lancaster 1956: 12).

Based with Meade at the LSE and writing one year after *Trade and Welfare*, Lipsey and Lancaster recognised that Meade's breakthrough book had been 'the only attempt to date to deal systematically with … problems of actual policy in a world where many imperfections exist and only a few can be removed at any one time' (Lipsey and Lancaster 1956: 11n, 13). In spite of that, they said, Meade had been less than generous with his readers: 'His treatment … is concerned with the detailed case study of several problems, rather than with the development of a general theory of second best' (Lipsey and Lancaster 1956: 11n). Meade had served up the particular when what was required was the general. That, however, was the crux of the theory. Meade knew what he did not know. There was not a single second-best but a cornucopia of possibilities. Second-best is better than third-best. That was all that he could say.

5.6 The Nobel Lecture: A Return to Internal Balance

In 1977 Meade gave his acceptance speech. The Nobel Prize had been awarded specifically for his 'pathbreaking contribution' to international economics. The topic he chose for his lecture was nonetheless 'The meaning of "internal balance"'. Meade was returning to his roots.

The world had changed. Bretton Woods had gone the way of the gold standard. Fixed had given way to fluctuating parities. External imbalance since 1973 had no longer been dependent on the reserves. International capital flows had softened the consequences of a deficit. The IMF had introduced Special Drawing Rights that augmented the world supply of liquidity. The GATT in successive rounds had negotiated sweeping reductions in tariff and, increasingly, non-tariff barriers. The international economy was moving in the right direction. Meade probably felt that he had said what he wanted to say.

Internationally, there had been respectable progress, second-best. At home, there was a new trade-off which was calling into question the internal balance. Keynes had assumed that an injection of aggregate demand would reduce unemployment without at the same time unleashing inflation. This may have been the case in the depressed 1930s. By 1951 it had become 'more doubtful' (CP I, 351). By 1977 it had passed into history. In his Nobel Lecture Meade said that price stability could not be taken on trust. It introduced an essential ambiguity into the concept of internal balance: 'Does it mean full employment or does it mean price stability?' (CP I, 350). They are 'two different things' (CP I, 350).

Internal balance in the orthodox Keynesian scenario had meant the employment objective. Nominal variables were not expected to rise or fall: 'If this natural level of employment is treated as "full employment", one has succeeded in defining a situation of "internal balance" in which "full employment" and "price stability" can be simultaneously achieved' (CP I, 351). When he wrote the *Balance of Payments* Meade said he had 'hoped' (CP I, 351) that price stability would not be threatened by pay rises in excess of productivity gains. He had hoped that the trade unions would not upset the internal balance. By 1977 he had become more concerned about the future of full employment in a world of cost-push belligerency.

In the *Balance of Payments* Meade was still making an attempt to match the tools to the targets. Employment-cum-inflation would be the responsibility of monetary-cum-fiscal policy. The external balance would be assured by the exchange rate and direct controls. In the Nobel Lecture Meade was arguing that in the absence of fixed exchange rates there was no real need for rigid pairing: 'Rather one should seek to discover what pattern of combination of simultaneous use of all available weapons would produce the most preferred pattern of combination of simultaneous hits on all the desirable targets' (CP I, 353).

External balance and internal balance may in the past have had their own unique spheres. In 1977, he felt, it would make more sense to treat them as two sides of a single coin: 'It is the joint effect of all the weapons on all the targets which is relevant' (CP I, 353). To assign a single tool to a single target is 'a much more intelligible arrangement' (CP I, 353). It is an investment in 'democratic understanding and responsibility' (CP I, 355). Ordinary citizens can grasp the control loops that extend from interest to employment, from parities to trade. It is transparent but it is also out of date. The economics of 1951 had given way to the institutions of 1977.

New problems were demanding new solutions. Separate or joint, the older tools of demand management and exchange rates were no longer able to address the new market failure of cost-push. Prices were going up because of 'the untamed use of monopolistic power', because of disruptive coalitions which had attained 'an excessively privileged position' (CP I, 359, 360). It is a polite way of saying that the unions had acquired too much power. Because competition was far from perfect, the twin tools of 1951 were no longer enough to bend the politics of greed to the national interest. A third tool would be needed. It would have to be 'wage-fixing institutions' (CP I, 354) to balance the supply of labour to demand. Without 'the recasting of labour market institutions' (CP I, 352) the result would be stagflation. Meade had underestimated the danger of stagflation when he wrote his *Balance of Payments*.

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6

Customs Unions

Free trade is the best trade. The optimal regime, Jacob Viner had said, could only be 'the balanced and multilateral reduction of tariff barriers on a non-discriminatory basis' (Viner 2014 [1950]: 176). Preferences and blocs had the effect of protecting the countries at the expense of the globe. What one can do, all cannot: 'The only completely innocuous tariff union would be directed against the inaccessible produce of the moon' (Robbins 1937: 122).

Lionel Robbins, like Jacob Viner, was following in the footsteps of giants. Adam Smith had been opposed to the Methuen Treaty. Free entry for wine from Portugal, free entry for textiles from Britain, what enhanced the well-being of home merchants and manufacturers diminished the well-being of domestic consumers and of excluded third countries left outside (Smith 1961 [1776]: II, 53).

Following the Second World War, there was a movement towards multilateralism in forums such as ITO, GATT and, on the financial side, the IMF and the World Bank which oiled the flow of trade. Yet there was also a new interest in regional communities and customs unions. Tearing down the old barriers in order to erect new ones, the new clubs were seeking to redirect the welfare dividend from the enriched natural order to their own sub-set of treaty members.

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The European Economic Community (EEC) in 1957, the ASEAN free trade area in 1958 and the Andean Pact in 1969 were early attempts at restricted liberalisation. A halfway-house between universal free trade and the beggar-thy-neighbour selfishness of the 1930s, they were a stop-gap based on the semi-rational conjecture that comparative advantage begins at home. Meade regarded bounded free trade as a viable second-best but not as a final destination. He was, however, never one to look a viable second-best in the mouth.

6.1 The Theory of Customs Unions

Jacob Viner's *The Customs Union Issue* is the locus classicus. Meade in his review described it as a study 'which it is difficult to praise too highly' (Meade 1951: 186): 'Professor Viner has established a basic method for handling these issues' (MP 9/2). His own *Problems of Economic Union* in 1953 and *The Theory of Customs Unions* in 1955 had to build on Viner's canonical analysis of economic freedom behind a fence. Meade reached the conclusion that it was difficult to reach a conclusion: 'It is impossible to pass judgment upon customs unions in general' (TCU, 107). Viner had already declared that there was no single answer: 'The problem is too complex to be settled by single maxims' (Viner 2014 [1950]: 62). Viner's answer was that it all depends: 'Customs unions are, from the free-trade point of view, neither necessarily good nor necessarily bad' (Viner 2014 [1950]: 65). Meade and Viner saw their contribution as providing an analysis of possibilities rather than as endorsing a single right course.

A customs union, as Viner defines it, is a cross-border association chartered to 'eliminate or reduce the tariff barriers between two or more political units while maintaining tariff barriers against imports from outside regions' (Viner 2014 [1950]: 2). Tariffs are eliminated between the member countries. A common external tariff is imposed against interloper-countries. The proceeds of the common external tariff are distributed among the members according to an agreed formula.

The 'primary purpose' (Viner 2014 [1950]: 54) is trade diversion. Demand is shifted from a lower-cost outsider who under free trade would have captured the business to a higher-cost member who takes advantage of protection to service the pre-herded clientele. The complementary purpose, however, is trade creation. A larger union market stimulates faster growth in the insider States. Rising incomes mean rising imports. The new demand is a spillover benefit to the supplier States. Even non-members can grow more rapidly as a result.

It is not always and everywhere so. Much depends on the extent of the latent economies that can potentially be undammed by unobstructed trade and economic growth. Some firms require long production runs to awaken the size, scale and scope that minimise the average cost. Other firms are able to maximise their internal efficiency at a much lower level of throughput. Viner is prepared to be case-by-case and open-minded. Fundamentally, however, he believes that there are only a 'few' plants and industries that require more than a 'moderate' level of output (Viner 2014 [1950]: 57, 58). Moderate is beautiful. Small is beautiful. Large is beautiful. It is not a strong argument for protection in order to release the latent potential.

If the size of the firm is an argument, then so too is the scale of the union. The larger the economic area, the greater will be 'the practical scope for internal division of labor' (Viner 2014 [1950]: 63). A larger union, where the unit costs differ significantly within the territory, will cause the countries to reconsider their specialisations (Viner 2014 [1950]: 64). A larger group will be able to make pecuniary savings because it will enjoy superior bargaining power. In the long run (on the model of the nineteenth-century *Zollverein* and in the spirit of the national economist Friedrich List) the group might even evolve into a political or military entity.

Some loose generalisations are possible. None of them is very conclusive. Viner is in favour of global free trade: 'Customs union is only a partial, uncertain, and otherwise imperfect means of doing what world-wide non-discriminatory reduction of tariff barriers can do more fully, more certainly, and more equitably' (Viner 2014 [1950]: 170). Free trade does it more fully, more certainly and more equitably. Yet world-wide negotiation takes time. GATT is a general agreement to talk and talk. Second-best at least is the bird in the hand.

Viner saw the embryonic EEC as a reasonable first step. In the short run, and 'in the net', it would probably contribute to 'economic recovery' and to 'international specialization' (Viner 2014 [1950]: 168). In the long run, however, it was 'unlikely to prove a practicable and suitable remedy for today's economic ills' (Viner 2014 [1950]: 176). Writing in 1950, Viner knew that a return to the 1930s was always the elephant in the room. It was desirable to seize any possible reduction before the option was taken away. In the long run, however, it was not the answer either for the countries who became members or for the world as a whole.

Meade entered the debate three years after Viner. He shared the belief of Viner and Robbins that multilateral free trade was the first-best international order: 'I have always worked for movement towards freedom of trade on a world-wide basis' (LEE, 208). He shared their fear that without a disarmament pact such as the Havana ITO ('it should be one of our main objectives to seek general acceptance for that Charter'), bilateral advantage-seeking would degenerate into 'a chaotic game of international barter causing real hardships to many unfortunate countries' (PPM, 92, 100).

Pairwise reduction, let alone no liberalisation at all, would be 'destructive of world trade' that, free of restraint, 'brings a net advantage to every country' (PPM, 92, 101). Not least does it bring a net advantage to Great Britain, whose trade has long 'run so much in multilateral channels' (PPM, 92). Britain derives a disproportionate benefit from a global market. She has a disproportionate stake in making the world public good expand.

A reduction in tariff and non-tariff barriers is a stimulus to world trade. Redistributive consequences can be addressed ex post facto through social policy and compensation. The primary task is to reap the gains. In the end it will be Viner's long run. In the imperfect present it may be Viner's make-do and even Viner's convenient fiction. Praising an open market between the textbook's England and Portugal, Meade's *provided that* is an admission that the open market might after all have feet of clay: 'Free trade would tend to maximize the production of the two areas combined, *provided that* the market price offered to producers of each product in each country corresponds to the cost of production of each product in each country' (PEU, 11–12, emphasis added).

An open market makes each country more productive because it can focus and specialise. An open market also means that no country can exploit its own consumers because cheaper substitutes are kept out. Competition is 'an effective antimonopoly device' (PEU, 14). A world playing field deprives the domestic first mover of his single-seller concession: 'To reconcile a scale of operations which is technically efficient with a scale of market which avoids the danger of monopolistic domination, we need now to match the giant corporations with a free world market' (Meade 1968: 9). It is Ricardo on Earth—*provided that* there are no negative externalities like soil erosion, no internal economies that seal in monopolistic distortions, no meddling ministries that distance the price from the marginal cost.

Provided that there is no ignorance, no dominance and no friction, open trade is first-best trade and only the manufacturers on the inaccessible moon will lose out. If, however, the *provided that* must be relaxed to accommodate the embarrassing deviations, then knee-jerk Ricardianism is not a one-way bet: 'There is indeed no reason to believe that mere laissez faire will in all cases lead to an equality between social costs and prices' (PEU, 20). So there it is. Reality is tricky. Sometimes economic union is a good thing. Sometimes it is better to go it alone. It is Viner. It is Meade. It all depends.

It is politics even as it is economics. Union-making is a venture into the 'marriage of otherwise independent states' (TCU, 115). Meade in his review of Viner's *Customs Union* was in no doubt as to the order of precedence: 'A fairly close political union on questions of defence and foreign policy is, in present conditions at any rate, a necessary prerequisite for any extensive advance towards economic union' (Meade 1951: 188). The political kingdom comes first. Later, even much later, all else will be added unto it.

Politics is the cause. It normally takes the lead. Thus, in the EEC, the member governments, each one a Westphalian *cuius regio*, made a conscious decision to derogate some of their decision-making powers to the centre: 'There must be some competent political authority to decide' (PEU, 27). An economic area means extra-territorial rules that shave and pool the sovereignty. In return, the signatories are better positioned to bargain as an alliance with the rest of the world (TCU, 96). The joint gains are more likely to outweigh the separable losses the larger the trading area becomes. It is all a question of costs and benefits.

Meade, like Viner, was cautious and thoughtful. On the one hand a customs union will be a cause of trade diversion, 'uneconomic and wasteful': 'As a result of it the world's output will be reduced and the general standard of living must somewhere be lowered' (TCU, 31). On the other hand there will be trade creation. Not only will an existing opportunity-set be reallocated, new and fresh welfare will also be brought into being. Growth is the cause and effect of growth. Ricardo had assumed that world productive potential was fixed but that redeployment could improve the pay-off. Meade combined the static re-equilibration with the dynamic improvement. It was an expansion in the endowments and not just their reassignment that was making the world a richer place.

Following Viner, Meade explores the circumstances in which the gains will outweigh the losses. Net welfare is more likely to go up 'if the economies of the partner countries are actually very competitive or similar but potentially very complementary or dissimilar' (TCU, 107). Economic union allows the partners to practice incremental division of labour, develop their comparative advantage and mature their scale economies. Economic welfare is more likely to rise if cross-border gain-seekers successfully undercut sleepy incumbents in union states. It is more likely to rise if the member nations in advance of entry implemented abnormally high levels of protection. It is more likely to rise if land and natural resources do not constrain the elasticity of supply and if the factors of production flow freely from one area partner to another.

Most of all is economic welfare likely to rise if the customs union is large and inclusive. The acolytes of Viner and Meade will have no difficulty in predicting what comes next. A customs union is more likely to create new wealth 'the greater is the proportion of the world's production, consumption, and trade which is covered by the members of the union' (TCU, 109). Regionalism is more likely to promote world welfare the more the partitioned club approaches to the open-door universalism of Smith and Ricardo.

It is an argument for an 'all-embracing agreement, covering all countries and all products' (TCU, 114). It is an argument for a customs union which increases its membership until in the limit the whole world is inside. EU, ASEAN or NAFTA, we all will be making money under the banner of the WTO. To minimise terminal diversion, to encourage perpetual expansion, the best route is the Ricardian route. Customs unions are at their most successful where they mimic the non-discriminatory logic of a world that has little time for customs unions.

Reality is second-best and change is lagged: 'All of this may take considerable time' (PEU, 37). No one can know for sure: 'It is impossible to pass judgment upon customs unions in general.... It all depends upon the particular circumstances of the case' (TCU, 107). No one can know in advance if the game is worth the candle. Only afterwards when it is too late can anyone score with accuracy the choice that was made. Meade in the end confesses to a 'general prejudice in favour of a customs union' (TCU, 107). In a perfect world it would be Ricardo. But we start from here.

6.2 The European Community

Meade at the Cabinet Secretariat was involved in the new ITO that would guide world humankind to the production possibilities frontier. Yet something else was on the agenda. The three small countries of Belgium, the Netherlands and Luxemburg in 1943 had formed a regional alliance called Benelux. It was a natural progression since they were already 'closely linked in historical experience, geographical position, and in language and culture' (Negotiations, 4).

There was a proposal that Benelux should admit France and Italy. It would become Fritalux. Independently, there was also the possibility of a Nordic union made up of Sweden, Norway and Denmark. Seven countries, most of them non-aligned, were forming a European Free Trade Area (EFTA). Six countries were moving towards an EEC. Britain almost joined the EEC in 1957 but then withdrew. In 1967 she petitioned again to enter the club. Her application was rejected by President de Gaulle and her adhesion delayed until 1973.

Western Europe was at sixes and sevens in the decade that Meade spent at the LSE. Big decisions had to be made quickly. Britain, as at other times in her island history, was trying to decide if she was a European nation or if she was a breed apart. Already in his last year at the Cabinet Office Meade had had to wrestle with the interlocking loyalties of an old country triangulated between Europe, the Commonwealth and the North Atlantic. He had reached an open verdict: 'Insofar as, as a result of a Customs Union, members' exports to *and* imports from non-members increase, the effect on non-members as a whole is favourable' (MP 3/18). It is favourable if trade goes up but unfavourable if trade goes down. Meade was all too aware that he did not know how it would all play out.

Meade at the LSE could have shut himself off from current affairs to concentrate on the pure theory of international trade. Instead he combined the path-breaking research for which he was awarded the Nobel Prize with an active involvement in national debate. Only in his discussion of mass unemployment in the 1930s and of nasty economic stagflation from the 1950s did Meade devote as much time and effort to a single issue as he did to Europe in the period from 1950 to 1962.

There was the journalism in the *Manchester Guardian*, the talks on the BBC, the moderately accessible popularisations in the Bank Reviews. There was the much-discussed Hobart Paper *UK*, *Commonwealth and Common Market* in 1962. There were articles in the press with eye-catching titles like 'A union of free peoples', 'The British dilemma' and 'Some economic problems of Atlantic union rearmament'. There were scholarly contributions such as 'The Belgium-Luxemburg economic union' and 'Negotiations for Benelux', both for the *Princeton Essays on International Finance*. There were sections on customs unions in the magisterial *Trade and Welfare*. There was a case study on Benelux in *Economica* for 1956 and another on the EFTA in the *Economic Journal* for 1957. Meade delivered the Walgreen Foundation Lectures in Chicago and the de Vries Lectures in Amsterdam. They were published as *Problems of Customs Unions* and *The Theory of Customs Unions* in 1953 and 1955 respectively.

There were also the confidential consultations. Meade in 1962 prepared a paper on the EEC for Hugh Gaitskell and senior members of the Labour Opposition (Atkinson and Weale 2000: 488). Neither the party nor the leader could decide if entry was in Britain's national interest. All that Meade could share with them were his reservations. He 'favoured joining a liberal-minded and outward-looking Community but not a narrow protectionist one, and thought its terms for the Commonwealth would give a pointer to its likely development' (Williams 1979: 710).

He was no less apprehensive when he took his message into the public domain: 'The UK could and should join the EEC if it has real promise of becoming a liberal, outward-looking institution. But she should not join if it is designated as a tight-parochial European bloc' (CP III, 273). Going into Europe would be a gamble. Yet a decision had to be made.

6.3 Alternatives and Options

Meade was never a strong European. Vacillating his way from the Coal and Steel Community in 1951 to possible membership of the Economic Community in 1957, Meade was never convinced that Britain's stake in an integrated Europe would best be served by full membership in a tightly knit clutch: 'A free-trade area would be preferable to a customs union because it would allow us to go ahead negotiating reductions in tariffs and other barriers to our trade with outside countries' (Meade 1956b: 8). Britain had a special relationship with the United States. There were the kith and kin in the white Dominions. There was the network of Commonwealth preferences. There was the Sterling Area that spider-webbed outwards from London.

The Common External Tariff would be imposed against her exports if Britain refused to join: 'It would involve discrimination by the countries of Europe against our manufactures' (MP 4/1). If Britain did join, however, it would be imposed against her Commonwealth partners. They would no longer be able to ship tariff-free to what for most of them was their most lucrative market. British exports to the Commonwealth were 50 per cent more by value than her exports to Europe. If Commonwealth imports were made subject to the EEC tariff, the downward-sloping demand curve would cut into the pool of earnings that they were using to purchase British commodities. Their growth rate would be less. Their terms of trade would become even more adverse.

Britain was trying to sell into the large and growing European market: 'We cannot afford to be excluded' (CP III, 246). The common protective tariff was, however, designed explicitly to exclude the rest of the world. It was a particularly unfortunate and 'retrogressive step': 'I feel the greatest distaste in keeping Australian foodstuffs and Indian textiles out of the

UK market in order to protect high-cost European producers' (CP III, 253, 277). It was not just the high-income Dominions but the impoverished Third World that would suffer: 'The future wealth of the poorest countries is at stake.… It would be a bad beginning for the UK to give up the principle of free entry for such products.… It is not attractive that we should keep out the produce of the poor in order to protect the rich' (CP III, 258, 276).

The EEC was a mixed blessing. Food prices in Britain would go up because agricultural support in the Community was calibrated to the least-efficient and not the most-efficient farm. Regressive taxation to fund the butter mountains and the tomato swamps would fall most heavily on the poor. Cheap imports would no longer be able to compete with cereals and dairy produce originating within the tariff zone. Britain was trapped between a rock and a hard place. We cannot afford to be excluded. We cannot afford to join.

Meade did not like what he saw. Yet he also saw that 'to join or not to join' was not the only possibility. Meade as a market economist was temperamentally attuned to tolerance of diversity and plurality of choice. He was never comfortable with dogmas and creeds which made a virtue of a single way. Meade believed that there were normally reasonable alternatives situated on the spectrum of the middle ground. In the case of the EEC, Meade experimented with a range of third ways that would restore Britain's freedom of choice.

One third way would be tariff-free entry into the EEC of poor-country exports without, in exchange, 'demanding complete free entry into the markets of those countries' (Meade 1968: 9). It was a Third World third way. It was one for which it would be 'very difficult' (MP 4/1) to win First World support. The existing signatories would not welcome selective exemptions that threatened the butter and the tomatoes. Such favouritism, moreover, would 'annoy the United States at a time when we most need her friendly co-operation' (MP 4/1). At the end of the day, it would not be a final solution. Quotas agreed at the time of entry would rapidly be left behind by growth.

A second possibility would be the conversion of Commonwealth preferences into extraordinary reductions in non-EEC tariffs (CP III, 263–4). The rest of the world would in that way be absorbing the Commonwealth produce that would be displaced from the British market when Britain went behind the European wall. It was not very likely. Apart from possible accusations of dumping, the infant-industries argument was not universally accepted within the GATT. Later, as the poor-country caucus grew in numbers and influence, the compromise might have more chance of surviving the successive Rounds. In the 1950s and the 1960s the Rounds were more concerned with across-the-board reductions than they were with aid for development.

A third choice would be the creation of a mega-free-trade area that would encompass the EFTA countries, the EEC and, ideally, North America as well. The mega-alliance would be 'a great liberal North Atlantic free-trade community' (CP III, 284). Being liberal, practising free trade, it would be at its best where it reduced its barriers not just for its own members but for outsider nations as well.

President Kennedy in the early 1960s was unilaterally reducing tariffs on US imports. His gift to world trade was made at the same time that Britain was joining what Meade himself called a 'rich man's club'. Meade was absolutely in sympathy with what Kennedy was doing: 'We must make our adherence to the Common Market conditional upon, and an intimate part of, the actual implementation of the new United States commercial policy' (Meade 1962: 13). The new hegemon would be the white knight who came to the aid of the abandoned Commonwealth. The Commonwealth might actually gain more from trade expansion than it lost from the shrinkage in British demand.

A fourth option would be a trade treaty. Full membership is an encyclopaedia of rights and duties: 'Is it wise to put all our money on this one horse?' (Meade 1956b: 9). A mix-and-match contract would be uniquely custom-made to Britain's specific circumstances: 'There is no technical reason why a free-trade area should not be formed between the United Kingdom and the single Continental Customs union' (Meade 1956b: 9). The relationship should be loose but well focused. Britain would be half in and half out. A mix to Meade was always an attractive model.

The fifth and last option is to reject the European free straitjacket in favour of a world common market. In the ongoing struggle between the regionalism of the EEC and the universalism of GATT, Meade issued a strict warning that the globe is bigger than the Six and that the prophet had to remain Ricardo: 'If every country concentrates on the production of the things in which it has relatively the greatest efficiency and then trades its products with others, there will be more production and higher standards of living all round' (Meade 1950a: 156).

Regionalism could, of course, be a stepping stone on the road to multilateralism. As the means to a higher end, Meade could see that it would be superior to the tariff walls erected by warring nations to keep comparative advantage out. The problem is that the new alliances might themselves build new barriers to restrict the gains from trade to the team-members alone: 'Our primary objective of commercial policy must always be a general all-round reduction of trade barriers throughout the free world…. Our membership of a complete European customs union could seriously impede us in this wider objective' (Meade 1956a: 8).

Regional blocs are always a poor second-best: 'Let reason guide us away from the purely regional approach' (Meade 1950c: 264). Writing to R.W. Mackay in 1951, he inveighed against 'the wasteful use of resources' that would be the price of international partnerships: 'The prospect of a limited number of very large blocks bargaining with each other is rather horrible' (letter from Meade to R.W. Mackay dated 11 April 1951, MP 4/1). In 1951 as in 1962, very large blocks could degenerate into an economic Cold War.

Yet a decision had to be made, and Meade, when he had to come off the fence, was prepared to accept the inevitable. All roads lead to Rome. He said so in 1956 in a letter to Frank Figgures: 'It is terribly difficult to make one's mind up because there are such powerful arguments on both sides. But if a European common market is built, then it seems to me that we must go in' (letter from Meade to F. Figgures dated 24 January 1956, MP 17/17). He said so in 1961 in a letter to Phelps Brown: 'On balance, on political-cum-economic grounds, I think that I favour our joining the "Common Market"' (letter from Meade to H. Phelps Brown dated 12 June 1961, MP 4/11). He also signed the Common Market Campaign's Statement on Europe supporting Britain's entry.

By the 1990s he may have been experiencing buyer's remorse. The press was accusing Europe of diverting more trade than it was creating. Business people complained of cumbersome regulations that stifled initiative. The temperate produce of the historic Empire had been denied concessionary entry. Meade in later life expressed his regret 'that the terms of UK membership had indeed been unfair to Australia and New Zealand' (Atkinson and Weale 2000: 488). By the 1990s he had decided that the EEC was 'an unspeakable outrage' (LEE, 208). It was too late. Britain had joined the EEC in 1973. After that the door was closed.

6.4 The Military Dimension

Western Europe was at sixes and sevens. Eastern Europe was not standing still. Economically, the Soviet bloc had set up its Com-Econ to internationalise its imperative plans. Militarily, the Red Army stationed in East Germany was widely believed to be training for a preemptive strike on the West. Meade had seen a *Blitzkrieg* with his own eyes when Hitler broke through into France when he and his family were returning home from Geneva.

It was not just the economics of classical liberals and the European Dream of Jean Monnet but the bloody suppression of Hungary in 1956 and the erection of the Berlin Wall in 1961 that drew Meade into the debate about regional integration: 'A strong Western Europe with a sense of unity and purpose is an important link in the free world' (Meade 1956a: 8). Britain could not afford to be 'neutralist'. No country could survive on its own: 'The security to be gained by Union of the democratic communities—both from external aggression and from internal threats to human liberties—is at present more urgent than any increase in their economic welfare' (MP 4/1).

British people in the late 1940s had not forgotten the nightmare of Continental Fascism. They had survived the shooting war that had kept alive their human rights. The Russians had acquired the atomic bomb. The Russians did not practice liberal democracy. Lecturing to his LSE students or speaking on the BBC, Meade knew that on mutual defence he was preaching to the frightened: 'By far the most important political need of free man is to be secure from military attack, and from the arbitrary oppressions of totalitarianism' (Meade 1950a: 155).

Free men want to remain free. This is the irreducible value judgement that led Meade to support rearmament but to support prosperity as well.

NATO cannot confine itself to war-waging alone. It must also open a second front on slow growth and barriers to trade. Writing in the year of the Soviet occupation of Hungary and a year before the Treaty of Rome was signed, Meade was arguing that the war on want was an essential complement to the war on war: 'NATO must concern itself with economic and social welfare. If hot war is avoided, the struggle between the free and the authoritarian ways of life may be much influenced by the relative success of each system in promoting an efficient, just and free way of life' (MP 4/5). Guns were not enough. NATO had to concern itself with the bread-and-butter issues that were being delegated to GATT, the OEEC and the EEC itself.

The first dragon was Russia. A second dragon was Germany. By the mid-1950s the West Germans had experienced an economic miracle. Attempts had been made through the European communities, the enforced demilitarisation and the foreign garrisons to neutralise the relentless machine that had been the cause of three European wars in 70 years. Many, and Meade was one of them, were afraid that Germany was scheming to make the new European confederation into its own Trojan Horse: 'If we were not in the common market, industrially she would be almost certain to do so' (Meade 1956a: 8).

The dominance would be industrial but it would also be political. In the recently established IMF there was no expectation of one-country-one-vote. In any future European community the rule would and should be the same: 'The national representatives must have their votes weighted on some principle which gives more weight to the larger countries' (Meade 1950b: 228). It is a good reason for Britain to sign up.

Britain had a unique role to play in European rearmament. Western Europe, Meade said in the early 1950s in his unpublished 'Semi-War Economy', had to make itself 'more than a match for the U.S.S.R': 'Not everything depends on the U.S.A.' (MP 9/20). She should do so quickly, when 'fear of the atom bomb may restrain the Russian Imperialists' (MP 9/20). The Imperialists had set their sights on Paris and even Biscay. In spite of that, the mainland, 'spiritually and physically', was suffering from indecision and inertia. The mainland was waiting for a leader. Britain, with decades of experience in gunboat diplomacy, was the answer to their prayers: 'The Europeans will not pluck up courage until they see large

English-speaking reinforcements on the continent; and the Americans will not resolve their debate about sending divisions to Europe until they are convinced that Western Europe means business. Once more, it is up to us' (MP 9/20). Britain had to march out in front. Better dead than red. Better alive than dead. Europe was not economics alone. It was survival and security as well.

Politics was the sine qua non. Speaking at Chatham House in 1951, Meade argued that it would be impossible to create a meaningful economic community so long as the Russian Bear remained a clear and present threat: 'Unless the free peoples can get together to form an effective defence against totalitarianism, none of the many possible democratic schemes for economic betterment are worth anything' (MP 9/16).

A common defence policy is more than tanks and guns: 'It is impossible to have a single effective defence policy without thereby implying a single foreign policy' (MP 9/16). Sovereignty would have to be shared if military, diplomatic or economic cooperation were to get off the ground. The exemplar was the personal rapport between Churchill and Roosevelt which had privately ground out so much agreement in the war: 'In the long run a real federal Government for Atlantic community may be the right answer…. But we all know that it is just not practical politics yet' (MP 9/16).

Looking to the future, Meade believed that an Atlantic federation would fill a gap in international relations: 'I myself wholeheartedly welcome it tomorrow' (MP 9/16). He knew, however, that concord was not imminent on defence or foreign policy. Smaller countries mistrust their bigger brothers. The countries disagree on fundamental objectives. A regional United Nations would have to wait. Perhaps Meade believed that economics at least would be a provisional second-best.

6.5 Regional Monetary Cooperation

A customs union ensures the free movement of goods and services. The treaty is trade. For some it was not enough. Some were calling for monetary cooperation in order to complement the real flow with cash.

In the mid-1950s, because America was a net creditor, there was a shortage of US dollars for use as the international means of payment. There was a fear that the reluctant superpower might plunge the world into recession through a unilateral return to nationalist isolationism. European countries in surplus were already lending liquidity short-term to European countries in deficit. Meade saw that it was not a long-term solution. Mutual aid as it was practiced in the 1950s was, he believed, at best a palliative. He pointed out that a European Payments Union would quickly exhaust its shared reserves if the bulk of its members went into structural deficit with the non-Union world. Universalism was a better-built craft. An extension of drawing rights created by the International Monetary Fund would be 'much more satisfactory' (CP III, 216).

Even so, Meade had no categorical objection to some future European Monetary Fund. A regional Monetary Fund could buy and sell its members' currencies. It could hold some or all of the nations' gold and dollars. At a later date it might even add the monopoly of a single money: 'As their domestic financial policies become more and more harmonised and integrated, so smaller and smaller fluctuations in exchange-rates need be permitted, until finally … exchange rate fluctuations can be abandoned' (CP III, 228).

Yet a single money is a minefield of complexities. Domestic financial policies to Meade are always the bundle of fiscal as well as monetary intervention. To make either arm independent is 'to court disaster' (FER, 27): 'The system could well collapse' (Meade and Weale 1995: 202). Separation 'could turn out to be a recipe for economic and monetary instability' (Meade 1990: 100). To operate both together is, however, to rely on the wisdom and judgement of 'a single financial authority' (FER, 27). It would have to be independent of the member Parliaments.

The member States might have the same needs. As the economies of the bloc grow together, so their cycles and their rates of inflation might converge. If their external balance also becomes relatively stable over time, they might have no objection to signing away their sovereign parity. Their needs becoming the same, they might be able to reach a consensus on the domestic financial policies that they would like their common Fund to implement.

The needs grow together. The wild card is the wants. Germany has an international surplus but also a folk memory of hyperinflation in the 1920s. She will be resistant to an expansion in total demand lest it undermine the stability of her post-war miracle. Britain, in contrast, has a deficit on her balance of payments but also the tragic experience of Depression-era unemployment. She will not welcome the tightening of monetary and fiscal policy. Least of all will she welcome a contraction in total demand when tariff reduction and the associated restructuring are putting her people out of work. The British people believe that 'full employment is more important than free trade for Europe' (CP III, 226). The German people have a different set of national priorities.

The move from a flexible to a fixed parity will not bridge the cultural disparities. The inference is that monetary and fiscal policies 'must for some time remain primarily the function of the European national governments' (CP III, 226). A European Central Bank must respect the sovereign attitudes to taxation and public expenditure in the member countries. Boxed in to interest rates and the money supply, there too it must not force through unpalatable policies simply because the democracies differ and bargaining dilutes the medicine.

The best-attainable solution is a macroeconomic second-best. A common currency de jure will remain a bridge too far so long as fiscal policy is not coordinated with monetary policy and the member States have not reached consensus on their national goals. A common currency de facto is a different matter. A harmonisation of the economies and the attitudes may dampen the amplitude in the parities. In practice, if not in law, the different currencies begin to march as one.

It is a positive development. So long as the intra-Union exchange rates are reasonably stable and both real and money flows are fairly free (CP III, 272), there will be no need for the pound and the franc to merge under a single name (PEU, 39). Bancors, europas or euros are not needed to solemnise the symbiosis: 'In my opinion, it will be much better for the member states to keep their own national currencies' (Meade 1950b: 227).

In the immediate future the nations should adopt the principle of subsidiarity. Tasks better performed at the lower level should not be referred up to the centre: 'Let there be an *a priori* preference for taking them locally, unless there are overriding advantages in taking them nationally' (Blueprint, 7). In respect of macroeconomic policy, countries should be free to pursue their own internal balance while retaining the right to alter their par in the interests of their own external position: 'The rates of exchange between the European currencies must be variable' (CP III, 226). In the 1990s, as in the 1950s, Meade maintained that relatively stable exchange rates were the closest the countries could safely come to a single common currency.

In the immediate future it would be macroeconomic nationalism. In the case of the UK it would have to be so because Britain had special problems with her trade unions which the financial centralisation of a European Monetary Union would only exacerbate: 'If we join an EMU and continue our wage-push, we are in for prolonged unemployment' (letter from Meade to A. Beith dated 20 August 1990, MP 9/104).

In the immediate future each country must first put its own house in order. In the more distant future the inward-looking macroeconomics was likely to evolve into something more. A single nation like the United Kingdom or France does not require internal parities or provincial reserves. A larger union like Europe is likely over time to evolve into a single financial area on the same low-friction model. There would be 'a single supranational control scheme for the whole union' (CSEEU, 103). There would be a single currency. There would be a single central bank.

The common market for goods and factors was only the first step. Later on there would be the regional and environmental policies, the health and safety laws and even a standing army. Banking would be swept along with the flow. Europe would evolve into a single political entity, ruled over by 'what would amount to a single European Government': 'That is in my opinion ultimately desirable; let us hope that it will prove ultimately practicable; but it is not a starter at the moment' (CP III, 220).

It was not a starter in 1957. Later on, Meade hoped, it would be. In 1962 Meade said about the European project that 'the political issues are ultimately more important than the economic': the fundamental objective is 'the political unification of Western Europe into a federation or confederation of states' (CP III, 244). Economics was only the first step.

Reflecting in 1990 on a European Monetary Union, Meade returned to the possibility of renewed warfare that had concerned him in the 1940s and 1950s: ‘I believe that there are the most powerful political arguments in favour of an EMU as a means of preventing European warfare. Germany, above all, but also the rest of us, need to be welded into a political democratic liberal union and a single currency would help greatly in that’ (letter from Meade to A. Beith dated 20 August 1990, MP 9/104).

Even that, moreover, was just the start. The process should not stop at ‘a recognised political or geographical grouping of states’ (CP III, 30). The European project was just the start: ‘One World … must necessarily be our main political objective’ (CP III, 245). But not today. We do what we can. We make haste slowly. For today, free trade agreements and free trade areas are the second-best paradise that puts the league of all nations in play.

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7

Demand Management

The Great Depression of the 1930s focused the mind. Meade was young at a time when unemployment in the United Kingdom never fell below 8 per cent of the registered labour force. In some years it was 15 per cent. In some areas it was 50 per cent. For 17 years, until the run-up to the war, there was not enough work to go round.

The professional orthodoxy, in the tradition of Mill, Marshall, Edgeworth and Pigou, treated joblessness as a self-correcting market imperfection (Keynes 1973 [1936]: 18–20). If money wages were flexible downwards and workers' expectations realistic, then the invisible hand would in due course price the unemployed back into work. Full employment results from search. Search takes time.

Not everyone in the 17 Depression years was prepared to blame the unemployed for putting themselves out of work. British underconsumptionists like Mandeville, Malthus, Lauderdale and Hobson had long been arguing that the real shortcoming was not unresponsive microeconomics so much as it was a macroeconomic deficiency in consumption, investment and net exports. A lack of aggregate demand was the reason why the national product would settle into secular stagnation

D. Reisman, *James Edward Meade*, Great Thinkers in Economics,
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before full employment had been secured. What was needed was not so much a more sensitive labour market as balance-wheel public spending that would break the vicious circle of involuntary unemployment.

The young Meade had discovered the heterodoxy of Major Douglas even before he had been schooled in the orthodoxy of Pigou's *Unemployment* and Fisher's *Purchasing Power of Money.* He had already come to the conclusion that automaticity was not enough and that demand would have to be managed. He was beginning to think that the classical economists were out of touch. After that there was the 'Cambridge Circus'. After that there was Keynes the magician and all was light.

7.1 The Apprentice Years

Five years is a long time in economics. Meade in the years between 1933 and 1938 was laying the foundations for what was to follow. It is remarkable how little was to change. Meade was Meade even when he saw himself as an apprentice still learning his craft.

7.1.1 1933

Meade was only 26 when he wrote *Public Works in Their International Aspect.* Published by the New Fabian Research Bureau three years before the *General Theory*, Meade's tract in 1933 called for public spending on infrastructure such as roads and railways. It was written at a time when some Fabians were still looking to increased savings, higher taxes and reduced public borrowing to combat economic disruption in the wake of the Wall Street crash. Not all Fabians in the early 1930s were in favour of deficit finance.

Public investment should be countercyclical. It should also be cross-national. One country's supply is another country's demand. One creditor's surplus is another country's deficit. If there is to be reflation, then a new body similar to the Financial Committee of the League of Nations should be set up to coordinate the monetary and fiscal policies of the interdependent matrix: 'There would be no need for any fluctuations in exchange rates, since prices and money incomes would rise in every country at the same time' (CP I, 16).

As he did throughout his career, Meade in 1933 proposed that the new body should venture beyond aggregate demand into other areas of common concern such as tariffs, immigration and restrictive practices (CP I, 24). The gold standard had just been suspended. Countries were under no obligation to accommodate the needs of their trading partners. Meade argued that cooperation was nonetheless the best-possible strategy. Unilateralism would be self-defeating. Multilateralism was the only way in which all the partners taken together could reduce their idle capacity and their excess stock.

In 1933 Meade drafted 'Financial Policy of a Socialist Government during the Transition to Socialism'. It was intended for internal discussion in the Policy Sub-Committee of the Labour Party's National Executive and was never submitted for publication.

The document begins with a manifesto. Meade states that he is a socialist because of his commitment to 'a much greater measure of economic equality' and also because of his belief that 'the greater part of the capital of the community should be socially owned and administered' (Dalton Papers, 2/1). Crosland in 1956 sought to limit socialism to the societal objectives of equality and welfare (Crosland 1956: 112–4). Meade in 1933, like Marx in 1867, made the creation of wealth at least as socialist as its reallocation. He said that there could not be a socialist Britain until 'the greater part' of British capital was in the hands of its property-owning Parliament.

Collective action costs money. Meade's view on deficit finance was that it had a contribution to make provided that new debt was responsibly incurred. Public borrowing for long-lived social investments was an acceptable way of spreading the cost. Public borrowing for evanescent consumption was not. Current expenditure should wherever possible be financed out of current taxation. An exception would have to be made for macroeconomic volatility. Public spending should be countercyclical. It should rise in the downswing and fall in the recovery.

Because he defined socialism to be social distance and public property, Meade had to recommend some nationalisation. The two characteristics of his socialist economy were closely connected. The socialised corporations, not a loss-maker but a money-tree, would be a source of public finance. The profits from coal and transport could be used 'to increase social services and for national development' (Dalton Papers, 2/1). Whereas the Marxians were saying that the profit-tranche is proof positive of exploitation, Meade was arguing that the surplus above cost is an essential part of the socialist way. Over and above the tax take, State-owned business would be funding the schools and the income maintenance. State capitalism would be paying for social reform. It was a suggestion to which he was often to return.

Meade in his document recommended the nationalisation of the Bank of England. Full compensation should be paid. English socialists settle their debts. Once nationalised, the central bank would put the public interest first in respect of interest rates, exchange controls and the money supply. It would use the nation's reserves to contain the appreciation or depreciation of the par. A private central bank would face a conflict of loyalties. A public central bank would report directly to the Cabinet and the representatives of the people.

The nationalised central bank would collaborate closely with some future National Investment Board to synchronise the investment plans of private and public enterprise. Coordination would not be enough. There would also have to be accountability. Information-gathering becomes an *ought-to-be* only when 'the Government has carefully planned beforehand' how to prioritise the spending into 'the most desirable channels' (Dalton Papers, 2/1). The State had to get involved. There was no alternative. Resources are scarce. Economics by itself cannot solve the economic problem.

Also in 1933 there was *The Rate of Interest in a Progressive State*. An academic treatise on monetary equilibrium, it took a view on the contribution that interest rate policy could make to full employment.

Since the demand curve for real investment slopes downward to the right, standard price theory would suggest that a lower rate of interest had the potential to kick-start the self-feeding capitalisation that would bring more jobs in its wake. In spite of the textbook pedigree, Meade in 1933 expressed some reservations about the intercept and the slope. His argument in 1933 was that interest rates were probably second-best.

Monetary policy works more slowly than tax cuts or social security payouts. In 1983 he was still calling the impact of interest on money incomes 'slow and moderate', the effects of changes in taxes and payouts 'quick and large' (DM, 63). Cash grants are spent immediately on consumption but long-term investment is subject to implementation lags. Interest rates cannot fall below a liquidity trap: withdrawals might exceed injections but still the market does not clear. Interest rates are not under the control of a single central bank: other countries are simultaneously pursuing their own national objectives. Interest rates have a dual loyalty: a high rate would draw in foreign funding for external balance but a low rate might be better suited to the internal goal of full employment. The message of Meade's *Rate of Interest* is effectively that interest is an also-ran. If the government genuinely wants to create new jobs, then the price of money cannot be more than a secondary fulcrum.

Looking backward in 1975, Meade picked out the active role of autonomous investment made cumulative by the multiplier as the essence of the Keynesian revolution (CP I, 347). If investments and multipliers are indeed the crux and kernel of Keynesian economics, then some of the key insights of Keynesian economics can certainly be found in *The Rate of Interest*. In spite of that, Keynes himself was not convinced. Assessing *The Rate of Interest* for the publisher, he described the book as 'probably half-baked', its subject-matter profoundly overgrazed: 'You may have had too many of this type coming along …. Everyone wants to write something, and most of what is written is incomplete'. Its author fared better. Meade, Keynes said, was undoubtedly 'one of the most promising of the very young but interesting school of Oxford economists' (quoted in Moggridge 2002: 22).

7.1.2 1935

In 1935 Meade wrote a pamphlet entitled *Outline of Economic Policy for a Labour Government*. The New Fabian Research Bureau had published his *Public Works* in 1933. Meade saw his *Outline* as a continuation of his earlier project.

The *Outline* made clear his position on internal and external balance. The decision-makers could not assume, with Say's Law, that supply would automatically create its own demand. It was their duty to boost aggregate demand in order to ensure full employment. At the same time the decision-makers had a no less urgent duty to multiply the gains from trade without destabilising the balance of payments. A country with a fixed exchange rate will have to protect its international balance through deflationary policies which cut into quantities as well as prices. Internal balance will have to be sacrificed to external balance. It must not be allowed to happen: 'In no circumstances should foreign exchange difficulties lead to an abandonment of the internal policy designed to give full employment' (CP I, 60).

Exchange rates should be 'temporarily fixed' (CP I, 62). Excessive fluctuation means enfeebling uncertainty. They must not, however, be 'rigidly fixed' (CP I, 53). If the alternative is to cut back on productive labour that has the higher priority, then a country would be wise, as Meade reiterated just after the end of Bretton Woods, 'to allow the exchange rate of its currency to fluctuate fairly freely' (CP I, 394). Britain had left the gold standard four years before Meade's *Outline*. The floating pound had given the decision-makers an unprecedented freedom to rely on the reserves in the short run but to revise their parity in the long run in order to insulate their own people from the vicissitudes of an unsustainable international position.

Interest rates and public spending should be used to correct the shortfall in demand. Where they cannot create sufficient opportunities, it would be the function of an Unemployment Assistance Board to dole out generous benefits 'not much below the wage which the worker would obtain in employment' (CP I, 45). Although subject to a means-test and a willingness-to-work test, they would still be adequate to retard a cumulative fall in purchasing power.

Unemployment benefits would be funded through bipartite contributions. They would be calculated in the actuarial expectation of 'normal unemployment' (CP I, 46), allowing for non-cyclical rigidities such as an inappropriate skills mix. Surpluses in good years permit deficits in bad without threatening the insurance principle. No State money would in net be involved. Spending is an injection of demand. Taxation is a withdrawal.

Meade in 1935 was saying that contributions and benefits should be on a sliding scale. They should vary contra-cyclically depending on the percentage of the labour force that was out of work (CP I, 49). Swimming against the tide, they would help to stabilise the level of total demand. Because they would even out the spend they would keep business investment within responsible limits. Acceleration or deflation is dangerous. No one knows when the turning point will be reached.

The recalibration of tax rates is 'by far the most important weapon of control over personal expenditure' (CP I, 212). Yet it is discrete, often annual. Meade's sliding scale has the advantage that a built-in stabiliser never sleeps. It acts on personal consumption with a minimal lag.

The government budget should be balanced 'on orthodox lines' (CP I, 49). Surpluses and deficits would cancel each other out over the cycle (CP I, 213, 292). Idle balances could safely be borrowed from the banks in downswing years. The monetisation of excess reserves would not cause a rise in prices so long as productive capacity was manifestly in surplus: 'Inflation of the money demand for goods can only become dangerous when there is full employment' (CP I, 48). Growth itself was producing a natural dividend. More investment and more jobs meant more public revenue, higher pensions and something called the 'social dividend' (CP I, 77). Eight years before Juliet Rhys Williams, Meade was already experimenting with the notion of a citizens' wage.

He was also experimenting with an indicative plan. Capital was being wasted that could take men off the dole. It was good social as well as good economic policy for the slack to be taken in. Meade in the *Outline* recommended the establishment of a National Development Board charged with a five-year plan for public spending. It would harmonise the budgets of the disparate ministries and agencies. Simultaneously the State should create a Supreme Economic Authority that, without falling back on a national economic plan, would bring into being 'a correlated and harmonious economic policy' (CP I, 78). It would be a multipronged attack on want.

Meade submitted the *Outline* to the New Fabian Research Bureau. In 1933 it had published his *Public Works*. In 1935 he was not so lucky. The

NFRB, apparently on the advice of G.D.H. Cole and Evan Durbin, turned it down (Durbin 1985: 197). No reason was given.

Perhaps the NFRB was concerned about Meade's minority position on flexible rather than fixed exchange rates. A fixed parity, like the classical gold standard, would serve as a deterrent to irresponsible public spending. Although Meade's heresy had been a target parity and not a free float, the NFRB may have concluded that it was risky to countenance depreciation to stabilise the domestic economy.

Perhaps the *Outline* was rejected because of a fear that unemployment compensation would sow the seeds of an uncontrollable boom in a subsequent upswing. Meade was writing about bad times. A future government might have to cope with good times. A backlog of excessive purchasing power would be difficult to neutralise.

Perhaps the sticking point was the nationalisation of the banks. Meade said that there was no need to take the joint-stock banks into public ownership so long as they conformed to a pre-announced reserve ratio. Durbin, less willing to compromise, had believed that the composition of the banks' investments was important, as well as their magnitude, if the government were not only to control the cycle but to prioritise socialist investment. More generally, Meade had a tendency to assess nationalisation in terms of performance rather than ideology. It was a departure from the official Labour line.

The reasons why his manuscript disappeared into the archives are not known. Fifty years on Meade was conjecturing that it was rejected 'on the grounds that it was too Keynesian-Liberal. Perhaps I have always been a Social Liberal rather than a Liberal Socialist' (letter from Meade to Dianne Hayter dated 14 August 1979, MP 9/67). Ten years after that he was still guessing that it might have been 'too liberal and not enough socialist' (letter from Meade to W. van Trier dated 26 April 1989, MP 4/40). It might even have been ahead of its time: 'On re-reading the paper I think that I had outlined a modern Social Democrat approach rather well' (letter to Hermione Parker dated 28 October 1991, MP 4/42). The other possibility is that Cole and Durbin had overreacted. The *Outline* would have stimulated discussion. It would not seriously have discredited the NFRB imprint.

7.1.3 1936

In the *Introduction to Economic Analysis* in 1936, Meade as a Keynesian denied that the private market had in itself a self-healing mechanism that would return the economy to full employment. It was, if anything, the private sector that had pushed the economy into slack. Milton Friedman was later to blame the US Federal Reserve for contracting the money supply when it should have been accommodating the needs of trade (Friedman 1962: 44–51). Meade saw things differently. It had not been the central bank but rather the commercial banks that were to blame for the downturn in business investment: 'The depression might possibly have been prevented at the outset, if the banks had immediately lowered interest rates sufficiently' (EAP, 38). New capital was not being installed because interest rates were high relative to profits. Borrowing was being delayed because businesses were convinced that the cost of borrowing would have to come down (EAP, 37).

The banks had been cautious risk-averters who were avoiding a gamble. Their customers had been prudent calculators who held inelastic expectations. Depression economics, it would appear, is all in the mind. Because, however, the investment and the multiplier never got together to produce the growth that would produce the jobs, there was no alternative but for public spending to take the place of the private spending that had gone on strike.

Once deflationary expectations had been reversed, the countercyclical public works should come to an end. A deficit in a slump should be followed by a surplus in a boom. The budget should balance over the cycle. Even so, fiscal policy should be the junior partner. Despite the serious reservations he had expressed in 1933, in 1935, contradicting his earlier position, he decided that monetary policy would be the better bet: 'The reduction of interest rates by monetary policy should be the main permanent instrument of control' (EAP, 39).

Bank Rate can be altered at the stroke of a pen. Changes in tax rates and public spending are discrete and sluggish. In 1935 and in 1938 Meade proposed that social security be made a built-in stabiliser of consumer demand. In 1936 the traditional vision of fiscal rigidities and annual budgets seems to have resurfaced. Interest rates did not have the man-made lags.

Even in the *Introduction to Economic Analysis* Meade was wavering. He concedes that he knows of circumstances in which 'no practicable fall in interest will stimulate sufficient expenditure on capital goods' (EAP, 60). Possibly he was thinking of the empirical survey he was then conducting (with P.W.S. Andrews) into the interest-sensitivity of the real-world business community. The authors found that the interest rate had only a marginal impact on investment. The exception would be where there was a quantum leap, a major change of gear such as from 2 per cent to 6 per cent (CP I, 94). In such circumstances fiscal policy and not cheap money might be the better buy.

Meade's position in the *Introduction* to *Economic Analysis* is not entirely clear. Interest itself is complex; and there are 'some differences among economists' (CP I, 175). Other writings on money confirm that he remains reluctant to enunciate a hard-and-fast rule. Thus, referring in 1944 to public-sector debt, he speculates that a cut in longs is likely to have a stimulatory effect: 'A permanent reduction in the long-term rate of interest from a high to a low level is likely to raise the average level of annual capital expenditure by public authorities to a permanently higher figure' (CP I, 249). Speaking of the private sector he is less confident. A 'drastic raising' (CP I, 209) of interest rates in the upswing is likely to retard inflation. A counterpart reduction in the downswing may not, however, unleash much real investment (CP I, 223). Inelasticities and perverse expectations fog up the estimates. Animal spirits might sit on their hands. Or they might not.

The joint-stock banks had been slow to reduce their interest rates. The Great Depression had been the result of their human error. In spite of that, Meade repeated that there was no need for nationalisation so long as the clearing banks held a specified reserve ratio. Ignoring the well-known maxim that it is easier to pull than to push on a string, Meade concludes that a State-imposed money multiplier will normally be sufficient for a State-owned central bank to prime the pump through the supply of credit: 'It does not matter who owns or controls the banks; all that matters is what policy they pursue' (EAP, 36).

It is demand-side economics but it is the supply side as well. Meade in the *Introduction to Economic Analysis* accepts with the neoclassicals that money wages will have to go down if new hires are to be taken on. In the long run the marginal product will rise as a consequence of training and capitalisation. The rise in productivity would, however, take 'a period of years' (EAP, 69). In the short run, 'at any moment in time' (EAP, 69), the marginal worker is worth less than the worker before. If the incremental are to find openings, then real wages will have to fall. If prices are static or falling, then money wages too will have to fall. Keynesians believe that money wages are likely to be resisted. Markets fail. Meade does not draw any policy inferences from the institutional impediment to the market-clearing price. Post-war, he would have more to say about the imperfections on the supply side.

7.1.4 1938

At the end of the Great Depression there was *Consumers' Credits and Unemployment.* Reasoning that monetary policy and public spending might not be enough, Meade proposed that a cash payment should be made to 'every member of the community whose income is below a certain level' (CCU, 33).

These payments should not be mistaken for Meade's social dividend. Unlike the dividend, the credits would be temporary and they would be means-tested. They are issued with the specific purpose of augmenting total demand. It would be bad macroeconomics to hand out purchasing potential to higher-income savers who do not pass their windfall on. The credits, because of the income cut-off, will go principally to natural spenders like the low-waged, the unemployed, children, housewives and the retired. The result will be that the monthly payout will have a quick effect—'next week' (CCU, 23)—on aggregate demand.

Recipients can spend their free money 'as they please'. So long as the transfer is spent and not saved, the relatively deprived can take pride in the fact that consuming in bad times is a 'patriotic—as well as a pleasant—duty' (CCU, 23, 25). The credits are not a 'complete cure' and 'probably insufficient' (CCU, 10, 12). They complement public works at the margin but do not replace them. Yet they do put new demand into circulation. There is a multiround spending multiplier analogous to Keynes's example of pyramid-building on Salisbury Plain. Importantly, there is a money multiplier as well. The very fact that the injections cannot immediately be spent and are paid in the first instance into bank accounts is expansionary in itself. Meade was one of the first to appreciate the pump-priming power of fractional reserves.

The credits would be paid on a sliding scale. The amount would increase as the downswing grows worse. It would not vary with 'intermittent' or 'structural' unemployment (about 12 per cent of the total labour force) but exclusively with 'depression' or demand-deficient unemployment to which they are indexed. In the upswing the allowance would be replaced by a flat-rate tax. At some critical level there would be neither a grant nor a tax. The periodicity in the temporary entitlement resembles Meade's balanced national budget. Because there would be a deficit in a depression, a surplus in a boom, the new scheme was unlikely to impose a strain on public finance.

Automatic adjustment is a built-in stabiliser. It is pre-announced rules rather than step-by-step discretion that are expected to bring the macroeconomy back into balance. Meade, in substituting multiperiod constitutionalism for firefighting ad hoc, is adopting a long-term and depoliticised perspective that brings him closer to a law-maker like Buchanan than to a discretionary in-period troubleshooter like Keynes.

Keynes reviewed Meade's *Consumers' Credits* for the *Economic Journal*. He decided, with reservations, that 'there is a good idea behind this' (Keynes 1983 [1938]: 441). Then he drew back. Meade, he said, proposed, 'harmfully and quite unnecessarily' (Keynes 1983 [1938]: 443) to finance his credits by printing new money rather than by borrowing existing assets. Meade was too close to the Keynesian consumption function, not close enough to the ratchet effect of the customary heuristic: 'People have established standards of life' (Keynes 1983 [1938]: 319). Meade had not taken into account the long-horizoned expectations of permanent income: 'A remission of taxation on which people could only rely for an indefinitely short period might have very limited effects in stimulating their consumption' (Keynes 1980: 319). The same money spent on investment would provide the greater stimulus to recovery: 'The real burden of a policy of subsidising consumers is very greatly in excess of that of an investment policy' (Keynes 1983 [1938]: 443–4). Meade's proposal, Keynes seemed to be suggesting, was a little too much Dreaming Spires for the mundane real world.

Initially Keynes was in two minds. Later he was won over. By 1942 he was a devotee: 'I am converted to the general principle of this', 'converted to your proposal' (Keynes 1980: 208, 217). Keynes in the war years became 'an enthusiastic advocate' of Meade's use of social policy to lean against the prevailing cycle. No longer 'somewhat sceptical', he was 'very soon convinced' (Cairncross and Watts 1989: 75, 89n) by a modified suggestion from the Economic Section for social security contributions to be levied at a variable rate according to the state of unemployment. There was an additional attraction: averaging the upswings with the downturns, 'it will actually promote stability in the size of the social security fund itself' (Keynes 1980: 353).

Keynes at the Treasury still had some reservations: 'Quantitatively, the effect would be hardly large enough to justify the complication' (Keynes 1980: 207). Reservations or not, by 1942 and 1943 he was coming round to Meade's view that social policy was macroeconomics as well as relief: 'Personally I like Meade's social security proposal' (Keynes 1980: 353). Keynes is known to have discussed it with William Beveridge. Meade later described the plan for flexible contributions as 'among the best forms of levy' (CP I, 312). It was, however, never adopted.

7.2 Looking Forward from the War

The Great Depression disappeared into the great public spending of the Second World War. The economy would remain buoyant so long as labour was needed for the Forces and capital was being used to make tanks. It could not last forever. Meade in the Cabinet Secretariat feared that the peace dividend could be nothing other than the bad old times.

In 1945, the war just over in Europe, Meade faced the future with major misgivings: 'A deflationary pressure may develop a year or two hereafter, rather more rapidly than at present we may expect' (CP I, 92). Once the soldiers had been returned to civilian unemployment, it might be business as usual. There might not be much business at all.

In 1941 Meade had drafted an internal memorandum on the return to mass unemployment. Its main focus, perhaps surprisingly, was not the deficiency of total demand but rather the need to put the supply side right. Meade estimated that frictional and structural unemployment in non-war conditions added up to as much as 7½ to 10 per cent of the labour force (CP I, 201). It was a waste that across-the-board reflation could not correct. Needed were subsidies for occupational and geographical mobility, labour exchanges to diffuse information about vacancies, the resiting of industry in neglected black spots and a Government Finance Corporation that would capitalise an upward shift in the production function.

Education and training were microeconomic policy that would shrink the non-cyclical residual. So would a freeing up of housing tenures to facilitate relocation for work. Negatively speaking, the State should sweep away bad laws and entry barriers like protracted apprenticeships that were depriving men and women of a job. Distortions must give way to flexible differentials that proportion pay to marginal productivity. Demobilised heroes must be rewarded with supply and demand. They must not be elbowed out of a future by monopsony unions who abuse the privilege of the right to strike to put in unwarranted claims that reduce the openings for the outsider unemployed.

It was not just the capitalist oligopolies but the unions' collective bargaining that had to be addressed by a hands-on microeconomic policy that would 'impose some limitation' (CP I, 216) on the market imperfections that were depriving the frictional and the structural of the chance to earn. Pro-market is pro-poor. In the minority of cases where it is not, jobs should be 'temporarily subsidised' (CP I, 218) until the bottom-end residual has moved upwards on the moving staircase of growth.

Nothing that Meade says about work at the fringes is incompatible with his endorsement of demand management for the core. Yet there is a tension. Even in 1941 Meade recognised that reflation can lead to inflation and to wage claims which perpetuate the vicious spiral. Meade in 1941 was still fearing a return after the war to stagnation and distress. At the same time, he was reminding the War Cabinet that a fully employed economy would bring new problems of its own.

In 1942 there was the report of the Beveridge Committee on *Social Insurance and Allied Services* and in 1944 Beveridge's own *Full Employment in a Free Society*. Also in 1944 there was the Government's *White Paper on Employment Policy* (Cmd. 6527) in which the coalition committed itself to full employment. Meade made a significant contribution to the successive drafts of the *White Paper* and especially to Appendix II. In it he reiterated his earlier proposal that social security ought to employ a sliding scale. A built-in thermostat would take the contributions and the benefits out of in-period politics.

Meade at the Secretariat drafted a briefing paper in which he compared the White Paper with Beveridge's book. Since in 1944 it was uncertain whether the post-war world would be upswing or trough, Meade in his draft had to say something about both. Everyone in the Cabinet Office should have known what he would say about the rate of interest, taxes and public investment. What no one could have anticipated was the weight he would place on the moral code. Meade in his briefing paper issued a warning that even good times could become bad times if social values lagged behind.

Full employment and income maintenance are part of a gift relationship. The nation has a duty to look after its own. The relationship is, however, a two-way exchange. In return for the citizenship concessions the team-players have a duty to do their best.

T.H. Marshall twinned the right to free-on-demand health care with the duty not to drink or smoke: 'Your body is part of the national capital, and must be looked after, and sickness causes a loss of national income' (Marshall 1981 [1965]: 91). James Meade in the same spirit paired the guarantee of full employment with the grassroots willingness to make the market mechanism work: 'An employment policy cannot be successfully carried out unless there is a clearly recognised duty for the unemployed to move into new occupations and new localities if this be necessary' (CP I, 254). Demand management complemented by microeconomic policy is the necessary condition for a return to full employment. The sufficient condition is, however, thee and me. Without a social ethic, the mass unemployment of the 1930s will always be an imminent threat.

The same is true of inflation. Without internalised restraint a high level of demand is always a risk. Workers take advantage of the tight labour market to impose the private tax of cost-push. Employers pass on the toxic deadweight in higher prices to their consumers (CP I, 285). A powerful minority in a strong bargaining position is able to uncage 'an inflationary vicious spiral' (CP II, 312) precisely because the mass of the citizenry, amorphous and diffuse, do not have the countervailing power to stand up to the bullies. Outsiders cannot find jobs. Shoppers pay an extra-parliamentary levy to the powerful. The internal balance has lost its equilibrium. The moral code is not strong enough to protect the whole against its parts.

7.3 The Control of Inflation

It could have been the relapse and the slump. Instead it was full employment. By 1948 Britain was bringing in immigrant labour to fill the escalating vacancies. It was scarce inputs and not scarce markets that were holding the country back. Fixprice had become flexprice. Inflation, still very low, had become the new normal.

In 1957 Meade gave his Inaugural Lecture at Cambridge. His topic was 'The control of inflation'. Not much more than ten years before he had been anticipating a return to life on the dole. He was still hedging his bets: 'In the not too far distant future inflationary pressures may give place for a time to deflationary forces' (CP I, 320). If it happened, it would only be 'for a time'. After that the 'inflationary pressures' would return.

In the early 1930s the general price index was falling. By 1935 it had begun to rise. In 1944, the year of the Beveridge Report, the rate of inflation was 2.7 per cent. In 1957, the year of the Cambridge inaugural, it was 3.7 per cent. Averaging under 5 per cent since the war, most people probably believed that it was not a serious threat. Meade in 1957 was alert to what could happen. Moderation, he believed, would be difficult to sustain.

Inflation is a danger because it is self-perpetuating. Self-fulfilling expectations and, institutionally, index-linked contracts make the process cumulative. More consumption leads to more investment and in turn to more inflation. Speculation fuels the escalation until it culminates in a hyperinflation that devalues the signals and debauches the currency. The market economy depends on the capacity to distinguish real from nominal magnitudes. An elastic measuring rod makes any rational trade-off difficult or impossible.

As well as the asymmetric money illusion, there is the haphazard redistribution of entitlements from the recipients of fixed incomes to the beneficiaries from variable. Unplanned redistribution is always inferior to the criterion-based reappraisal that is conducted by the democratic State. Unions have no mandate to reassign incomes and rearrange property. Still less does rudderless inflation, which reshuffles the entitlements in a planlessness of its own creation.

Hume, Keynes and Lewis had argued that mild inflation might be conducive to economic growth. Whatever he may have thought, Meade never publicly subscribed to their cause. Growth, he seems to have felt, is better served by price stability than it is by a continuous rise. Inflation favours the present over the future. The falling value of money is a disincentive to save and invest. It is a reason to sink endowments in a non-productive hedge such as gold or housing.

There is also the international dimension. Inflation can price home-produced exports out of world markets. Meade knew that this was a serious consideration in a trading nation with a payments deficit and a fixed par. Devaluation relieves the external balance but simultaneously raises the cost of living. It also creates speculation about subsequent depreciation. A run can deplete the capital account. As long as the exchange rate is market-determined, the danger to the external position from a rise in domestic price levels cannot be regarded as anything more than secondary (CP I, 304). Secondary though it may be, it is always a consideration (CP III, 370).

Inflation is a social bad for the final reason that, the system once infected, there is no easy way of bringing the carriage to a halt. The Phillips Curve, dating from the same year as Meade's Inaugural Lecture, tracks a trade-off between prices and jobs which Meade, who never saw full employment before the age of 30, must have found deeply distressing. Policy-makers who are strong enough to manage the transition will be obliged to countenance a rise in joblessness 'above its equilibrium level while the process of reduction of inflation is taking place' (LEE, 3). Policy-makers who are less willing to shift the expectations-augmented Phillips Curve inward to the left will have no choice but to let the inflation run on until it becomes unmanageable: 'It is at least possible that delayed counter-measures would make fluctuations greater than they would have been in the absence of all counter-measures' (CP I, 310). The inference is clear. It is better to keep the rate of inflation low rather than attempting to squeeze it out once it has become accepted as a fact of life.

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8

Stagflation

In the interwar years the task had been to 'maintain real economic activity and employment at some predetermined full employment level' (SWF, 98). Keynes had regarded monetary and fiscal expansion as the way out of the under-employment trap. Meade, like his fellow Keynesians, had believed that a nation could and should spend itself into internal balance.

By the early 1950s Meade had become convinced that prices and not quantities were the more immediate cause for concern. In the new economic environment, what was required was not a reflation but a reduction in total demand. In an overheated economy what was needed was not the accelerator but the brakes.

By the late 1950s the emphasis was to change again (CP I 385, 398). Unemployment in Britain had ranged between 1 and 3 per cent in the 1950s. The rate of inflation lay between 0.6 and 4.9 per cent except in the outlier 1951–1952 when it exceeded 9 per cent. In 1984 the rate of unemployment was 12½ per cent and the rate of inflation 5 per cent. Unemployment had gone up. Inflation had not gone down. It was inflation *combined with* unemployment. It was stagflation. It was 'a nasty economic animal' (SWF, 1).

D. Reisman, *James Edward Meade*, Great Thinkers in Economics,
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Stagflation, Meade said in 1978, had emerged 'relatively recently' (CP I, 363). It had stood the old Keynesianism on its head. Stagflation was 'the ultimate horror to anyone brought up in the Keynesian tradition' (SWF, 4). Not only was it impossible to ensure sustained full employment but it was just as impossible to eliminate the upward displacement in the price associated with any given level of joblessness. As Weitzman says: 'Stagflation is an especially difficult disease to cure because the macroeconomic treatment for one symptom of the malady aggravates the other' (Weitzman 1984: 2).

All market economies, Meade declared, were experiencing the same upward drift. Britain, however, was in the worst shape of all (CP I, 402). Britain, Meade said in 1975, was 'near the edge of the precipice' (CP I, 365). The precipice lent urgency to the four volumes of his *Principles* between 1965 and 1976, to his two volumes on *Stagflation* in 1982 and 1984 and to his *Full Employment Regained?*, published in 1995, the year of his death. The question mark in the title was a part of the message. Once internal balance had come to mean both employment and prices, Meade was not certain that a satisfactory joint product would ever be delivered. It was an 'ugly state of affairs' (DM, 3).

8.1 Cost-Push

Demand-pull is no match for high interest rates and cuts in public spending. Stagflation is, however, the new reality that Keynes did not chart. Rising prices often signal that demand is excessive. Slack and waste might suggest that it is deficient. The old Keynesians could not explain the *too much* that coexisted cheek-by-jowl with the *too little*. Meade was the revisionist who brought the macroeconomics of the 1930s into line with the new reality of supply-side cost-push.

Already in 1957 he was saying that it had to be done: 'The problem of control of inflation from the cost side as well as the demand side is perhaps the most important economic issue which now faces the governments of Europe' (CP III, 225). In Britain, due to a 'much stronger monopolistic union organisation', the 'atmosphere of extreme confrontation and conflict in industrial relations' (CP I, 402) was especially serious.

Corporations charge administered prices. Cartels restrict supply to corner all that the traffic will bear. In Meade's time there was OPEC and there was the Sugar Agreement. Marshall and even Smith had written about imperfect competition. Non-competitive gouging was not new. Nor was legislation to challenge the restrictive practices.

Imperfect competition is Marx's monopoly capital. Yet it is also the belligerent and exploitative union movement which seizes a surplus to which it has no right. Meade was concerned about the growth of trade unions with concentrated power which were strong-arming their capitalists for an unearned reward. It is all in Marshall. Marshall was opposed to the 'class-selfishness' of aggressive and redistributionist union leaders who were seeking supernormal remuneration in their own narrow markets: 'I want these people beaten at all costs' (Marshall 1925: 400). Unions were countervailing power. They must not become a new locus of original power that redistributes income because winter feels cold without fuel.

Meade, like Marshall, could see no case for Big Labour. Like Big Business, it was holding the community to ransom. Both the bullying unions and the leaderly corporations were a departure from the equity and efficiency of the self-stabilising market benchmark. In the case of the unions there was something more. Not only were the imperfect competitors getting the microeconomics wrong, they were causing a macroeconomic failing. Union cost-push was at the root of a continuing rise in the general price index that was cox-and-box with an unacceptable level of unemployment. Already in 1946 Meade was expressing his concern about the new virus that was on the cusp of an epidemic: 'Trade Union policy is the crux of the whole matter' (letter from Meade to D.H. Robertson dated 7 April 1946, MP 3/6). He wanted those people beaten.

The ideal for Meade is supply and demand, flexible parameters and an omniscient auctioneer. The rate for the job should be whatever emerges from 'any bargain freely struck between employers and employees' (SWF, 158). The reality is not freedom but 'uncontrolled power', exercised in a 'lunatic way' (CP I, 365, 369). It is 'a monopoly which like any other monopoly will often promote its own sectional interest at the cost of the rest of the community' (PPM, 68). The reality is not the public but the private interest. Meade wanted those people beaten: 'It is essential that all forms of restrictive practice among wage-earners should disappear' (CP II, 293).

Unions perpetuate a confrontational mindset inherited from the dark, satanic sweatshops of the past. In the Dickensian nineteenth century the factory-owners had power and the shop-floor supplicants did not. In order to redress the balance the lumps of labour banded together to bargain collectively with the moneyed elite. Uppermost was pay but there was also a common stake in hours, unfair dismissals, individual grievances, health and safety at work. Historically and functionally, the felt need for mutual aid 'provides the basic economic justification for trade union organisation' (SWF, 48). The mobility of manpower is always limited by housing tenures, skill sets and non-rational sentiment. The alternative to the reserve army is to enter into cartels that will fight for their rights.

Unions preserve the economic balance of power. Yet there is something more. A social democrat and a cooperator, the morally minded Meade assigned to the market for labour a subjective meaning which differentiated it qualitatively from the mundane market for pins. People are a commodity. They are also a living, breathing commodity. The market for labour is the pulse even as it is the marginal product.

Meade saw the privileges and immunities granted to the mutual-aid associations in the two centuries since the Industrial Revolution as a reversion to the communal integration that Tönnies called *Gemeinschaft* (Tönnies 2001 [1887]: 52). Self-help groups were a rejection of dog-eat-dog. Meade welcomed the unions because they 'represent a movement from "contract" towards "status" or "property rights" in the field of employment law' (SWF, 66).

It is a surprising concession for a market liberal to make. Meade is contending that the employee has something approaching an implicit title to the workplace where he spends so much of his life. Implicit in the employment contract is the invisible promise of affectual fraternalism and intrinsic motivation. The union is the implicit guarantor of the implicit claim. It is a focus for the human need to belong.

It is all in Marshall. While some unions are not afraid to dominate and abuse, Alfred Marshall, declaring that 'I am wholly a trade-unionist of the old stamp', stated that most were inculcating in their members the high values of forbearance, consultation and honesty: 'T.U.s are a greater glory to England than her wealth' (Marshall 1925: 398, 400). Marshall saw the unions not so much as a seedbed for dissention but as a school for democrats. He believed that the unions educate their members in the rights and duties of citizenship. They were intermediate bodies which socialised the individual into the whole.

Meade followed Marshall. It is the schizophrenic mix of status and contract, affirmation and exchange. Unions, like other clubs, accustom their members to other-regarding conduct. Common conditions channel their passions. The unions, in pressing for disclosure and consultation as well as the naked quid pro quo, are acknowledging the ethical distinction between the pin-pedlar and the supplier of human essence. Man is a social animal. Workers are not pins.

Meade, like Marshall, was on the side of the unions. Collusion rights an existing wrong. Yet he also believed that the redistribution of power had gone too far. Universal suffrage, union-sponsored politics and left-of-centre legislation had shifted the balance from social egalitarians to militant toughs employing 'the methods of unarmed guerilla warfare' (SWF, 31) to force through pay rises in excess of improvements in productivity.

It is not one union but all unions that are pushing for pay at an 'artificially high level' (CP I, 333). The incidence of the quasi-tax they impose falls on prices when firms pass on the cost and on jobs which denies the out-of-work a decent foothold on the ladder. The result is preventable inflation in tandem with unnecessary unemployment. It is stagflation. It is a nasty economic animal.

8.2 Restoring the Balance

Meade in 1948 spelled out the choices. They were 'Stagnation, Starvation, Slavery and Seduction' (PPM, 72). Stagnation was wasteful under-employment because of inappropriate pricing. Starvation was the descent into the mass unemployment of the 1930s. Slavery was Stalin's command economy. Seduction was supply and demand. Of the four, only supply and demand would ensure an optimal package of consensus and prosperity, full employment and stable prices.

The free market knows the way. It grinds out an equilibrium in which workers 'offer their services at a low enough real price for employers to employ them' (FER, 7): 'If there were perfectly competitive conditions in the labour market, the critical unemployment percentage would be greatly lowered' (CE, 374). It is the same assertion that was repeatedly being made by the pre-Keynesian classicals when they accused the unemployed of holding out stubbornly for an unrealistic rate of pay: 'If wage-rates were perfectly plastic—this implies the possibility of negative rates—there would be no unemployment' (Pigou 1927: 183).

The free market is the answer: 'It is essential that the price mechanism should work in the labour market' (PPM, 69). Unions which veil more power than they counter are the problem. Unless wage-fixing, 'unquestionably anti-social', is taken away from the narrow-minded and the sectional, the public interest will not be secure: 'It will be impossible to maintain full employment without an inflationary upward movement of money wages, money costs, and money prices' (PPM, 69–70). It will be stagflation. Looking forward from 1948, Meade could already see the face of what was to come.

Meade's criticism is being directed not at the unions per se but at the 'excessive monopolistic positions' (SWF, 93) of the militant apex. An irresponsible leadership is making 'excessive' claims which, by pushing up prices and creating unemployment, are in effect unleashing Pigovian diswelfares that 'damage the economic interests of other parties' (SWF, 72). Innocent bystanders are bearing the cost. It is not fair.

The whole should be protected from the depredations of the parts. The Labour Party was not doing what it should to insulate the general interest from the warlords and the bandits. In 1979, after 17 years as a member and almost 50 years as a collaborator, Meade resigned in protest from the Fabian Society. He told its General Secretary that he had to withdraw because of its embarrassing allegiance to 'overpowerful independent labour monopolies' that respect neither law nor morality: 'I cannot support any body which averts its gaze from this awkward but fundamental reality' (letter from Meade to Dianne Hayter dated 7 December 1979, MP 9/67). A socialist State is not a corporate State. Labour should be standing up to the unions who, inconveniently, were also its main source of funds.

Meade knew that he would be called a 'union-basher' and even a 'Fascist Beast' (CP I, 369) if he continued to call upon the government to 'preserve the liberal nature of the economy' (CP II, 14). It was nonetheless his view that the concentrated power of labour even more than that of capital was standing in the way of justice and prosperity.

8.3 An Agenda for Reform

The first task is to revisit the existing regulations. The Government should abrogate the Trade Disputes Act of 1906 and its sister legislation in order to restore a level playing field. The unions had been given immunity from civil and criminal liability. Their funds could not be attached. Strikes could not be prosecuted as a breach of contract. Privileges, exemptions and 'exceptional legal powers' (SWF, 114) like these may have had a function at an earlier stage of British industrial relations. In the era of stagflation, Meade believed, it was no longer so.

Restoring a level playing field would 'increase the bargaining power with which employers can resist excessive wage claims' (CP I, 335). Business has lagged behind. Making the market more equal will rescue capital from the status of the residual claimant. No doubt 'certain interventions' to produce a 'modified free-trade position' (BOP, 326) would ensure that the employers' side did not prematurely capitulate. Free trade is always a threat to vested interest.

Meade also recommended that an extended Competition Commission should monitor imperfections in the market for labour and not just for output.

In the 1930s he was complaining that unions and professional bodies were restricting mobility and putting up pay (EAP, 96, 170). In the 1990s he was reflecting that the shortening of the working week, early retirement, artificial demarcations, redundancy packages that make new hires a potential time bomb and contrived discrimination that keeps out marginal minorities were 'the modern form of Luddite activity' (LEE, 40). They were artificially limiting the supply of labour and artificially inflating the wage.

There was also the pre-entry closed shop. Convinced that this was almost always an unneeded bottleneck, Meade invited the Competition Commission to conduct an unbiased review. It should do so with the impartial advice of outside experts who have in-depth knowledge of the trade or profession but do not themselves have a vested interest in the spurious credentialism of a self-regulating mystery: 'Even doctors and lawyers are human' (CP I, 334).

Welfare policy as well as constricted entry can increase the power of the unions. Even in the Great Depression, income maintenance 'on too generous a scale' (EAP, 78) had augmented the pool of unemployment. Benefits encourage the employable to extend their search. They make the workers choosier about a new opportunity. Reinforced by Keynesian demand management and financed by a deficit, the workers are being guaranteed a sellers' market. It is no more the market-clearing quantity than it is the market-clearing price. Public policy is making the very definition of full employment more nearly a range than a point.

Permissive welfare improves the bargaining position of the unions. Because involuntary unemployment is less likely to trigger absolute poverty, the unions will have fewer compunctions about protecting their members at the expense of the out-of-luck. Income-related benefits, Meade wrote in 1944, tend to soften the incentive for the negotiators to gravitate to the equilibrium wage: 'So long as the unemployed and other persons in want are cared for by the state, trade unions … are tempted to pay more attention to the interests of their own members who are in work than to the desirability of finding extra employment for their own unemployed members or for other outsiders' (CP I, 237). To clip the wings of the unions it would be necessary to cut the replacement ratio. If benefits to the unemployed approach the previous earned income, the unions will not need to shade their claims lest the crowded-out experience severe hardship on the dole.

The unions have 'little or no regard' (SWF, 89) for the verdict of supply and demand. Beveridge plus Keynes had seen to that. Meade's proposals for the liberalisation of statute law, competition policy and social welfare are all intended to prevent the Great Stagflation from having things all its own way. Demand management will have to acknowledge that there is no such thing as a bottomless pit. Full employment cannot mean full employment at any wage that the imperfect competitors pluck out of the air. It can only mean the right to a job at a realistic wage that leaves as much and as good for others.

Meade argues for realism in microeconomics, macroeconomics and social policy. There is, however, a further strand to his strategy. It is the self-policing morality of the citizen who knows his bounds. Unusual among economists, the individual to Meade is not just a free-floating monad but also an adequately socialised tribesman. The two are one. The social contract marches alongside the maximisation of utility when the union stagflationist sets off to prey.

Sometimes it is the good Dr. Jekyll and sometimes it is the bad Mr. Hyde. People are a mix. Conscience is an economic input. It fills a market void.

Some unions are large and national. The whole country is adversely affected when the railwaymen and the doctors go on strike. Some unions are small but situated at a crucial node. Air traffic controllers at the commanding heights have the latent power to disrupt. Large or small, the unions can impose unwanted stagflation on their nation as a whole. It is a disaster waiting to happen. Or is it? What is striking is not how often they play out devil-take-the-hindmost but how frequently they stay their hand. The unions do not necessarily do what they know they can.

Gangs and tribes, Meade says, are 'a difficult moral issue' (Meade 1981: 77). It is his contention that, large numbers or small numbers, unions in the real world are refraining from negative spillovers which would 'undermine an essential foundation for a decent society': 'This damage to the fabric of society may well be the most important aspect of the matter' (Meade 1981: 78). It is not just the Marxian profit-takers but the shoppers, the pension funds and the wider working class that suffer the loss when the weak-willed abstain from their social duty.

Meade never spells out why union negotiators should deviate from the textbook tenets of supply and demand. It may be the central value system in the sense of J.-J. Rousseau, E. Durkheim and R.H. Tawney. It may also be a politically orchestrated social compact according to which society pays non-specific compensation to all its members and receives in return the voluntary gift of moderation and abstention. Society redistributes the life chances and the endowments. In exchange for its pro-labour concessions the unions practice self-restraint and hold back.

Wage cuts in themselves are 'neither politically acceptable nor morally justifiable' (CP III, 283). Pigou himself observed that it would be 'out of harmony with the moral sense of the time' (Pigou 1927: 285) to cut low wages that have already touched their social nadir. What Meade would suggest is that consensus for the market-clearing wage can nonetheless be purchased by a package deal.

Progressive taxation levels down the differentials. Death duties level down the wealth. Tax exemptions for reinvestment turn profits into additional jobs. A national dividend gives every citizen a share in the We. It all contributes to an other-regarding consensus. Unions have power 'which they have not fully exploited in the past' (CP I, 328). Writing in 1971, Meade was insisting that the unions had not 'fully exploited' their power to do the best for their members. Exchange to be legitimate has also to be fair. Perceived organicism is the reason why good citizens do not drop litter, do not cheat their customers and do not go on strike.

8.4 Incomes Policy

Competition policy, full employment policy, State-led gift exchange and self-policing restraint might be enough to curb the excesses that were causing the stagflation. Where they are not, a government, post-Beveridge and post-Keynes, will have to choose 'between setting a lower target for the level of employment or imposing some form of compulsory wage regulation' (CP I, 256).

Neither option has an intrinsic appeal. Competition is conducive to efficiency and employment contributes to growth. Engineered stagnation that restricts the quantities or authoritarian edicts that stifle the price are, however, only palliatives that put off the search for a cure. Neither is a plus-sum solution to what is in effect an institutional malfunction.

Both are second-best. An incomes policy, 'neither pure Keynesianism nor pure monetarism' (Meade 1981: 84), has the advantage over macroeconomic slack that it does not antagonise the unions or retard economic advance. It does not displace labour. An element of 'social control' (CE, 374) is an acknowledgement that there are three sides to every bargain.

With the advantages come the reservations. There is the administrative overhead and the information deficiency. There is the felt loss of personal autonomy. Both efficiency and liberty are less. A nation should be careful what it wishes for. Meade said that an incomes policy was 'neither desirable nor practicable' (CP I, 329). He also said that wage-setting is 'a very bad instrument for efficiency purposes' (LEE, 10). He said it is 'a very bad instrument for distributional purposes' (LEE, 10). He said that it is in fact a very bad instrument all round.

Yet economics is the science of costs and benefits. Incomes policy is not perfect but still more imperfect is endemic stagflation. Traditional demand management is not enough: 'It requires a change in basic wage-setting institutions' (LEE, 4). Not only in a national emergency but where the 'nasty economic animal' is on the loose there is a need for 'suitable wage-fixing arrangements' (CP III, 225).

It is at this point that the dictionaries come out. The world is a grab-bag of wage-fixing arrangements. Some are 'of crucial importance' (CP I, 353) and some are of no importance at all. Some are 'suitable'. Some are 'unsuitable'. Meade at least gives a good idea of the kind of wage-fixing that he personally prefers.

8.4.1 The Board and the Norm

Incomes policy requires some 'central co-operative machinery' (CP I, 405), some parastatal body on the pattern of the Council on Prices, Productivity and Incomes in the United Kingdom in the 1950s. Its members, appointed rather than elected, would have had extensive experience in industrial relations. The Board would be tripartite. It would not be party-political. It would be independent of government save in the strict legal sense that 'ultimately the government would be responsible for the number chosen' (MP 9/75).

The main function of the Board would be to issue a statement at regular intervals in which it recommended a norm. The norm would be a guiding light. Reflecting the natural rate of pay, it would be 'the percentage increase in the general level of money wage-rates which would be compatible in the coming year with the preservation of full employment in a regime of stable selling prices' (CP I, 307). In 1995 Meade took 2½–3 per cent to be the level of unemployment that would be consistent with stable prices (FER, xvi). The twin targets put flesh on the definition of internal balance.

A dictatorial Board could supersede the free economic mechanism. Meade's Board, doing the opposite, does not lead the market so much as follow it. Meade said that an incomes policy ought to proceed with 'an absolute minimum of governmental intervention in labour markets' (CP I, 331). Administration is not a contradiction in terms but a reaffirmation of the ideal. A Board would only be successful in promoting full employment combined with stable prices if it 'accepted the supply-demand principle' (BOP, 172). It is the function of the Board to defend the true market-clearing wage against the private market-makers who do not live by the invisible hand.

The norm, because it looks forward to the 'coming year', is never likely to predict market conditions with absolute accuracy. The equilibrium price can only be determined ex post facto through the trial-and-error groping of the 'experimental method' (JE, 161). Since the market always moves on, the Board must always be prepared to revise its recommendation in line with its target outturn.

A norm is indicative but not imperative. As such it cannot have the force of law. It cannot be made mandatory without 'usurping powers which properly belong to the government' (CP I, 329). As for the government itself, it would rightly resist the poisoned chalice. Surveillance by an inquisitorial bureaucracy would be 'unbearable' (SWF, 106). Policing, local or national, would be difficult: 'The scale and complexity of monitoring even a single uniform norm would be immense' (SWF, 102). Norms would be evaded through bonuses, promotions and fringe benefits. The master's eye cannot be everywhere.

The guideline is meant to be loose. Employers and employees retain the right to deviate if both parties express a wish to do so. A local shortage, a new sector, the need for internal migration, a productivity clause, a reappraisal of differentials, special compensation for unsocial hours might all justify a settlement in excess of the norm. At the very least the pecuniary temptation will encourage workers to be mobile from declining to contracting industries. It will in that way reduce the pool of unemployment.

The two sides of industry can agree legitimately to break with the official norm. Their harmonious concord is not without its downside for their nation as a whole. Labour and capital might, when demand is buoyant, collude to pass the higher wage on to the consumer. Employers in good times have no incentive to resist the numbers that the unions pluck out of the air. The result is that the norm becomes the minimum and that the economy continues to experience the negative externality of cost-push. It is a reminder of Meade's view that incomes policy must be backed up by a responsible macroeconomic policy that imposes a cap on total demand.

8.4.2 Arbitration and Enforcement

Employers and employees, if they agree, are free to trade above the norm. In a minority of cases they will not agree. Their dispute will then be passed upward for the 'not-quite-compulsory arbitration' (SWF, 109) of an impartial adjudicator. A permanent body rather than an ad ho*c* tribunal, the arbitrators will be able to draw upon experience and precedent to reach an unbiased decision. It is a 'civilised way of replacing costly conflicts by the rule of reason' (SWF, 114).

In the United Kingdom the model has been the Advisory, Conciliation and Arbitration Service. Either side can ask for a referral to be made. Importantly, the government can do so as well. Such a referral by elected representatives is a reaffirmation that the people of the country are always the third party to every bipartite dispute. The social interest will be protected. Employment will be fuller. Inflation will be less.

The norms promulgated by the Board are no more than recommendations. The decisions reached by the arbitrators are more formal. They do have the force of law.

Penalties are incurred if the verdict is flouted. A strike or lock-out can be taken to mean voluntary termination. The right to redundancy pay can be forfeited if the walk-out is for more than the norm. Strikers can be sued by third parties who believe that their interests have been infringed. Union funds can be debited if a strike made official violates the recommendation of the arbitrators. For the employer, non-observance could be made a criminal offence. Meade presumably does not expect that anyone will go to jail (IR, 59–60).

Strike pay received from a union's war chest should be taxed. Strikers should not be entitled to unemployment benefits. Supplementary benefits claimed by the families of strikers should subsequently be clawed back as a loan. Even the social dividend is not ring-fenced. Precisely because citizenship rights are wedded to consensual duties, the national dividend should be refused to strikers who want their nation to subsidise their breach of the social contract: 'To subsidise all strikes on this scale would be an irresponsible encouragement of cost inflation' (CP II, 344).

Taxes on high claims together with subsidies to low ones would align the wage bargain with other spillovers and externalities: 'Financial inducements rather than direct controls should be used' (PPM, 77). There is much that can be done. Social consensus, 'wide acceptance' (SWF, 114), is, however, the precondition. The norms of the Board, the awards of the arbitrator, will only take root if they enjoy the backing of public opinion. Opinion-formers have an important role to play.

8.4.3 Criteria and Standards

The title of Meade's book on *Wage-Fixing* is misleading. In 1982 as in 1948, 1951, 1957, 1977 and the other landmark dates in his discussion of stagflation, Meade advised planners who were expecting the blueprint for 'a detailed, authoritarian, centralised method of wage-fixing' (SWF, 88) that they had totally misinterpreted his intentions. Unions and employers had long been involved in wage-fixing. It was the purpose of *Wage-Fixing* not to impose an additional superstructure of criteria and standards but to return wage-fixing to the tried-and-tested high court of supply and demand.

Advocates of an incomes policy often propose that it should go beyond the control of stagflation alone. Meade was a strict constructionist who believed that a policy tool should never be overloaded with more objectives than it can attain. His discussion of criteria and standards is in the circumstances largely negative. The supplementary targets so often endorsed by social reformers have no place at all in his theory of *incomes* policy. *Incomes* policy is not the whole of the good society.

The first of the supplementary criteria is comparability. Social conservatives often say that the norms should protect horizontal equity and preserve time-out-of-mind distance. Meade's answer is that conventional relativities, far from being self-legitimating in themselves, are in truth a social bad that holds back the pace of advance. Customary differentials are out of touch. It would be better for the pecking order to be determined by the market. The ratios are bound to change.

Besides that, there is more to remuneration than money alone. Prestige, security, job satisfaction, an occupational pension, a quiet life, an exciting life, longer holidays, a tied cottage all influence the rate for the job. The discrete job-seeker alone can estimate the weights, subjective and unique, or judge how they must be adjusted in response to creative destruction. The individual knows and the Board does not. Clearly, there is only a limited amount that 'an expert, impartial assessment' (SWF, 88) can accomplish. The worker who votes with his feet does more.

A second criterion is often taken to be the cost of living. Contracts are negotiated in the light of an expected rate of inflation. Surprises redistribute the balance of advantage. Real wages are cut without consent. It is an argument for money wages to rise in line with prices so as to protect the agreed-upon standard of living.

Meade accepts that it is inequitable for real purchasing power to be reduced without consultation. This, however, is a reason why inflation should be kept low rather than a case for a hands-on incomes policy that corrects the deviation. Index-linking and inflation-proofing 'lead to great instability in the economy' (SWF, 34). Wages and prices come to leapfrog one another. A higher claim in one round is answered by a compensating claim in the next. Inflation escalates when it ought to be damped. Meade concludes that not the Board but the market is the better judge of real and money values.

A third criterion that is sometimes advanced is a rise in productivity. Higher output should be rewarded with higher pay. No market economist would disagree with that. Even so, Meade rejects the argument for a written-down rule. There is no need. The appropriate proportioning is automatically performed by the free market itself. Calibration is best done at the level of the firm where finely focused local knowledge is most likely to be concentrated. It is less well done by a national body that does not know what the conditions are like on the ground.

Productivity itself can be a false friend. Ethically speaking, it can be 'grossly unfair' (SWF, 40). Not all occupations allow for an increase in output. In teaching or medicine the quality of the service may be negatively and not positively correlated with the throughput.

Besides that, the difference between physical and revenue productivity makes it difficult to arrive at a single-valued recommendation. It is difficult for a Board to tell a worker whose hours have gone up that, because of the inelasticity of demand, his pay, tracking the price of the product, must go down. It is easier for the market to get the message across.

A fourth criterion is sometimes said to be deprivation. The low-paid are poor. Disproportionate hardship warrants disproportionate redress. An incomes policy is assigned the supra-economic obligation to practice selective discrimination in favour of the excluded and the left-behind.

Meade was a life-long redistributionist with 'a strong egalitarian philosophy' (CP I, 336). In spite of that, he did not see it as the function of incomes policy to raise up the poor. That is the function of the welfare State, fiscal socialism and economic growth. Social policy should provide benefits in cash and kind. It should retrain the redundant and facilitate geographical mobility. What it should not do is to intervene directly in the wage bargain. Earned income should be determined by supply and demand. Only after economics has had its say should a compassionate community become involved in the reconfiguring of the final destinations.

An incomes policy should be detached and even-handed. An across-the-board norm is an explicit commitment to equality before the law. Even Meade, however, had to make an exception for the poorest of the poor. For excluded and the needy, there was no choice but to set a floor: 'It is the right and duty of the state to intervene by the operation of compulsory Wage Councils' (SWF, 42).

A minimum wage is acceptable so long as it is selective. It cannot be made universal. A policy to combat stagflation will not succeed if it takes on additional targets. They are better addressed in other ways by a rational community that does not want market failure to lie where it falls.

8.5 Demand in the Age of Cost

In the 1930s there was mass unemployment. Keynesians called for a macroeconomic policy to stimulate the aggregate demand. In the 1950s the more urgent problem was the rise in prices. Keynesians recommended a rise in interest rates and taxes, a contraction in the money supply and public spending, in order to damp down the excess that was the causing the inflation. Policies in the boom are the mirror image of policies in the slump. The demand managers in the Treasury and the Bank will know what to do.

Monetarists from Bodin and Ricardo to Fisher and Friedman had argued that, in an exchange economy, the quantity of money was the action variable: '*Inflation is always and everywhere a monetary phenomenon* in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output' (Friedman 1970: 24). It was the great attraction of the gold standard and the balanced budget that the means of payment would proportion themselves automatically to the needs of trade. The monetarists differed from the Keynesians on the need for finely tuned discretion and the specific role of fiscal policy. They were in agreement that excessive demand where it was the cause of rising prices had to be pared down to size.

Meade as an old Keynesian had been drawn since the 1930s to the idea of a balance wheel spun by the beneficent and the omniscient. By the 1950s he was increasingly convinced that the nature of the game had changed: 'One of the most fundamental problems which we have still to solve is the marriage between trade unions, full employment, and the prevention of inflation in a free society' (CP III, 170). Cost-push was spoiling everything. The management of demand had become the management of people. Beer and sandwiches in Whitehall had become the new deal-breaker that was acknowledging the active role of cost.

Internal balance means full employment with stable prices. The new reality had become under-full employment with rising prices. The new game was not stagnation or inflation alone but rather two-headed stagflation. It was a nasty economic conundrum. It was the worst of both worlds.

There were two objectives: stable prices and full employment. There were two instruments: incomes policy and demand management. Demand management was itself a bundled instrument consisting of monetary policy, fiscal policy and the exchange rate. Meade warns against a knee-jerk adoption of the textbook Mundell box that was discussed in Chap. 5. The proper solution was not rigid assignment a priori but instead a 'combination of policies that will just produce the best attainable combination of the objectives': 'It is inefficient to devote the use of one instrument exclusively to the achievement of one objective' (DM, 13).

Meade is calling for a combination of instruments. Incomes policy and demand management, each focused on what it does best, must complement and support one another as if they were two pillars of a single arch. Stagflation is a nasty economic animal. The only answer is an appropriate mix. Meade believed in 'assignment by comparative advantage' and in the flexible rubric of 'use whatever works' (Martin Weale, personal communication). One way or another, the job must get done.

Meade anticipated that there will always be 'price inflation at a constant moderate rate' (LEE, 4). Low inflation does not mean no inflation. If the demand for labour is falling in one sector but rising in another, then it is a standard Keynesian prediction that the rises are likely to be less sticky than the falls. The fact that they are opposite but unequal biases the average pay settlement up. There is also the impact of invidious catch-up. Productivity varies but no grade or area wants to fall behind. Higher wages feed through into higher prices. The inference is clear. A market economy is likely to be experiencing some inflation.

Just as a healthy economy will always have some inflation, so it will always have some unemployment. There will always be the skills mismatch that is the concomitant of continuous change, the occupational and geographical imbalance that prevents the quantity of labour from responding to a bottleneck. In 1936 Meade called the normal minimum of frictional and structural unemployment, insensitive to total demand, the 'standard' rate (EAP, 77). In the 1970s he was calling it, in common with Friedman and the monetarists, the 'natural' rate. Anything more would be a violation of the social contract. Anything less would produce an intolerable rate of inflation.

There will always be some inflation and some unemployment. The crucial task facing the policy-maker is to steer a middle course between the moderate and the intolerable. Jobs must be protected, but not at the cost of overfull employment and an unacceptable rise in prices. Policy-makers must both define and defend their optimum state. It is easier said than done.

Writing in 1948 when the rate of unemployment was 1.5 per cent, Meade, who had lived through the hungry 1930s, was nonetheless suggesting that more men and women should be put out of work: 'Some 4 per cent unemployment may well be the technical minimum to allow for the necessary turnover of jobs in a dynamic society' (PPM, 70). Even 4 per cent might be too low if the unions were knowingly exploiting the tight labour market to spiral upwards the nominal values. The government would then be facing a 'tragic dilemma between choosing unemployment or inflation' (PPM, 71). Unemployment might have to hit 10 per cent (BOP, 106) before wages and prices could be confined to the limits that the policy-makers had set.

Nationalisation is not the answer. Even the coalminers and the railwaymen go on strike. What is needed is an incomes policy in lock-step with the management of total demand. Even then, the arsenal of instruments might not be up to the task. Unknowledge is all around: 'The future can never be foreseen precisely' (IR, 39).

Households and firms act on the basis of 'satisficing rules of thumb and customary institutional procedures' (MAP, 11). Calculations pyramided on Herbert Simon-like heuristics rapidly go out of date. Leads and lags make it impossible to calibrate the dose. The unexpected might happen and happen again. An unpublished note from 1987 suggests that it probably will: 'The economy is altogether too complicated, the uncertainty about outside political and other events too great, and many forms of economic behaviour too institutionalised for the response to policy changes to be formed solely on a rational analysis of the causal relationship between present policy and future events' (MP 7/6). Bubbles, crises, lunatics, elections, OPEC, it is very difficult to hit the bull's eye or even the bull.

Ordinary people do not do what they are modelled to do. Rational expectations are 'very implausible' (IR, 39). Meade did not share the complacency of monetarist contemporaries like John Muth who concluded that random deviations will average out and the structural triumph over the transitory. Muth believed that *ex post* outturns correspond closely to ex ante conjectures: 'Expectations, since they are informed predictions of future events, are essentially the same as the predictions of the relevant economic theory' (Muth 1961: 316). So long as the decision-makers employ robust theories to compute relevant results, so long as ordinary people grasp precisely what it means when the macroeconomic handle is being turned, then expectations will be rational and policies will have teeth.

Muth was confident. Meade was not: 'It is not possible to accept the view that expectations are wholly and accurately determined by a rational understanding of the effect of present events on future developments' (MP 7/6). It is not possible to believe that 'all economic agents make efficient use of all information available to them' (MAP, 11). Expectations are not rational but at best adaptive. Meade, Weale recalls, was 'ambivalent' about the rational versus the adaptive so long as the variable selected was 'model-consistent' and policy-compliant (personal communication). The immediate and main inference is that government policy will seldom be 'wholly and accurately' on target.

Human error makes bad things worse. In-period discretion can shunt a well-meant correction on to an unwelcome track. What is needed instead of wise leadership is a rules-based approach that eliminates expectations about disturbing shocks in the management of demand. Exchange rate targeting is no more than a means of achieving the desired target for nominal GDP. It is not a maximand in its own right but only one of many tools that can be employed in the service of the rule. Nominal income is the rule. It is the only rule.

Meade, together with associates like David Vines and Martin Weale, was among the first in stop-go Britain to posit that policy becomes more stable when private actors *believe* it to be stable. The same logic underlies the macroeconomics of John Taylor (1993), Barro and Gordon (1983) and Kydland and Prescott (1977). Just before Meade, Kydland and Prescott had said that discretion may be appropriate for control where current outcomes depend on current and past policies but that the expectation of future intervention will itself have a feedback on the prediction: 'Changes in policy induce changes in structure, which in turn necessitate reestimation and future changes in policy, and so on' (Kydland and Prescott 1977: 474).

The process is iterative and time-inconsistent. The series may not converge. An attempt to overregulate the economy may steer it on to a reef: 'Active stabilization may very well be dangerous and it is best that it not be attempted' (Kydland and Prescott 1977: 487). *Not be attempted*: Meade's *Demand Management* appeared in 1983, his *Macroeconomic Policy* in 1989. They were some distance away from his youthful belief in countercyclical policy, fine-tuned from the top.

Friedman had recommended a constitutional amendment to set in stone an annual increase in the money supply (Friedman 1962: 54). Meade, like Friedman, was in favour of pre-commitment but believed nonetheless that it should be the outcomes and not the instruments that had to be bound: 'The controllers should watch total wage earnings rather than the stock of money' (Meade 1981: 85). The government should 'take the plunge'. It should announce its 'break-even point'. After that it should pull only those levers that it believes will lead it to its predetermined result.

Early on he had been attracted by inflation-targeting. The policy-makers, he was saying, should 'maintain the highest possible level of demand for goods and services compatible with the prevention of a precisely defined price index from rising above a precisely defined ceiling' (CP I, 318). By the late 1970s he had decided that macroeconomic policy should be built around the targeting of nominal income and not the price level. Policy-makers would know enough to choose the growth path that would lead to the natural output. Prices would respond appropriately once nominal expenditure was controlled. There was no need to target prices on their own.

Nor was there any need to target output. Real rather than money income had been the primary concern of the old Keynesians. It was not the primary concern of the post-war consensus. The under-employment of the 1930s belonged to the past. As for the present, the 'primary objective of financial policy' (FER, 18) had become the rise in prices. The way to contain the rise in price is to target the money GDP. It is ‘the centerpiece of our proposals’ (MAP, 3).

Meade left no doubt about his targets when, in 1978, he made it ‘a sacred rule’ of monetary and fiscal policy ‘not directly to maintain full employment, but to maintain a steady rate of growth of, say, 5 per cent per annum in the total money demand for goods and services and so in the total money national income’ (CP I, 370). The ‘steady, but moderate, predetermined rate of growth of the total of money income’ (IR, 32) is the key. If total output is growing at 2 per cent and total expenditure on domestically produced goods and services is growing at 5 per cent, then the price index would be rising by 3 per cent (SWF, 7). Inflation would not fall to zero. It would, however, be kept within the safe zone that the policy-makers had marked out.

Meade states that macroeconomic policy should be ‘so conducted as to cause a given rate of increase in the total money demand for the services of labour’ (SWF, 99). He also says that it should be ‘so devised as to maintain the total level of money demand for the products of labour on a steady growth path’ (SWF, 8). Meade uses the terms ‘the services of labour’ (the input) and ‘the products of labour’ (the outcome) as if they were synonyms. He seems to be implying that to track one is to track the other. Money demand in both cases is the relevant tool.

History had not gone away. The memory of the dole-queues and the Depression had caused policy-makers to put full employment first. At the same time, aware that rising prices too are a social bad, the policy-makers had been reluctant ‘to adopt Keynesian expansionary policies because of their fear of inflation’ (SWF, 154). It had been *damned-if-you-do* combined with *damned-if-you-don’t*. It had become an unstable compound.

Aggressive unions had been taking advantage of the policy-makers’ divided loyalties to strike unjustifiable deals for ‘lucky insiders’ (SWF, 154). Unlucky outsiders had been condemned to involuntary unemployment. Expansion or contraction, employment or inflation, policy-makers did not know which way to turn. Meade’s new Keynesianism provided the answer that solved their equation.

Demand would be matched to supply. The multiperiod rule would be the macroeconomic constitution from which neither the central bank (ideally independent of party politics) nor the Treasury (inevitably a part of the Westminster vortex) would be permitted to depart. Taxation and public spending had been an intrinsic part of the old Keynesian toolkit. Not least was this so because in the liquidity trap there were few other shots in the locker. Meade in the 1980s could see a role for fiscal policy, and especially if its scope could be extended to the national and not just the public-sector balance. Increasingly, however, he was relying upon the rate of interest to keep the pre-determined growth in demand on its pre-assigned track. It is what David Vines has called 'intelligent interventionism' (personal communication). It is not perfect automaticity but nor is it uninterrupted tampering.

The rule would be pre-announced. Being fixed, it could not be varied by weak leaders in response to an impending election or a strike. There would no longer be the possibility that the authorities would ex post come to the rescue. Adjustment of the target in-period would in principle be avoided: 'The more one allows for increasing the money GDP targets to mop up unemployment, the smaller the role which can be played by the stabilisation of the money GDP in establishing a reformed system of wage-setting which pays great attention to the effect of *money* wage rates on *real* employment' (letter from Meade to J. Williamson dated 5 February 1987, MP 9/96). In-period adjustment would be more likely if it were inflation rather than nominal income that was being targeted. An invariant rule protects jobs. Discretionary meddling protects stagflation.

Because of the rule, unions and employers would understand that they had to bargain for openings and remuneration within the confines of the revised playing field. The result would be 'no more than a moderate and steady upward pressure of money wages and prices' (SWF, 154). It would be non-accelerating inflation. It would be a 'NAIRU' where joblessness would be 'sufficiently high to cause the claims for real improvement to be reduced to the rate of productivity increase' (DM, 20).

Incomes policy works hand-in-glove with Meade's demand management: 'The level of wages could be set to generate some predetermined inflation rate, with macroeconomic policies then set to achieve what is believed to be the natural rate of output conditional on that inflation path' (Bean 2009: F443–4). One tool complements the other. The Board would be promulgating a norm that would guide the unions and the employers to the new market-clearing wage.

The unions would become aware that claims in excess of the norm would reduce the volume of employment (CP I, 305). Lucky insiders would stay their hand lest unlucky outsiders pay the price: 'Experience suggests that pressure from the outsiders (the unemployed) does exert some restraining influence' (FER, 36).

Meade contends that insiders would behave like gentlemen. He believes that they would not bargain irresponsibly for pie-in-the-sky lest innocent bystanders pay the cost. Theories of strategic interaction, the prisoner's dilemma and the free rider problem suggest that he may have been underestimating the role of calculative selfishness. Meade approached the labour market *bellum* as much from sociology as from economics. What he seems to be saying is that moral and not just pay norms have a contribution to make to the war on stagflation.

Most of all, however, it is incomes policy in alliance with demand management on which the policy-makers must depend. Each has its own complementary specialism. A norm by itself is not enough: 'Merely to limit rises in wage rates, prices and profit margins is to play with the symptoms' (PPM, vi). Suppressed inflation is bound to be translated into evasion or formal rationing. Incomes policy if it is to succeed must be reinforced by an uncompromising macroeconomics that keeps demand within the tramlines of supply. Real variables will drift into their natural slots. Inflation will be moderate. Stagflation will come to an end.

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9

Competition and Control

The market knows best: 'Wherever competition is possible a free price-mechanism is a better method than a centrally designed and controlled plan' (LEE, 89). Wherever competition is possible, wise leaders will put economics before politics because that way the greatest happiness lies. Adam Smith had said it all at a time when politics in France meant the Bastille and an uninhabited knoll in England returned its own member to Parliament: 'Open the flood-gates, and there will presently be less water above, and more below, the dam-head' (Smith 1961 [1776]: I, 18).

Yet Smith also knew that automaticity was not infallible. Sometimes the decentralised, the evolutionary and the homeostatic will fail to deliver the service that most reasonable people have a reasonable right to expect. Where the first-best is not equal to the job, the second-best might be the only best that there is.

D. Reisman, *James Edward Meade*, Great Thinkers in Economics,
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9.1 The Logic of Price

Meade was a liberal and an economist. He looked to devolution and autonomy to combine his commitment to individual freedom with his conviction that market bidding in line with the reservation price will maximise economic efficiency and minimise wasteful deadweight.

The haggling and bargaining of self-interested rivalry leads to 'the use of available resources in ways which will produce the technically highest possible standard of living' (LEE, 1). Supply and demand guide the economy to an allocative optimum in the sense of Pareto. It is a peak of orphelimity. It is a state of bliss where, 'as every professional economist knows', 'resources are so used that it would be impossible to make one citizen better off without making any other worse off' (LEE, 22, 32).

Consumer sovereignty and the profit motive force firms to cut their costs and improve their products. 'Vigorous and unimpeded competition' (CP II, 17) ensures that factors will be priced in line with marginal productivity and outputs proportioned to marginal utility. The exchange mechanism is a peace-making arbiter that reconciles 'an infinite variety of competing aims' (CP I, 273). Free enterprise and gain-seeking rationality are, in short, the win-win choice. Market capitalism is the best there is. The Labour Party, Meade wrote in 1948, has no reason to mistrust the auction sale that will, better than any other search engine, 'enable us out of our limited resources to produce in the greatest quantities those things which consumers most desire to have' (CP II, 285).To trust the market is to trust the people.

Because the benchmark is factored-down interaction, the government must ensure that the rule-books are regularly swept clean of ill-considered restrictions and functionless survivals: 'The first obvious policy is for the State to remove all those State regulations which in the interests of so-called orderly marketing are often introduced in order to restrict competition' (TW, 29). Sectional groupings have won special concessions that redistribute well-being in a way that was never mandated by the democratic parliament. Embedded power is the 'hideous reality with which we are at present threatened' (IR, 46). The bent rod must be bent back. Free competition must be freed from the dead hand of the overpowering corporate State.

Cartels, trade unions and professional associations should dismantle spurious entry barriers that function as an anti-social conspiracy to limit quantities, raise prices and 'rig the market in their favour' (PPM, 3). Mergers that would create new positions of monopoly or monopsony without any redeeming economies of size should be disallowed by a Competition Commission that stands opposed to the preventable distortion of market signals.

There is also the global commons. Tariffs that shield high-cost locals from less-expensive imports should be phased out in order to open contestable markets to a challenge from abroad: 'One of the great arguments for "free trade" is that it extends the scope for the fruitful application of liberal domestic policies' (PPM, 63). Trade is more than comparative advantage. It is also an assault on vested interest that is abusing contrived shortage to boost its windfall.

Controlled prices that 'hinder the efficient from driving out the inefficient' (PPM, 58) should go. Market sharing and tied sales should go. 'Stultifying interferences' (CP II, 286) such as patent hoarding should go. Rent controls that prevent workers from moving to better jobs should go. Intellectual property rights should give way to open access at a royalty set by an impartial arbitrator. Union cost-push should be reined in by the Boards and the norms.

The rule is the same wherever you look: 'Producers should be made to compete' (PPM, 57). Sometimes through free trade, sometimes through a Competition Commission, the combined influence of market and State should bring economic activity ever more into line with the competitive benchmark that is on its own terms 'intellectually unassailable' (PPM, 68). Adam Smith's 'higgling and bargaining of the market' can be trusted to bring about a 'natural balance' of activity and a 'rough equality' of the opportunity costs (Smith 1961 [1776]: I, 36). First principles dictate that gain-seeking spontaneity will normally deliver the superior outcome.

Ideology can be blinkered. It can make State regulations counterproductive. An illustration would be the minimum wage. The intention, morally laudable, is to improve the material well-being of the poor-in-work. The outcome, unexpected and insidious, is to restrict the volume of employment and accelerate the adoption of labour-saving technology. Employers, passing the cost on in prices, impose a burden on the shopper who need not be rich. The law leads to unemployment and inflation. The intention is good. A competitive market would, however, do more to help the poor-in-work.

This would especially be the case since Meade's free market is always underpinned by Meade's social policy. A low wage must not be mistaken for a low income. Meade, as a liberal-*socialist*, was in favour of a generous welfare State that topped up purchasing power with a citizen's dividend and narrowed economic distance by means of tax. Income maintenance transfers the duty of care from the employer who cannot afford to overpay to the surrounding community that has voiced its desire to help. A minimum wage does nothing for the casual worker or the part-timer. The State safety-net does. But it must do so without interfering with the Adam Smithian idyll of 'many competing producers each one producing a small portion of the total supply' (PPM, 57).

Market pricing comes first. Yet it is not an end in itself: 'The price mechanism is one of the greatest of all human inventions which should be consciously used by the politician of the left to promote equality and human welfare' (MP 4/39). The politician of the Left should consciously use supply and demand as a tool in the formulation of incomes policy, the optimisation of externalities and the metering of nationalised industries. It is only a tool. Price by itself has no ideology. Left-wing or right-wing, all that matters is the ultimate objective which economic pricing permits a community most efficaciously to attain.

9.2 The Small and Medium Competitor

Meade's benchmark is many competing producers, each one a small part of its industry. It is not Marx's concentrated capital or Galbraith's new industrial state. Galbraith, arguing that 'the enemy of the market is not ideology but the engineer' (Galbraith 1974 [1967]: 51), maintains that the giant corporation is the inevitable consequence of economies of scale in production, marketing and technological advance: 'Large tasks require large organizations. That is how it is' (Galbraith 1958: 44–5). Galbraith, following Schumpeter, tends to assume that the small and medium enterprise has had its day. Meade, following Smith, argues that long production runs and in-house research and development are not all there is to the vanguard coal-face.

Meade asserts that many small firms are able to produce at their lowest average cost. They can buy in new ideas. Their wages and prices are more likely to sway flexibly in line with specific and aggregate demand. They are more likely to expand their productivity in order to stay afloat. They are less likely to be involved in cost-push inflation that leads to stagflation that is a nasty economic animal.

Economically, the small firm is not a beached whale but a sensitive self-starter. Schumacher coined the phrase 'small is beautiful' as a reminder that 'the idolatry of gigantism' is no more than an unsupported generalisation: 'For every activity there is a certain appropriate scale' (Schumacher 1974: 54). It is all a question of look-and-see. Meade agreed with Schumacher that it would be premature to write off the small firm when it could just as easily be outperforming the unwieldy monolith.

Performance aside, there is the middle way. Schumacher uses the terms 'Right Livelihood' and 'Buddhist economics' (Schumacher 1974: 44, 51) to encapsulate those dimensions of an economic organisation which are only tangentially related to the production of goods and services. Meade, like Schumacher, believed that the small firm was the source of social spillovers which were at least as important as its economic contribution.

Power in society is more equally dispersed where the new-style mixed economy is made up of little as well as large. The cooperative principle is more likely to flourish where the firm is passive and competitive. Should evolution not be favourable to positive spillovers such as these, the State must play favourites at the margin. It must intervene selectively 'to discourage large-sized and to encourage small-sized industrial concerns' (IR, 47). Small is beautiful. Both economically and socially, there is life beyond Galbraith.

One hint was that company tax should rise progressively with the number of employees. Furthermore, undistributed profits should be taxed as income lest internally generated funds be ploughed back in uneconomic expansion. Amalgamations made for dominance rather than efficiency should be reversed. Company law should limit the holdings of one company in the equity of a close competitor.

These are the restrictions on the large. There is also the support to the small. A parastatal intermediary could be established to lend a part of the revenue raised from company tax to small firms in need of venture. There should be easier access to patent-protected processes and products. There could be government-financed research and development. The spillovers from this public good will filter through to smaller firms that cannot perform the requisite product development for themselves.

9.3 Nationalisation

In 1935, in the long-unpublished *Outline of Economic Policy*, Meade tried to identify the industries best suited to State ownership. The discussion soon homed in on power. The government should 'choose those industries in which there is the widest discrepancy between the price paid to factors of production and the price offered by consumers for the extra product of the factors' (CP I, 69). Where there is a long-lived windfall, a non-competitive supplier is enjoying a supra-normal opportunity to grasp and waste. Socialisation is the only way to return prices and quantities to the free market optimum.

In 1940 Meade reiterated that it was all about power. The purpose of State ownership was not to create additional employment, narrow pay differentials or reduce the worker alienation that had led to strikes. State ownership was needed because of the heavy upfront capital commitment and the technological indivisibilities which restricted infrastructure like gas, electricity, water supply, the railways plus the heavy industries like iron, steel and coal to single-operator status. There was only room for one Post Office, one national grid and one rail link between Oxford and London. There was no way to break up a natural monopoly.

Trust-busting is 'mere stupidity' (PPM, 63). Even if the single seller could be split up into parts, uneconomic duplication would not be workable competition. Enforced oligopsony would not squeeze maximum output from the factor supply or eliminate supernormal profits. The gap between cost and price in the imperfect competitors would remain as it had been in the *Outline*. It was a deviation, Meade stated while at the Economic Section in 1944, that capitalism itself could not correct: 'Socialisation … is the only radical cure to ensure that they are run in such a way as to equate marginal costs to prices …. rather than to make a profit' (CP II, 17).

Thirty years on, at a time when Mrs. Thatcher was reprivatising the commanding heights that had been conquered by Clement Attlee in the 1940s, Meade was still convinced that he had got it right: 'Socialisation and central public management may be the appropriate remedy' (LEE, 23). A 'may' had crept in. He was accepting that the competitive sectors of a socialised industry could be hived off to private enterprise. He was suggesting that outside suppliers should be allowed in to test the naturalness of a natural monopoly. Although he does not say so, he may also have been implying that a return of the assets to the private sector would be the appropriate policy if new technology throws up viable substitutes where before there were none. On balance, however, the exceptions were at the margins and the core remained precisely what it had always been: 'outright state ownership and control' (IR, 15).

As a liberal democrat, Meade when he called for nationalisation also specified that compensation, 'fair to the existing owners' (CP II, 54), would have to be paid in full. An advocate of a property-owning democracy could not at the same time be saying that property is theft. Meade's critics will object that payment in government securities both increases the national debt and perpetuates the wealth divide. They will complain that since *prospective* profits are capitalised in current asset values, even the monopoly surplus is not expropriated when the shares are converted into bonds. Meade's reply to the Labour Left would be that nationalisation is about productive and allocative efficiency. It is not about equality. Equality should be pursued through other policies better suited to the task.

State-owned firms should set wages that are in line with supply and demand. As with the compensation paid to exiting shareholders, it is not the function of a State-owned business to take a view on the distribution of income. Prices too should be set at their market-clearing level. Necessities should not be sold below the going price, nor luxuries above it. Public sector or private sector, there can be no better beacon than whatever the traffic will bear: 'In the absence of a properly functioning price system to serve as guide, the managers of plants in socialised industries would lack criteria' (CP II, 64).

Nothing is simple. Since the nationalised monopolies are fixed-capital-intensive, their average cost falls forward as they spread their durable overheads. Their marginal cost is less than their average cost and it too is decreasing. The conclusion is that firms which set prices based on the cost of the last unit produced will, unlike the textbook's atomistic competitors, be selling at a loss. A public subsidy would have to be paid. A decision would have to be made as to what the marginal quantity should be. Since there is no competitive equilibrium to mimic, the shadow price and shadow quantity would have to be established, as with the norms of an incomes policy, through trial and error.

Bureaucrats and not entrepreneurs will make the decisions because there is no one else. The administration of each nationalised industry will be delegated to a board. Although appointed by the government and accountable to it, the board would have operational autonomy in matters such as enterprise and risk. The government would intervene to ensure that corporate policy on investment and employment was broadly in step with what it defined to be the national purpose. It would see to it that the future and not just the present had a voice. It would not be able to do this if the assets remained in private hands: 'The competitive market system is less efficient as an instrument for co-ordinating economic decisions affecting the more distant future' than is the 'centralised control' of the State (CP II, 53).

The State is in control. The State is also in funds. Because it had nationalised its monopolies the British government had become the leading capitalist. That is an important reason for nationalisation—'in order that the state may obtain their income from property' (CP II, 13). The 'semi-socialist State' by the 1980s was already the owner of half of Britain's productive wealth (LEE, 62, 97). Such wealth was not an embarrassing liability but a national asset.

The corporations had been socialised because they were natural monopolies. There was no suggestion that they had been nationalised because they were failures, also-rans or lame ducks. On the contrary, each was a milch cow that, as Hugh Dalton early on had said, would be able 'not only to pay for its own development, but also to make a contribution to the national revenue' (Dalton 1935: 97). Because British Rail runs on time, therefore the schools, the hospitals and the social dividend enjoy a cross-subsidy that is not dependent on tax.

Money-making is paying for levelling up. Gain is good. The British government was already the sole proprietor of the public corporations. Meade proposed that it should build on its success in socialised industries like the National Coal Board to acquire part-ownership in the capitalist private sector. Specifically, the State should build up a portfolio of commercial shares quoted competitively on the Stock Exchange. Titles to leading private businesses should be held in a sovereign investment trust administered by the National Asset Commission (the NAC). The portfolio would be regularly revisited. Assets would be bought and sold in order to maximise net worth.

Meade's proposal looks forward to the sovereign wealth funds that were later common among foreign governments with an external surplus or substantial oil reserves. The NAC as the State-sector rentier would be entitled to dividends and capital gains. The money would feed through into public finance without the disincentive effect of a tax. In the limit, as Meade predicted in the discarded Part VI of his 1936 *Introduction to Economic Analysis*, profits earned from capital could well be enough to pay for the social overhead as a whole: 'It would not be necessary for the state to raise any revenue from taxation' (MP, 2/12).

It is a mixed investment economy. It is public thrown in with private. The nationalised corporations would remain in social ownership. The private corporations would issue shares to a wide range of investors. One of them would be the NAC. The price of the shares, like wages and exchange rates, would be determined by supply and demand. The value of the shares could go down as well as up. Meade was inviting the NAC not only to invest in surplus value but to gamble with the taxpayers' profits. Speculation is good if it pays for the welfare revolution.

Meade is not Marx. The expropriators will not have been expropriated but rather universalised. Every worker will be a top-hat and a toff. It is a step in the direction of the one-class society. Directly or indirectly, every citizen will be a member of the capital-owning class. Meade's socialism is remarkably close to Meade's capitalism. Perhaps in time they will become the same.

9.4 Spillovers and Externalities

In a lecture in Geneva in 1972 Meade defined third-party effects in the following words: 'An external economy (diseconomy) is an event which confers an appreciable benefit (inflicts an appreciable damage) on some person or persons who were not fully consenting parties in reaching the decision or decisions which led directly or indirectly to the event in question' (TEE, 15). That is clear enough. One man's meat is another man's meat. One man's poison is another man's poison. A cost is not a benefit. A benefit is not a cost. A public good is not a public bad. We all agree on that.

9.4.1 Taxes and Subsidies

Some spillovers are positive. A well-kept garden gives pleasure to casual bystanders. A qualification in management improves the bonuses of the team. Some spillovers are negative. Congestion, pollution, noise and early depletion are neighbourhood costs not internalised by the gain-seeking dyad directly involved in the transaction. Where there is a smoking chimney or effluent in the rivers, there is a clear mismatch between the private return and the social. The free play of market forces is not sufficient to bring about 'a fully efficient state of resources' (LEE, 22). Outsiders enjoy an uncompensated windfall or suffer an uninsured loss.

The political means for eliminating the slippage is command and control. The statutes limit the lead content in petrol and the law courts punish the poaching of an endangered species. Zoning schemes keep industrial activity out of residential areas and preserve the 'green belt' for future generations. The economic means is different. Not an edict but a payment, it looks to taxes and subsidies to close the gap between the marginal values. It looks to auctioning and ticketing to realign the private and the social cost.

Marshall in the *Principles* had called for fiscal support to firms operating on the falling segment of their average cost (Marshall 1949 [1890]: 393). It was in the interest of their fellow citizens and not just their shareholders that their efficient use of scarce resources should go up. Pigou in the *Economics of Welfare* developed further Marshall's notion of a social stake (Pigou 1932 [1920]: 191). Pigou was opposed to the binary intolerance of winner-takes-all. In its place he proposed a compromise based upon competitive rationing and internalisation through price. Good things should be subsidised. Bad things should be taxed.

It was social engineering with 'all the familiar advantages of a decentralised price mechanism': 'Everyone minds the business which he is best fitted to mind' (TEE, 62). A Pigovian tax was at once an economic incentive to the tortfeasors to rethink their technology and a source of revenue for the State. Command and control raises no revenues and changes no techniques. Laws, Meade concluded, were clearly inferior to markets. The polluter-pays principle, he said, should 'be adopted wherever possible' (PPM, 62).

It is politics in utilitarian collaboration with the factored-down. Private individuals determine the final *how much*. Paternalistic leaders only single out the *which* that in their estimation best satisfies the social need. The State imposes a charge or auctions a license in such a way as to match the quantity demanded to the quantity supplied. It is management and nudge to transcend the divergence but it is not compulsion: 'People must be induced (e.g. through tax policy, wage policy, etc.) to do what they ought to do for the good of society' (CP IV, 195).

It is a halfway house and a mix. Yet nothing is free in economics. Skilled administrators will be needed to calculate the optimum and collect the revenues. The overheads must be deducted from the benefits. Where less pollution means less activity, a reduction in value-added further dilutes the tax-take. If the product faces an inelastic demand curve, the indirect tax may be passed on to the consumer. Curbing one spillover, the policy-makers may then be triggering another by putting up the cost of living.

It is not the only case of cross-cutting messages. Meade gives the example of policy to reduce congestion. The government should tax private vehicles in order to thin out the traffic. It should not, however, simultaneously subsidise the buses. That would cause a flood dammed in one place to burst its banks in another (TEE, 64). Policy will not fail if the sensible decision-makers have a purchase on the knock-ons and the ramifications. Meade was confident that it could be done. Epistemological sceptics like Hayek reply that an inability to predict must shut down even the most advanced computer.

Knowledge is the ultimate scarce commodity. That is why free marketeers like Hayek feel that the artificial juxtaposition of command and control on the one hand, taxes and subsidies on the other, underestimates the possibility that economic exchange, alone and unaided, might be able to generate its own turning points. A confectioner and a doctor could make their own private contract to limit spillover noise in exchange for a negotiated payment. An orchard and a hive could merge into a joint operation in order to ensure a number of bees just sufficient to pollinate an agreed-upon number of trees (Coase 1960: 9, 15). A private settlement is economics. It is not, however, Meade.

Meade could have put more faith in the unrestricted free market. Consistent libertarians object that middle-ground thinkers like Meade are in truth social conservatives, too myopic to imagine new departures. Meade, speaking of public goods, declares categorically that private enterprise can never satisfy the public interest: 'No single individual, but the whole of society, benefits from the act of production and consumption' (PPM, 61). Exchange economists reply that Meade is treating the status quo as a natural law. The truth is more likely to be that everything sells at a price.

An urban street can be commercialised into a mercantile toll road if its owners can draw upon satellite electronics and pre-programmed gantries. A law court can be operated by a shopfront adjudicator if the judgements of the paid-for bench are capitalised into a time-dominated reputation for probity (Rothbard 1985: 67). Meade does not go down the road that is landmarked by wild imaginings. He sees no pressing need to renounce complacent pass-through or to insist that all conventions ought continuously to be kept under review. It simplifies the sociology but also narrows the focus. What is called a public good might be no more than a self-replicating knee-jerk.

Meade gives the example of a public park. It has, he says, the character of a public good: 'It is of the nature of a park that all should enjoy it communally' (PPM, 61). That is just the problem. Is enjoyment in common a function of the space constraint or is it a moral crusade enthusiastically espoused by a community that wants its citizens to mix? Meade is too much the integrated gentleman to see that the two sides of common consumption are not the same. Yet they are not.

A museum is a public good because time-out-of-mind it has been regarded as a public good. A cinema is not a public good because by long usage it has been fenced in and enclosed. Meade's economics of externalities and public goods is rooted in place and blurred by memory. The status quo is always the silent partner. Meade's world-view is not a universal world-view. It is Ambridge as much as Cambridge. It is society and situation. It is not just rational choice.

9.4.2 Advertising and Salesmanship

One man's meat is another man's meat. That is why Meade feels confident enough to brand luxury consumption a pollutant and the sales effort a grievance crying out for redress. Not only does the sales effort dissipate limited potential in producing a zero-sum transfer within a finite client pool, 'it encourages the undesirable attitudes of consumers in throwing away the old for the new and in purchasing goods and services which they do not really need, but which put a strain on the community's resources' (LEE, 94). It is 'excessive' (PPM, 61). It is 'anti-social' (PPM, 61). We do not want that.

Market liberals tend to assume that a revealed preference is a *non est. disputandum*. Jeremy Bentham said that 'the game of push-pin is of equal value with the arts and sciences of music and poetry' (1830: 206). John Stuart Mill argued that the Kantian self was a republic that could not be invaded: 'Over himself, over his own body and mind, the individual is sovereign' (Mill 1974 [1859]: 69). Meade knew his Bentham and his Mill. He took it as a fundamental axiom that each being, sensible and purposive, was alone the best judge of his own future utility, self-perceived: 'In the majority of commodities consumers should retain their freedom of choice' (EAP, 123). More pushpin, less poetry, only the sovereign consumer can know.

That, however, was before the brainwashers had turned every consciousness false. It is well known that Galbraith in 1958 had been contending that the hidden manipulators were in a position to bamboozle the consumer into the suppliers' chosen quantity at the suppliers' favoured price: 'The marginal utility of present aggregate output, *ex* advertising and salesmanship, is zero' (Galbraith 1973 [1958]: 154). What is more surprising is that Meade throughout the whole of his career had been expressing very similar reservations about the dark arts of the spin doctors. He blamed them for undermining the legitimacy of the demand-led sequence.

In 1936 he had been inveighing against 'high-pressure salesmanship': it was, he complained, debasing 'real quality' into want-created and 'irrational consumers' preference' (EAP, 171). In 1949 he was attacking the hucksters and the puffers who were out to 'hypnotize' their targets: the tricksters were leaving their victims 'bluffed and deceived rather than informed' (PPM, 3, 61). In 1993 he came straight to the point: 'Consumers are ignorant and gullible' (LEE, 23). Meade believed in the economic market and in the vote mechanism. From 'irrational' at the beginning to 'gullible' at the end, he nonetheless had a hidden agenda which is not easy to reconcile with his demand-led utilitarianism.

Market economists will often call it priggish and judgemental to discount other people's tastes and preferences merely because they do not accord with the philosopher's absolute standard of need. Meade, like everyone else, enjoys a democrat's license to express his own views. He also has a Jeremiah's right to urge his fellow citizens to abandon their false gods, their fool's gold and their 'mad scramble for ever higher levels of production and consumption' (IR, 120). A tax on advertising and on short-lived consumables is, however, more than verbal abuse. Revealed preference has voted for the opposition. A philosopher can persuade. But can he tax?

As well as the tax, there is also the subsidy. If Meade at times can be censuring, at other times he can be empowering. The State should appraise salient products and ensure the wide dissemination of its results. 'Educational measures' (EAP, 173) such as these will ensure that unfiltered and reliable information makes its way to the shopper. The State should also subsidise a public service broadcaster like the BBC. Not dependent on private business for its budget, it has no pecuniary incentive to shade the news or cut back on transparency.

Some commodities by their very nature do not lend themselves to rational choice. A State-run healthcare or educational system will take the sting out of information asymmetry and supplier-induced demand in cases where the consumer is ignorant of 'how his need may best be satisfied': 'In these circumstances the state should intervene' (EAP, 121, 122). The National Health Service does not surcharge the poor or exclude them from care. That is the social benefit. The economic benefit is that it streamlines the market and facilitates the arbitrage of marginal utility. Knowledge is power. The State in diffusing knowledge is also making ordinary people less 'irrational' and less 'gullible'.

Yet there is more to slippage than lack of knowledge. There is also the quasi-monopoly of a differentiated brand where the supplier can trade on image and product loyalty is a deterrent to shopping around. Joan Robinson and E.H. Chamberlin, both in 1933, had developed theories of monopolistic competition in which the demand curve for an imperfect substitute slopes downward to the right and economic potential is lost to excess capacity. Meade was not convinced that the small differences, more perceived than real, were worth the outlay they were imposing on the nation. It is not good economics for price to settle above marginal cost because, in effect, there is too much and not too little choice.

From his earliest book to his last by way of his paper on scope and diversity in *Economica* in 1974, Meade tried to reconcile the textbook theory of the competitive price with his belief that even idiosyncratic preferences should be treated with respect. He knew that, in the real world, 'the actual degree of variety provided by an uncontrolled market will not always coincide with the socially optimal degree of variety' (CP II, 184). Variety might be desirable from the consumer's perspective but still not be in the social interest.

What is missing is the recommendation. Meade could not bring himself to call for a tax on small businesses with under-utilised capacity merely because they were raising average cost in the interests of product differentiation. They were imposing a negative externality on their community. The social cost and the private cost were not the same. As a liberal who was also a socialist, Meade was experiencing a conflict of loyalties. Yet pushpin is as good as poetry, and consumer sovereignty must have the last word.

Looking to the future, Meade made clear where his sympathies lay. Unbridled consumerism and the quest for material wealth would have to give ground to a 'humane and compassionate society in which basic needs are assured, if necessary at the expense of inessential luxuries' (IR, 120). In place of the advertising and salesmanship that perpetuate a culture built around possession and absorption, there would be a more relaxed and civilised way of life. It would be a post-industrial society in which 'independence, leisure, and a more equitable distribution of the real goals of life' would be ranked above 'sophisticated industrial products' and 'unnecessary gadgets' (IR, 16, 119) that beyond some point would be adding little or nothing to real human welfare.

Meade's post-economic future resembles the social ideal of Galbraith in *The Affluent Society* and Keynes in *Economic Possibilities for Our Grandchildren.* In 1930 Keynes had predicted that within a century, by 2030 or even before, the problem of scarcity would have all but disappeared in the richer countries (Keynes 1972 [1930]: 326). Unnecessary consumption, excessive want creation, would conceivably have bred their own correctives. Slow growth—'Slowth' (LEE, 234)—would give people the time to smell the roses. Meade shared Keynes's *agathotopia* of a world with less economics. He looked forward to 'a more leisured and compassionate society, even at the cost of a somewhat lower rate of growth' (FER, xix). It will be different in the poor-country periphery. Third World nations like Mauritius will have to make haste more slowly.

9.5 One Man's Meat

Something is missing. It is the legitimacy of collective choice. Prices, regulations, nationalisation and spillovers are not private consumables on a par with toothpaste and cornflakes in a shop. In economics the choice is delegated to the discrete monads who as independent individuals reveal their tastes and preferences. In politics the choice is collectivised in the whole. Public policy is a public good. The institutions and the statutes must apply to everyone if they are to apply to anyone. It is an accident waiting to happen. The right rules must be selected lest the wrong rules return the collectivity to the *bellum*. The rules are the centrepiece of the story. They cannot be buried in the ceteris paribus or frozen in the obiter dictum.

Meade said that decision-making in the market was inextricably bound up with decision-making in the State. Like Marshall's supply and demand, Meade's competition and control were two blades of a scissors. In 1976 he announced that he would be making explicit his theory of social legitimation in a future book entitled *The Efficient Economy*. He said that he would 'postpone any discussion of the political machinery of public choice for that occasion' (JE, 18). As with Marshall's lost book on *Progress: Its Economic Conditions*, Meade's planned voyage into the political integument was never attempted. The empty space was never filled. The politics stands out because it is not there.

It is a curious omission. Marshall breathed political economy and Keynes proclaimed *The End of Laissez-Faire*. Meade was active in the Labour Party, the Fabian Society and the Social Democrats. He spent seven years in the Cabinet Secretariat in the white heat of policy. He was involved in the post-war horse-trading that killed the ITO but saved the GATT. He knew from personal experience that 'policy is not made in a vacuum' but in 'a social and political environment which imposes definite limitations on both the aims and the means' (Johnson 1951: 828). Meade had lived surrounded by practical Daltons who wanted to nationalise and direct. Political legitimacy was, however, a language which he was always promising to master but never did.

Meade stated repeatedly that he saw it as his mission to single out the best-possible policy-mix. He must have known, as a market economist, that there was likely to be more than a single such peak. One man's meat might *not* be another man's meat. Meade never explored the shape that an indivisible public policy should take when Jack wants ploughs but Jill wants missiles. It is a serious door. It is especially serious since any communal manifesto will have multiple dimensions and multiple objectives: 'Political decisions with economic implications are inevitably about the distribution of income and wealth as well as about the efficient use of resources' (Meade 1963: 103). There are winners and losers. Collective choice is more than Pareto optimality alone.

The government in pursuing the welfare of the present day and of the future must be conceptualised as a giant camera that gets inside its citizens' minds. Acting entirely without an 'utilometer' (JE, 20) or other device to measure the discrete units of individual happiness, the government must be sensitive enough to input the sense of the national meeting and output 'the expected value of some general comprehensive social welfare function' (CE, 238). That expected value is the opinion bottom-up of the constituent parts: 'Social Welfare is represented primarily as the sum of the welfare of the individual citizens' (CE, 250). All individuals do not have the same utility-map. Interpersonal comparisons are being made all the time. They are not a problem.

Politicians are experts in empathy. They know why a particular mix between roads and inequality, industry and the environment 'may be considered desirable' (CE, 235). The reason is that they have a hot line to a common normative constraint that makes the disparate minds think as one: 'The government must have some politically determined mechanism for judging the social values to be put upon its various social and economic objectives .... It must be thought of as acting upon a social welfare function' (CE, 235, 237).

Bergson had formulated a theory of a social welfare function (Bergson 1938: 323) that reflected a given collectivity's consensus and consent. It has a family likeness to Rousseau's 'general will' (Rousseau 1913 [1762]: 25), to Tawney's 'common culture' (Tawney 1964 [1931]: 43) and to the sociologist Durkheim's 'collective consciousness' (Durkheim 1984 [1893]: 331). In Bergson's social welfare function the consensus is single-peaked. The phrase 'it may be considered desirable' (CE, 235) is another way of saying that there is a single decision-maker. The litmus test is any one of us.

By and large the teammates think alike. By and large the politicians never take their finger off the pulse. Yet which pulse? If one man's meat is another man's meat, it does not make a great deal of difference where in the tub the temperature is taken. The common 'social variables which must be shared by every member of the community' (TEE, 32) are a common social resource. If, however, one man's meat is another man's poison, then there is a cacophony of heterogeneities and even of Hobbes. There is no easy way for a real-world government to reconstruct and reconcile the ordinal and cardinal utilities of Jack who wants ploughs and Jill who wants missiles.

Welfare function or welfare fiction, Meade knew that abstract notation is not enough to smooth out the multiple humps and the fractured discontinuities. Unless there is unanimity in the sense of Wicksell's *Finanztheoretische Untersuchungen* (1958 [1896]), there can be resented externality in the sense of Buchanan and Tullock's *Calculus of Consent* (TEE, 9): 'When rich Mr. A is taxed unwillingly to subsidise poor Mr. B, by no stretch of the imagination can this be treated as a joint decision of A and B' (TEE, 32). Rich Mr. A does not want to subsidise poor Mr. B. His money is being taken from him without his consent. By no stretch of the imagination can the enforced transfer be freed from the taint of theft.

Revealed preference can be the principal cause of spillover resentment in both public spending and public finance. A public good can be a private bad. In spite of that, Meade comes down in favour of the 51 per cent: 'There is some fundamental democratic value to be attached to simple majority voting' (Meade 1963: 104). Meade is saying that first-past-the-post has democratic value in itself. It is not easy to square this with the liberal commitment to coexistence, minority rights and respect for persons. Even the 49 per cent have feelings.

Technically, of course, it *is* a joint decision. Both Mr. A and Mr. B were 'fully consenting parties' (TEE, 15) to the constitutional procedure even if they did not see eye to eye on the endstate that was ground out by the operational rules. In the economic market both buyer and seller can arrive at a higher level of utility, self-perceived. In the political market, any selective cut-off short of *nem con* unanimity will leave some citizens better off while leaving others, equal moral entities with equal human rights, worse off in their own subjective opinion. In *The Efficient Economy* Meade would presumably have revealed why as a social democrat he was prepared to throw in his lot with the reforming State when as a liberal economist he had to rank consumer sovereignty above winner-take-all. But the book was never written.

Meade never said what would happen if the consensus were shattered or civil war were to break out. He did not see the need to do so. Oswald Mosley's Fascists who leaned towards Hitler, student unrest at the LSE, street demonstrations against Agent Orange, the Militant Tendency, the drug culture all made money for the tabloids but were not in themselves very important. Whether in the 1930s or in the 1980s, the margins were no more than pinpricks. The counterculture was never a real challenge to the hub British mainstream. Division and confrontation were the outliers and not the norm.

Writing in the 1990s, Meade emphasised that the median voter could be trusted to cast his vote for the 'common good rather than the satisfaction of the voter's own special interest' (LEE, 14). In the economic market blinkered shoppers were maximising their own narrow utility. In the political market, decent people were putting what is right above what is expedient. We are all Mr. A. We are all Mr. B. We are all mildly schizophrenic. It is the schizophrenia that keeps us sane.

The bipolar society is the natural mix. Rather than expecting one ideological hegemon to vanquish the other, Meade was convinced that the two together were the complementary pillars of Marshall's built-to-last arch: 'The ideal society would be one in which each citizen developed a real split personality, acting selfishly in the market place and altruistically at the ballot box' (TEE, 51–2). Even rich Mr. A votes to alleviate the distress of poor Mr. B. The moral values of compassion, citizenship, conscience and consensus are the sine qua non. Without the split personality, market self-interest would not survive for long.

Reviewing Buchanan's *Theory of Public Choice*, Meade expressed his conviction that the split ideational economy was a real, existing fact of life: 'There is probably some element of this split in many citizens' minds, and the present reviewer would be prepared to make a case for the view that such a split should be encouraged in the interests of society' (Meade 1972: 1424). It is 'in the interests of society' that the split should survive: 'If this were not so, the prospects for a decent society would indeed be dim' (TEE, 52). One man's meat may or may not be another man's meat. What is important is that the State must have the legitimacy to convince all the constituencies that their perceived welfare is being treated with respect.

The mixed economy has and must have a mixed outlook. Meade was a statist because he believed that broad agreement was more than a simplifying assumption. He was also a statist because he, like the bulk of his fellow citizens, had confidence in the 'social objectives of the politicians' (CE, 225). Sometimes Mr. Churchill, sometimes Mr. Kennedy, it was common in Meade's generation for people to put their faith in wise and thinking leaders. Mr. Wilson did not take bribes. Mr. Truman did not tell lies. Mr. Macmillan did not pad his Parliamentary expenses. Supermac would never bug the Opposition at the Watergate. Bugging is un-American. Bugging is not British.

Meade typically assumes that politicians and bureaucrats are 'devoted, wise, and incorrupt' (LEE, 14). Omniscient, professional, detached, altruistic, the philosopher-rulers would husband well the public interest: 'Perhaps Plato was correct after all. We need benevolent guardians' (IR, 122). Those words were written in 1975. Once a classicist, always a classicist. Meade in 1975 was still able to describe our lads in Whitehall and Westminster as our trustworthy stewards. They would selflessly satisfy the voters' needs and wants.

The mind is a mix of the selfish and the other-regarding. It is the psychological precondition for a civilised life in common: 'The Good Society needs schizophrenic citizens' (Meade 1974: 24). It is schizophrenia both in the mindset and in the social division of labour. A Good Society which combines market capitalism and welfare socialism must rely on a special class of priestly paternalists who are the institutional bulwark against weak-willed Ulysses's struggle with himself: 'The selfish hidden hand will operate in the market only if there is an altruistic open hand controlling the political decisions which regulate the social framework in which the market will operate' (Meade 1974: 24).

The political decisions countervail the narrow selfishness. The Strutts and the Fords would sink without trace in the absence of the Macmillans and the Kennedys. It is they who stabilise the ship of State on its middle way: 'Failures of distribution introduce an ethical issue. But economists can legitimately regard it as the function of the politician to settle this moral issue' (Meade 1974: 18). The brewer brews and the baker bakes. The politician is the guardian of the collective consciousness. The Prime Minister, like the Archbishop of Canterbury, ensures that right will triumph and One Nation prevail.

The public choice school sees governance as a market in which each politician or bureaucrat is a *homo economicus*. Meade preferred to view the rulers as self-effacing statesmen. Even so, he knew enough of the vote motive to appreciate that the State could not realistically be treated as a deus ex machina or smoothed into the ceteris paribus. Men and women might indeed be leaving their personality at the door when they enter into office. It was, however, not very likely.

The reservations were a later add-on. In the 1960s many people became less confident about their leaders. Meade for his own part began to introduce marginal reservations into his theory of the State. Still arguing that politics is trust, he was showing a new-found openness to politics as exchange. His mixed economy became in that way even more of a mix.

An example would be his proposal for a multiperiod macroeconomic rule in place of discretionary spending and 'confetti money' (SWF, 5). The rule would be intended to curb not just the cost-pushing of the unions but the vote-buying of perennial candidates who know what makes them popular. James Buchanan was writing that 'Keynesian economics has turned the politicians loose' (Buchanan and Wagner 1977: 4). Meade was a Keynesian but an economist nevertheless who called for a preannounced rule. Meade visited Buchanan on a trip to Virginia. He obviously thought that there was something they had to discuss.

As with a fixed rule, so with an exogenous authority. In his Cambridge Inaugural Meade, seeking to insulate in-period decision-making from the political business cycle, said that monetary and fiscal policy should reflect 'the skills of the control engineer' (CP, 357). What he calls 'rational social engineering' should be delegated to an independent central bank or other body 'which was not directly dependent upon the government for its day-to-day decisions' (CP I, 357).

At the margin there were doubts. Mainly, however, there was continuing confidence. The only way a society can arrive at an 'intermediate position' (LEE, 123) between competition and control is to accept that moderate command is the precondition for maximal freedom. Academic economists had to move with the times. The truth is the mix. Reality 'cries out for fruitful co-operation between scholars in the fields of economics and of politics': 'I believe that politics (including political ideas, institutions and history) is a basic element in a University curriculum in the social studies' (MP 9/44). Meade, advocating a broadening of the Cambridge Tripos, was saying in 1966 that Cambridge economics had 'been rather too specialised in the past' (MP 9/44). The economy is 'enormously affected by the political, administrative, social, and psychological atmosphere' (MP 9/26). Academic economists had to open their eyes to the mix.

Politics and economics are as mixed as the mixed economy. Intellectually, they are linked by the primacy of choice. Representative democracy will not reflect the will of the people if the citizens do not shop responsibly for the most cost-effective leaders. Even the constitution is an object of choice. Representative democracy must have in place a well-designed system of checks and balances. Preannounced rules limit the power of the self-seeking arbitrarily to make meat into poison because they know that they can.

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10

The Cooperative Way

In one scenario the factor capital hires the factor labour. Capital pays labour the reservation price that the market will bear. In a different scenario the factory floor hires the greasy moneybags. Labour pays capital a negotiated rate of interest in compensation for the saver's wait. Both stories reflect the two-class dialectic of employer versus employee, *bourgeoisie* versus *proletariat*, them versus us. Neither story reflects the fraternalism of the consumer and producer cooperatives that separate Rochdale and Mondragon from Gradgrind and Scrooge.

The cooperative way is not a new front in an ongoing war. It does not come down on the side of the expropriators or the exploited, the blood-sucking coupon-clippers or the rick-burning revolutionaries. What it does is to recommend the transcendence of the old antagonisms by a new narrative in which all classes win prizes and no class is crowded into subservience. The cooperative way is a third way where the surplus value is shared out amicably among all who potluck input into the stew. Moneybags or manual, we are all shareholders nowadays. Our radical new departure edges our nation that much closer to its consensual ideal of a 'free, efficient, and humanely just society' (CP I, 356).

Meade deplored the class conflict, real or averred, that was undermining the nation-building contribution of the National Health Service and

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the welfare State. He was not alone in diagnosing a groundswell of opinion that social policy had to be complemented by business policy if the bonds of community were to be preserved: 'There is at present a widespread feeling of the need for some change in the way in which labour is remunerated' (CP II, 211). Meade was writing in 1986. Memories were still fresh of the year-long strike in the nationalised coal industry that had severely disrupted the whole of British life.

The need for better institutions had already manifested itself in proposals for works councils, worker directorships, the Co-Op shops, employee stock-ownership plans, employee profit-pooling on the model of the John Lewis Partnership and the National Freight Corporation. In some countries the sharecropping system had proven just how rational peasant farmers could be when the crop they grew was their own. The climate was right for a new organisational mix in which wages-and-profits would be the shared identity that unites. Every worker a capitalist and every capitalist a worker, labour-and-capital would be a thoroughly mixed society in which class like justice would be blind (IR, 83).

Cooperation was not new. Robert Owen, Charles Kingsley, G.D.H. Cole and R.H. Tawney were only some of the authors who had wanted to promote equity and efficiency through teamwork. In 1967 there had been Ward's *The Socialist Economy*, in 1970 Vanek's *The General Theory of Labor-Managed Market Economies* and in 1984 Weitzman's *The Share Economy: Conquering Stagflation*. By that time Britain was experiencing cost-push inflation, unemployment and strikes. Something had gone wrong. Meade entered the debate in earnest in his three papers in the *Economic Journal* for 1972, 1974 and 1979. From the *Intelligent Radical's Guide* in 1975 to *Agathotopia: The Economics of Partnership* in 1989, Meade took every opportunity to argue a case for participatory economics because an organisation is a republic that, divided, maximises nothing but strife.

10.1 Rights and Titles

It is a third way. Labour does not hire capital. Capital does not hire labour. Labour and capital hire each other. Instead of the master–servant nexus there is the specialisation of function and the complementarity of need. Whether the input is labour power or investible funds, both factors are making a valued contribution. Both are asserting a moral right to share in the harvest.

Meade is proposing that the moral right should be translated into a registered title. All who contribute to the output of the firm would then have an equal share in its joint assets. Each certificate would attract an identical dividend. Dead-level equality, however, only goes so far. In respect of acquisition and disposal, the labour-shares and the capital-shares would not be treated in the same way.

Labour-shares are acquired through employment. Being issued to a single named employee, they cannot be transferred or monetised. At retirement or voluntary severance the certificate must be sold back to the company at the going market price. Workers made redundant may retain their shares until the normal retirement age. Labour-shares in that way promise a lump sum which, similar to deferred wages or the guaranteed social dividend, levels up their standard of living in their state of dependency.

Labour-shares are a move towards social equality. Employees, even if they cannot immediately realise their certificates, have a stock of net worth and a claim to future dividend income. Each worker is a *rentier*. Each cloth-cap cog takes home a share in what the Marxists call his surplus value and the non-Marxists term his value-added.

Capital-shares, in contrast to labour-shares, are freely tradeable on the stock market. They have an infinite lifespan. Old issues are supplemented with new issues where watering is deemed a cost-effective alternative to bond-borrowing at a fixed rate of interest. New machinery purchased through new shares will be expected to increase marginal revenue by more than its marginal cost. If it does so, then all classes of shareholders will benefit through an enhancement in their paper wealth.

The owners are the shareholders. The decision-makers are the directors. Meade proposes that half the Board should be elected by labour and half by capital. At the apex at least the Marxian prism of the two economic classes survives intact.

Voting at the annual general meeting is on the basis of one certificate, one vote. All shareholders have an equal right to speak and vote. As Vanek describes it, their access to internal democracy is derived directly from the toil and trouble that they have embedded in their firm: 'In a productive activity where a group of men cooperate in a joint effort, the right to control and manage that effort rests with all members of the group' (Vanek 1970: 5).

Vanek recognises that 'all' need not mean 'all'. He knows that, where there is less than unanimity of consensus, the tyranny of the majority can leave a passionate minority in the cold. Optimistic about consultation, he decides nonetheless that 'equal voice' in the normal run of things will converge on a general 'unity of purpose' (Vanek 1970: 1, 276). In a sense it has to do so. Without adequate agreement, corporate democracy could degenerate into a new and nasty form of civil war.

Meade shares Vanek's view of the business as a self-governing entity. He extends his ideal of bottom-up legitimation to the selection of the management itself. Meade believes that managers should be hired by the Board and remain accountable to it. For that reason they may be said to be reporting to two factors of production at once. It is, however, power exercised at one remove. Unions will still be needed to defend the shop-floor against the white collar lest the new class speak for a new elite that has no link with the rank and file.

Meade's internal democracy stops at the selection of the Board. He does not see the need for a company parliament to negotiate policies, justify differentials or manage dissent. He does not propose the election of line management at factory-level hustings. He does not call for continuous consultation or an in-house referendum. Profit-sharing is better catered for in his industrial democracy than is power-sharing.

It makes a difference. Profit-sharing is money. Power-sharing is people. People are more difficult. Upstairs or downstairs, people are multidimensional and idiosyncratic. Even their economic goal functions might not be standard-size or simple.

Some shareholders will want additional manpower because it lightens the load. Other shareholders will oppose new hires lest the swollen base dilute each insider's take. Some will favour automation because it improves their marginal productivity. Others will oppose capital intensity lest it threaten their job security. Younger workers may prefer reinvestment and ploughing back. Older workers may prefer high dividends and profit payouts.

There is no reason to think that all the shareholders will agree on all the issues. A mechanism is needed to resolve conflicts such as these. Meade left it to future scholars to amplify the theory of participation which he outlines. It is important that this should be done. As it stands, the theory is one of property-owning democracy without the democracy that would make decision-making into a harmonious web.

10.2 Partnership and Productivity

In textbook capitalism the worker is under contract to deliver a minimum level of output. No agreement can ever pre-specify the hidden commitments that flesh out the skeleton draft. This realm of indeterminacy is what Leibenstein calls X-inefficiency or organisational slack (Leibenstein 1966: 392). The textbook profit-seeker grub-stakes the dependent wage-earner and subsequently appropriates the residual. It is a straightforward business proposition that offers the worker no extrinsic motive to go beyond the threshold prescribed.

In the property-owning democracy the incentive structure is more conducive to supplying more than is laid down in the contract. In what Meade calls the 'Propdem' (IR, 83) there is no sleeping outsider, no absentee Other to sequester the cream. Instead of sharing the profits with an unseen incubus as in a PropCap, the partners know that they themselves will be entitled to the returns. It is a reason to exert themselves to the full.

The 'basic objective is assumed to be to maximise the return per worker' (CP II, 158). It is not the altruism of a wartime platoon or an Israeli kibbutz but visceral materialism and the shopping trolley that unites the collaborators in a common cause. Vanek calls the income motive the 'one key operating principle' (Vanek 1970: 2) of the cooperative enterprise. Like Meade, he sees calculative rationality even in the joint ventures that take over from capital.

Ward too asserts that cooperation does not put paid to the acquisitive society. Far from *News from Nowhere* or *Looking Backward*, Ward contends that the cooperative in his imagined Illyria will be solely 'interested in maximizing the incomes of the workers' (Ward 1967: 186). It is blinkered money and not social service that accounts for the 'broad harmony of interests within the Illyrian firm' (Ward 1967: 262). It is the cash nexus but it does mean a work ethic that generates spillover prosperity for the economy as a whole. The nation enjoys a faster rate of growth when its owner-workers are properly motivated to do their best.

It need not be so. Precisely because the owner-workers are modelled as selfish gain-seekers and not Stakhanovite communitarians, each rational maximiser in a large organisation will have a private and personal incentive to ride free on the heightened productivity of his self-denying teammates. Abstention, economically speaking, is the dominant strategy in a large-group setting where, as Mancur Olson had shown, the bottom line will not visibly be impacted by a blackmailing bad Samaritan who leaves it to the public-spirited to put in the effort (Olson 1965: 48, 50). Olson recognised in Meade a kindred spirit. A quarter of a century after the *Logic* he wrote to Meade that 'we have seen things so much the same way' (letter to Meade from M. Olson dated 6 December 1989, MP 4/34).

Meade saw that the move from capitalism to cooperation did not account in full for any rise in productivity that might result from the new incentive structure. Necessary but not sufficient, the result of the changeover might be that the rational and the business-minded simply continue to put in the minimum. The insignificant are never so invisible as in a crowd.

Cooperation might not add to productivity. What Meade is suggesting is that it is the necessary condition but still not enough. Something more is needed to account for the economic benefits that the cooperative has the potential to deliver. Meade draws attention to two probable complements: size and attachment.

10.2.1 Size

Small is beautiful. The best cooperators will be the textbook perfect competitors: 'Fully independent labour-managed cooperatives are thus appropriate only in those industries in which there is room for many small-scale enterprises of an efficient scale and in which entry for new competing concerns is easy' (CP II, 200).

Galbraith had contended that the new industrial economy is dominated by large productive units. Meade's reply was that the small firm sector was very frequently capable of attaining efficient scale while also allowing competing concerns to enter. Small firms are economic units. Small cooperatives have the additional advantage that they are self-policing clubs. It is all in Olson. Face-to-face sanctions and supergame iterations mean that known faces are less likely to defect. They make the small firm the natural habitat for cooperative enterprise.

Large firms are more suspect. Large undertakings, even if they are cooperatives, will be tempted to tap into the supernormal profits of imperfect competition. Meade reports that they are especially inclined to shed labour or to charge a monopoly price: 'A large scale labour co-operative is thus likely to be even more restrictive than a large scale capitalist entrepreneurial concern' (Meade 1981: 96). Cooperation to their members does not extend to the national interest. As for productivity, anonymity breeds alienation and with it the go-slow. Management is distant and all workers look the same. There is no reason for a single bee in a giant hive to exceed the norm.

Imperfect competition makes bad neighbours even of well-meaning cooperators. It is the enemy of performance. Meade concludes that worker-managed firms are more likely to succeed if they are small. As always, atomistic competition is 'economically the best policy to pursue *wherever it is technically possible*' (CP II, 13). Sometimes it is not, and then the conditions are less 'appropriate' (CP I, 360) for the cooperative mode of production.

10.2.2 Attachment

In the cooperative as in the wider economy, there is a schizophrenic split. Meade is aware that intrinsic motivation will be counterbalanced by possessive individualism. The final equilibrium is never easy to predict. Free riders have an economic incentive to cut corners. It is not certain that their moral sense reinforced by childhood socialisation will lead them to supply a fair day's work for a fair day's pay. Economics counts. Ethics counts. It could go either way.

The outcome is not certain. Meade, however, takes the view that employment in a cooperative concern will on balance have a remoralising impact. In the confrontational 1980s he was looking forward to a new era of cordiality and overlap. It would be imbued with 'the co-operative spirit', 'the pioneering spirit' and 'psychologically a strong feeling of being an integral part of the enterprise' (CP II, 226, 228–9). Cooperation has consequences. It makes the cooperators more cooperative than they were when the capitalist midnight gave them the sensation that one class was standing on the head of another.

The remoralisation of usages would be especially likely to put down roots in a socialist society that was reforming itself. The citizen's wage, the levelling of wealth, the nationalisation of market failure, the Boards to eliminate cost-push all would strengthen the sense of citizenship that makes good neighbours volunteer to drain a meadow or raise a barn. The property-owning democracy is one step among many on the road to attachment and productivity.

10.3 Employment

More hands to share in the work mean more spoons in the trough. Insider cooperators might ring-fence their own share to exclude the unemployed outsiders hungry for a way in. Meade predicts the opposite. He says that cooperation is more likely than capitalism to bring about full employment.

Meade treated it as a great advantage of the cooperative way that the incidence of a recession would fall on nominal and not on real variables: 'Any reduction in demand for the products of the industry would be met not, as in a capitalist wage economy, by a reduction in employment and growth of unemployment, but by a reduction in prices and in the dividends payable to all workers and capitalists' (CP II, 238). The capitalist firm keeps remuneration constant but cuts back on jobs. The cooperative firm keeps employment constant but cuts back on cost.

The money wage can be trimmed in order to shrink the labour overhead. Because explicit reductions meet with strong resistance, the capitalist firm has no alternative but to respond to rigidities with layoffs. The cooperative firm has a second string to its bow. It can leave the pay packet unchanged but rely on the flexible dividend to absorb the shock. This add-on in itself must recommend the cooperative way to an old Keynesian who had experienced mass unemployment and to a new Keynesian who was concerned about cost-push inflation. The cooperative way limits adjustments in quantity in response to a downturn. Weitzman, like Meade, sees it as an invisible hand that prices people into work: 'A share system offers employment for all at a variable pay' (Weitzman 1984: 111).

Flexible remuneration preserves existing jobs in a recession. It also makes possible new openings when the economy turns up: 'The existing partners will wish to build up the partnership until the value of the marginal product of labour is equal to the average earnings per worker' (CP II, 162). Incumbent partners will raise no objection to outsiders so long as the new entrants are flexible about pay. They will be less willing to open the door if the aspiring incomers insist on equal pay for equal work.

The old conflict was between labour and capital. The new conflict, 'which I believe to be nearer present day reality' (letter from Meade to R. Dore dated 7 November 1985, MP 9/84), is between the insiders and the outsiders. Co-ownership, buttressed by the fallback of social security, makes the cooperators less determined to hoard opportunities for the team. In exchange, however, the incomers must be willing to accept less favourable pay and conditions even where the job function is precisely the same. The inequality is legitimated by the grandfather clause. Jack was there first, when marginal productivity was high. Jill was the last-in. The last-in will be less productive than the pioneers who went before.

Altruism cannot be written off: 'People are not wholly selfish. The Mondragon coops seem to be out to give employment rather than to maximise the income per head of existing cooperators' (letter from Meade to R. Dore dated 7 November 1985, MP 9/84). Mainly, however, it is an unsentimental commercial calculation. If plant and the debt overhead are fixed but the manpower input is variable, then the logic of diminishing marginal productivity would suggest that the new intake should be paid less than the average in the grade when the individual business expands. Even cooperators must accept the uncompromising logic of the managerial accounts: 'They will then have to behave like capitalist entrepreneurs .... Insiders in a successful business will have to allow expansion by letting in outsiders on terms which do not offer the new hands all the profits of success which are being enjoyed by the old hands' (letter from Meade to Dennis Snower dated 28 June 1986, MP 4/37).

The prediction is static and spot. Being ceteris paribus, it can overstate the risk: 'Over any period of time, in which capital development and technical inventions are taking place, the marginal product of labour will almost certainly be rising' (EAP, 69). In the long run both wages and employment will 'almost certainly' be going up. That, however, is the long run. The out-of-work are the here-and-now.

Unions in the new cooperative system will, as Ward says, have 'lost most of their *raison d'être*' (Ward 1967: 227). In the capitalist firm it is their task to resist reductions both in money wages and in staff. They defend the interests of labour against the profit-seekers who seek to reap where they never sowed. In the cooperative firm, no longer at war with ownership apart, they will devote their time to the settlement of individual grievances and to the relative pay of different grades. The strike weapon will become obsolete.

Since the representative worker will also be a representative profit-recipient, it would not make any sense for the rational cooperator to demand more money from himself (CP II, 381). He will go instead for expansion since his own living standards are indexed to the success of the firm. It will be the end of adversarial cost-push and of the stagflation to which it leads. Cost-push is 'a self-defeating struggle for income shares' (Weitzman 1984: 111). It will be difficult, Weitzman says, for cost-push to 'get even a toehold in a share firm' (Weitzman 1984: 117). Self-love and social will become the same.

10.4 Risk

Profit-sharing is a misnomer. It is also the risk of loss that is shared. Capital-shareholders can diversify into a mixed portfolio of equities and bonds. Labour-shareholders keep all their eggs in one basket. The endowment effect is a recipe for chronic anxiety. A cooperative that earns no profits pays no dividends. Workers living on a combination of distributions and wages will have to manage on their wages alone.

Some workers will be risk-tolerant and entrepreneurial. Ranking potential gains above potential losses, they will rush into speculative innovation because minimax does not satisfy their taste for adventure.

Other workers will be risk-averse and conservative. Aware that labour-shares are not a one-way bet, the cautious and the vulnerable may reject the cooperative way because traditional capitalism co-insures them with an income guarantee.

Meade is in no doubt what this means. People differ. Some workers will want the safe haven of a monthly cheque but others will prefer the surplus-sharing of uncertain joint-ownership. Since tastes and preferences are not standard-size, the good society is obliged to offer its citizens a range of institutions and options. There will be the cooperatives and the capitalist firms. There will be the civil service where profit-sharing is not possible. There will be the nationalised corporations where profit-sharing is not acceptable. It will be a thoroughly mixed economy. People like it that way.

There is mix within mix. A cooperator who joint-owns the company where he works can plunge his savings into pooled investments like unit trusts. A wage-earner who supplies his labour to a capital-owner can become a capital-owner himself through the acquisition of shares. Moving from shares to entrepreneurship, he can transition fully into the capitalist sector by himself hiring labour at the going market rate. Ownership might become a habit. Not everyone will, of course, want the responsibilities and the losses. Some people will select one role. Other people will select another role. It will be a mix.

10.5 Cooperation and the State

The cooperative way is not the centrally planned economy. Each independent cooperative makes its own decisions and manages its own money. As with all businesses, however, the cooperative is subject to the sensible steering of the State. There is much pollution in a nation.

The State must intervene where needed to preserve workable competition. The cooperative way is supply and demand. It is not an unfree market of cooperative oligopolies that leverage on internal economies to surcharge the consumer a windfall rent. An octopus conglomerate is not automatically in the public interest merely because its workers have shares.

Where the cooperatives band together in syndicates based on industries, they will be able to price above the odds. A sectional interest is 'almost bound to indulge in anti-social activities of a restrictive character' (CP II, 12). The 'syndicalist or "self-governing" industry is to be avoided like the poison' (CP II, 12). Guild socialism is just another name for supplier collusion that leaves the consumers and the citizens outside. Meade made detailed notes (MP 9/66) on Cole's *Guild Socialism Restated* (1920). Cole, he concluded, put too much emphasis on the parish. The true focus of socialism can only be the nation.

Meade was fully aware of the temptation faced by the cooperative to put consumption before investment. He knew that a revenue-sharing organisation can have an antisocial tendency to parcel out running profits while leaving future cohorts to trade with obsolete plant. Meade realised that there was no easy solution to the incompatibility of the part with the whole. Possibly he would have said, with Ward, that it was the duty of the government to specify 'minimum allocations to a depreciation fund, to prevent the state's capital stock from being transferred to the workers in the form of wages as it is used up' (Ward 1967: 214).

Meade's management would not remain popular with the rank and file if it chose to recapitalise rather than to distribute. It is the duty of the government to correct the intertemporal failure. Where, however, the government is there to take the rough edges off cooperation, then the cooperative way is strongly to be recommended to 'all capitalists and socialists who seek to make the best of both worlds' (LEE, 100).

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11

Economic Planning

The British economy in the war had been planned. National defence had required that resource allocation should be governed by social priorities and not uncoordinated search. Britain had become accustomed to ration books, regional licenses and price controls. The Soviet Union had shown at Stalingrad what a central plan and quantitative targets could accomplish. Looking backward to look forward, there was also the trauma of the Great Depression. There was the fear that without hands-on intervention the West would once again lapse into recession and worse.

By 1945 the hostilities in Europe were over. Britain was embarking on a major project of economic and social reconstruction under the leadership of its new Labour majority. Meade, still in the Economic Section, must have welcomed the new climate of statism that would not leave the five giants of monopoly, irrationality, waste, inequity and spillovers to the invisible hand that had done as little for the war as it had for the slump.

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11.1 To Plan or Not to Plan

The future is unknown. Every nation, like every individual, wants to access the knowledge that is stored in history's crystal ball. Where the prediction is not the same as the philosopher's Good Society, each individual, each nation, will be tempted to interfere with the flow because *Homo sapiens* thinks he is clever enough to shape his own environment.

Planning is anticipation and it is action. That is the definition. By itself, however, it is not a single blueprint but a range of possibilities. The market plus the constable on the one hand, the regimented Red Army on the other, it is all a matter of degree. As Lionel Robbins said, 'the issue is not between *a* plan and *no* plan, it is between different types of plan' (Robbins 1937: 6). There are laws, regulations, forecasts and databases in every country. They could be called a plan.

In the wartime civil service, Meade had been asked for position papers on 'Prices and Output Policy of State Enterprise' and 'The Socialisation of Industries'. The politicians were looking ahead to nationalisation and new mechanisms. Meade advised them that rigid Russian Gosplan was too prescriptive, too structured to guide them in their transition from war to peace, but that the anarchic free market would be no better able to ensure efficiency and equity in the proportions prescribed by the democratic consensus.

In 1948, Meade, just returned to academic life, published *Planning and the Price System*. Subtitled *The Liberal-Socialist Solution*, its theme was that politics and economics each had a unique contribution to make. Its author described it as 'an attempt to sketch the principles of a middle way which no country has as yet fully attempted' (PPM, 1). It appeared at a time when the Cold War Manicheans were dividing the world into American Enterprise and Iron Plan. Its message was that the truth is the mix. Richard Kahn, in his 16-page review (Kahn 1949), complained that it was muddle without the middle and that it left him hungry for more. He said that he could not see what Meade actually wanted the planners to do.

Meade, Kahn decided, was a principled liberal but also a problem-solver who had grasped that markets could fail. Meade, Kahn said, knew 'that liberal principles may often have to give way to socialist principles' (Kahn 1949: 1). It made sense but it was all in Marshall. Sometimes the nation trusts to exchange and sometimes it turns to authority. It was Marshall's message and Meade's message but it was not in dispute. Meade, following Marshall, said that political economy is the science of mix and match. Kahn, wanting more, felt that there ought to have been less complacency and more thrust in Meade's short book.

The theme of 'to plan or not to plan' dominated British political economy in the early and mid-1940s. Not only was there *Planning and the Price System*, there were Durbin's *Politics of Democratic Socialism* (1940), Strachey's *Theory and Practice of Socialism* (1940), Hayek's *Road to Serfdom* (1944), Robbins's *Economic Problem in Peace and War* (1947), Harrod's *Are These Hardships Necessary?* (1947) and Henderson's *Uses and Abuses of Economic Planning* (1947).

In 1947 there was Oliver Franks's *Central Planning and Control in War and Peace*. Meade reviewed it in 1948 in a paper for *Economica* entitled 'Planning without Prices'. He saw it as an exercise in headcounting that had missed out the essential contribution of market valuation. Franks had spent the Churchill years at the Ministry of Supply. He had become convinced that wartime successes had shown conclusively that good controllers could deliver good outcomes: 'It is at once the task and the miracle of statesmanship to translate them into terms which have meaning and inspiration to ordinary men in ordinary circumstances' (Franks 1947: 37).

Meade's reaction was that wartime battlefields should not be extrapolated into peacetime progress. Even a Great Engineer like Churchill, fluent as he was in the language of Spitfires and flak, could not quantify the subjective sensations of the separable citizens. Only ordinary people proceeding through decentralised negotiation could do that. Robbins was right: 'Good government is no substitute for self-government' (Robbins 1947: 86).

In 1948 there was John Jewkes's *Ordeal by Planning*. Jewkes had devoted his war to working not with physical but with economic magnitudes in, like Meade, the Economic Section. His recollection of what quantitative regimentation had meant was less rosy than that of Franks. Jewkes dismissed central planning as 'blunt fumbling' built on the 'fallacy' that a few 'Supreme Planners' would be able to make socially sensitive choices for the masses whom they would come to dominate: 'The modern planning movement sets out, with good will and noble intentions, to control things and invariably ends up by controlling men' (Jewkes 1948:

vii, 9, 87, 208). Planning starts as Athens and finishes as Sparta. It is 'bitterness and ruin' (Jewkes 1948: 9). Morally and economically, it is bound to fail.

Jewkes had warned that that the road to serfdom was paved with well-intentioned controllers like Franks. Meade shared his fear that 'planned production for the public good' (PPM, 3) could turn malign if it were carried too far. What Meade expected was that wise leaders would have the skill to avoid an unwelcome excess while at the same time being able to correct a market failure.

Consensus was his witness. Government intervention since the late 1930s had brought about 'a quiet but complete social revolution' (PPM, 36). There was a widespread preference for more of the same. As always, a balance would have to be struck between collective action and individual liberty. That, Meade said in 1948, is 'the great economic issue which now confronts us' (PPM, v). Of course it was. Only a Hayek, however, would say that prudent interventionism had to be rejected because the alternative would necessarily be something worse.

11.2 The Indicative Plan

It is anticipation and it is action. In *Planning and the Price Mechanism* Meade was calling for 'a large measure of state foresight and intervention' (PPM, v). Central guidance would operate through 'foresight' and 'influence'. It would not replace the price mechanism but rather improve the sensitivity of the market's response.

Already in the 1930s, in the *Introduction to Economic Analysis* in 1936 and in a New Fabian Research pamphlet two years before, Meade had proposed centralisation and guidance through a National Investment Board (NIB). The NIB would coordinate the budgets of all levels of government and of the nationalised corporations. It would assist the public sector to plan capital expenditures three to five years in advance (EAP, 45). It would be backed up by a Supreme Economic Authority (an SEA). The SEA would harmonise the policies of the budgetary authorities, the central bank and of the NIB itself. It would add an extra layer of knowledge.

Large private industries should supply information about their forward planning to the Board. They should make their forecasts on the assumption of full employment. Meade did not regard the anticipation of good times as unrealistic even in the bad times of 1934. Monetary and fiscal fine-tuning would guarantee the businesses a safety net and a stable level of demand. They could put their trust in the State to fulfil its part of the social contract.

In 1970, in a series of special lectures given at the University of Manchester, Meade made clear that central planning remained an essential part of the modern mixed economy. In 1970 in *The Theory of Indicative Planning* (incorporated in 1971 into Part III of *The Controlled Economy*) Meade built on his earlier ideas for an SEA or an NIB. Parastatal organisations like the Commissariat Général du Plan in France and the National Economic Development Council in the United Kingdom were demonstrating that overview and coordination were able to deal successfully with Marxism's anarchy of markets. Indicative planning was up to the job.

Businesses trade on the basis of hunch, guess and gamble because the future is not yet a fact: 'All concerned are faced with an uncertain future' (CE, 149). Prediction is incomplete. No profit-seeker at the start of the race can be sure that he will not end up a loss-maker at the end. The market is the natural habitat for 'excessive optimism', 'false price expectations', 'false dynamic expectations' (CE, 5). Mismatched scenarios shift scarce resources into wasteful blind alleys.

Indicative planning is not insurance against error and regret. It does, however, make available to the market players a large-pool overview that fills the gaps in their own one-dimensional forecasts: 'The whole purpose of such an Indicative Plan is to improve information .... Less mistakes are made in present economic decisions due to faulty expectations' (GE, 457). There will be fewer bottlenecks. There will be lower transaction costs. There will be smaller imbalances between supply and demand.

The plan itself moves private expectations in the direction of an integrated whole: 'If all individual plans are to be simultaneously fulfilled they must in the first instance be consistent' (Meade 1968: 378). Galbraith's corporate plans do not chart a scaled-up course. Meade's indicative plan puts the individual companies in touch with the world outside. It ensures that 'the many independent decision-making units may have a better and more consistent set of views about what future conditions will be like' (LEE, 22). It is as if they all shared their information in some hypothetical Albert Hall (CE, 156). Knowledge is power.

Mistakes will still be made. All of economic life is by its nature exposed to 'residual uncertainty': 'Every economic decision-maker must make allowance for the unexpected' (CE, 210). Market-clearing prices and equilibrium quantities cannot be known until after the bygone has been sunk. Ex ante is not ex post. New entrepreneurs introduce new products, employ new technology and service new clients in 'new and unforeseen conditions' (CE, 7). A year is a long time in business.

The plan itself can prove a misleading focus. The future is unknowable. The statistics might be wrong. Alternative scenarios can be built upon different assumptions. Mismatched forecasts pass forward a disequilibrium base. The plan must be revised in the light of repercussions and cumulative contingencies. It means that the businesses have to rethink their future anew: 'This is the problem of optimum dynamic control' (CE, 227).

Indicative planning is not perfect. Applied economics is the science of the second-best. What Meade asserted is that, with all their defects, the input-output tables, the surveys of productive potential and the added-up forecasts could nonetheless be regarded as a public good that streamlines the *tâtonnement*. If grassroots expectations extrapolated from past experience were fully rational, there would be no need for a central plan. Because they are not, there is a market void that must be filled by public-sector synchronisation. There is no other way. An indicative plan is essential for 'large structural changes to the economy' (IR, 15). Every supporter of money-making capitalism should be strongly in favour of the indicative plan.

11.3 The Control Plan

Separate from the indicative plan is the 'control plan' (CE, 225). The indicative plan diffuses the statistics and suggests the probabilities. That is all: 'No individual producer or consumer, seller or buyer is required by the central authority to conform to the plan in any particular' (CE, 475). The 'whole purpose' (CE, 475) of an indicative plan is to put such facts as can be known in the public domain.

The control plan, moderately directive and moderately leaderly, is different. Some economists call it an imperative plan; Meade does not. The control plan he has in mind operates through laws and incentives. No one abuses the monopoly of force to shoot troublesome dissenters or send them to Siberia. Even wage-fixing by statute involves 'a degree of governmental control which I myself would find very distasteful' (CP I, 359). People who do not want to be pushed around by Big Labour and Big Business do not want to be pushed around by Big Brother who knows better than his fellow citizens what is in the nation's authentic best interest.

Gosplan by command, undemocratic and totalitarian, must be rejected out-of-hand: 'There is little case for a central economic plan' (SE, 235). Not only does it violate the moral principle of respect for persons, it fails to justify itself through a great leap forward in well-being. Excessive restrictions would cause 'an undesirable reaction against the whole idea of state planning' (CP I, 285). Meade's control plan would be more acceptable. 'Properly used', it would be fully in keeping with the social values of 'freedom, efficiency and equity' (PPM, 9) that enjoy near-unanimous support. The control plan would 'so influence the working of the price mechanism that certain major objectives of full employment, stability, equity, freedom and the like are achieved' (PPM, v). Most people most of the time would agree with that.

A control plan has the function of 'promoting activity in particular directions' (CP I, 271). Crucially, these will be the directions which ordinary people, broadly speaking, would have selected for themselves. Full employment and the containment of inflation are not the goals of an Establishment *Apparat* alone. They are the people's goals. It is legitimation by acclamation that gives them their moral force.

A control plan for that reason cannot deviate too far from the median will. That is its greatest strength but also its greatest weakness. With the democracy comes the déjà vu. The control plan to Meade is effectively the familiar arsenal of policy instruments dressed up with a fancy name.

The planners should use an adjustable parity to shield the internal balance from a disequilibrium on international account (CE, 229, 234). They should manipulate their interest rates, tax rates, public spending and budget balance in such a way as to game total demand away from an excess or a shortfall. They should rely upon a Board and an arbitrator to limit pay settlements on average to the productivity norm.

The planners should appoint a Competition Commission to countervail the power of the conspiracies in restraint of trade. They should nationalise the natural monopolies in order to ensure that the ability to overcharge is not abused. They should attract new industries to declining regions. They should pay for education, retraining and the relocation of surplus manpower. They should supply essential infrastructure like roads, railways and the power grid. Without the network the social matrix would be missing vital parts.

The planners should tax noxious spillovers and subsidise constructive externalities. Since the definition of a neighbourhood effect extends to misaligned presuppositions and hit-and-miss reactions, it would be entirely in keeping with the charter of a control plan for incentives to be provided to broad sectors like agriculture or steel. Such incentives would 'ensure that the available resources are used in the desired proportions between these major uses' (CP I, 269).

A grant or concession is not, however, an edict or decree. The indicative plan coordinates the autonomous and the atomistic through the diffusion of intelligence. The control plan coordinates the devolved and the decentralised through subsidised credit and a local exemption. It is levers and temptations, the carrot but not the stick. When all is said and done, if the steel industry still refuses to meet its targets, then there is not much the planners can do to dovetail the disparate who want the freedom to make their own mistakes.

The targets are derived from revealed preference. The control plan proceeds on the basis that sovereign citizens are able to arbitrage the marginal utility of all the goods and services in their choice-set. So long as the citizens are rational and informed, the planners are obliged to follow the will of their masters: 'In the majority of commodities consumers should retain their freedom of choice' (EAP, 123). In the majority of cases the individual should be allowed to choose for himself. The State should limit itself to ensuring that the sovereign citizens are in a position to pursue the objectives that they have set themselves.

In the majority of cases the control plan follows the will of the people. In a minority of cases the planners are obliged to take a lead. It all comes down to informed consent. Patients suffer from information asymmetry. Parents underestimate the returns from schooling. Where bottom-up lacks the knowledge to decide 'how his need may best be satisfied' (EAP, 122), then the choice must be delegated to sage old Sir who knows best: 'It may be agreed in principle that in these circumstances the state should intervene' (EAP, 121).

At the very least the State should disseminate the facts. Consumer sovereignty is not infringed where ordinary people are given unbiased information about tobacco, alcohol and sugar. The guidance need not stop there. The State might tax and subsidise in order to protect backsliders from their own weaker self. The State might defend the rights of the fringe against the tyranny of the consensus. The State might protect the intertemporal capital of future cohorts who have not revealed a preference. Explicit or implicit, State paternalism can enter into the determination of Meade's control plan. Perhaps Plato was correct after all and we do need benevolent guardians. Meade, however, always treats cases like these as the exceptions. The philosopher rulers, because they know best, can suggest and persuade. Normally, however, even a control plan must take its lead from the people.

The control plan makes the citizens better off in their own estimation. Always, however, 'it will still be necessary to use the price mechanism as a guide to efficiency' (LEE, 23). Supply and demand know better than the ration books the difference between scarcity and glut. Planning is pricing. It can never be quantitative controls.

Quantitative controls confuse the signals. They are 'clumsy, inefficient and wasteful' (PPM, 7). They throttle private initiative. They are unable to link up the alternatives and the substitutes at the margin: 'It is the miracle of a properly working pricing system that it will answer all these questions simultaneously' (PPM, 8). No computer in the world can solve all these equations simultaneously: 'Money and the pricing system are among the greatest social inventions of mankind' (PPM, 9).

Physical controls fail because they lack a common standard. Bricks cannot be compared with apples, nor next-bests quantified. Plan presupposes price: 'In fact, "planning *and* the price mechanism", not "planning *or* the price mechanism", should be a central theme of every modern economist's work' (Meade 1968: 392). *Fiat* or *diktat*, fit-for-purpose numbers cannot be plucked out of the air. One hand washes the other. It is the only way. As Lionel Robbins puts it: 'To plan without the guidance of a price system will be planning without a measure' (Robbins 1937: 206).

Quantitative controls are costly to administer and an invitation to abuse. They foster 'spivvery and corruption' (PPM, 9). They lead to black markets. They encourage the backhanders of the 'License Raj'. They invade personal space where an 'anonymous official' employed by the 'Servile State' (PPM, 6) limits the importation of books, restricts travel abroad and denies the workers a free choice of job. It all sums up to 'an insidious threat to public morality' (PPM, 7). It can best be dealt with by demobilising the bureaucracy and putting the ordinary individual back in.

If economic planning means detailed controls and rigid prices, micro-managed to the level of industries and occupations, then, Meade declared, 'I am certainly no planner' (PPM, v). If, however, it means coordination through the diffusion of information reinforced by guidelines legitimated by consensus, then planning is no more than a fancy name for what everyone already knows.

Kahn when he said he was confused only thought he was confused because he was expecting too much. He thought that a book on planning would put the emphasis on a battlefield commander shouting orders to his troops. He felt he was being fobbed off with 'competition, free enterprise and the free market determination of prices and output' (PPM, vi). He was half wrong but not completely wrong. Economic planning to Meade was no more than economic policy. It was moderate intervention displaced along the middle ground in the direction of a more satisfactory mix.

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12

What Meade Meant

Meade knew his classical Greek. *Cacotopia* is 'a bad place'. *Utopia* is 'no place'. *Cacotopia* is the mass unemployment of the 1930s and the war-zone stagflation of the affluent society. *Utopia* is Fourier's communes and Marx's 'to each according to his need'. *Utopia* is not the heavenly city of the responsible and the realistic but a valueless pipe dream and a bottomless delusion. Blake's New Jerusalem or Stalin's Five Year Plan, *utopia* leaves the *cacotopia* just as bad a bad place as it had been before.

Yet there is an alternative. Plato saw his *Republic* as the ground plan for the ideal society that could and should be constructed in his own real-world Greece. Meade in the same way believed that his *agathotopia* would correct the shortcomings of the market capitalist system which he wanted to reform but not to overthrow. *Agathotopia* is 'a Good Place to live in' (LEE, 100). It is 'a decent free society' (IR, 17). It is egalitarian, Keynesian, cooperative, global, market-centred, State-regulated. It is the sensible mix of labour, capital and politics that partners Pareto's optimum with Tawney's classless culture where One Nation is a common home.

D. Reisman, *James Edward Meade*, Great Thinkers in Economics,
https://doi.org/10.1007/978-3-319-69281-4_12

12.1 Social Reform

Meade ranged widely. To understand the part it is necessary to understand the whole: 'It is of basic importance to consider the whole range of economic implications and not merely the effect of the policy in one special area of the field' (SE, 8). GATT, NATO, EEC, eugenics, unemployment, inflation, population, social spillovers, free markets, indicative planning, buffer stocks, the adjustable peg, the rate of interest, the class system, the tax system, the citizenship wage, each takes its meaning and function from the organism in which it is embedded. The division of labour is more than the sum of the parts.

Meade's work is ambitious and comprehensive. The sheer breadth of his interests was rare in his own time and extremely rare later on. The pieces of the puzzle, all different and all relevant, slot in to a single worldview: 'A hallmark of his work was a remarkable capacity to see the economy as a whole' (Atkinson 1996: 90). Shackle once wrote to him to say that, effectively, it is all in Meade: 'If there was ever to be another *Principles*, you are the one man to write it' (letter to Meade from G.L.S. Shackle dated 21 May 1965, MP 9/45). Kenneth Boulding, reviewing *The Growing Economy*, concluded that Meade was already producing his own synoptic *Principles* but was doing so quietly, one small step at a time: 'One wonders, indeed, if this is not exactly what Alfred Marshall would have written today …. At times, even in the style, the sense of the ghost of Marshall is almost irresistible' (Boulding 1969: 1161).

Meade had an insatiable curiosity to discover the causes and the links. Yet he was more than an ivory-tower academic, detached, logical and uninvolved. Meade was not an outsider looking in but rather a part of the drama which he was seeking to interpret. Because the economist is a participant as well as a bystander, economics itself will always be 'half a science and half a political art' (letter from Meade to H. Gaitskell dated 30 October 1962, MP 9/37). Economists in their professional capacity 'should be exceptionally careful not to pick and choose their use of economic arguments simply to promote political ends' (letter from Meade to H. Gaitskell dated 30 October 1962, MP 9/37). Speaking as private citizens, the position is different. They have a right and also a duty to get involved.

Meade was careful to respect the boundaries between research and commitment. As a scholar, he applied the strict standards of deduction and induction to the falsification of his conjectures. As a philosopher, however, he was a man of convictions and values, determined to put right what he believed to be major social shortcomings. David Vines, who knew him well, says: 'In all that he did, Meade saw the role of an economist as helping to design a better society—both by the creation of good institutions of economic management and by the provision of appropriate incentives for private individuals' (Vines 2008: 485). Like economics itself, Meade was an eagle with two heads. It is schizophrenia by consent. A scholar who wants to be of use has no other choice.

Meade stated repeatedly that he was drawn to economics because of 'poverty in the midst of *potential* plenty' (SWF, 23, emphasis added). He was drawn to growth and redistribution because *potential* plenty did nothing for human well-being unless it was realised, universalised plenty made into a team player's right. Keynes had demonstrated that 'pragmatic wisdom and statesmanship' could successfully be combined with the 'unsparing devotion … to build a better world' (Meade 1983: 265, 266). He had done this without having in any way to compromise on the intellectual integrity that was enshrined in the *Treatise on Money* and the *General Theory*. Means without ends are empty. Ends without means are inert. Keynes had been an eagle with two heads. Meade wanted to be an eagle with two heads as well.

Meade saw himself as an inveterate do-gooder. He was always exhorting his students to 'try to invent workable institutional devices which will improve the operation of economic policy' (Peacock 1982: 39). Eager to get things done, he was active in the Labour Party and the Fabian Society in the 1930s, the Social Democratic Party and the Alliance in the 1980s. He wrote to Mrs. Thatcher on behalf of 364 British economists who were warning that monetarism spelled doom. He wrote to Mrs. Thatcher demanding that she defend the civil liberties of Salman Rushdie, a British citizen under threat from a foreign government (letter from Meade to M. Thatcher dated 12 February 1989, MP 4/40). It was a low profile but a solid profile nonetheless. Even without a seat in Parliament, Meade believed that what Galbraith called the 'educational and scientific estate'

(Galbraith 1974 [1967]: 283–296) could have an influence on the shape of politics to come.

Meade was both an economic theoretician and a social philosopher. He saw his work as being scrupulously compartmentalised, the positive analysis on the one side, the normative programmatics on the other. In practice the division is by no means so clear. It is all a question of bedrock values.

Meade wanted efficiency. Meade wanted freedom. The market 'combines efficiency with freedom' (IR, 13). Natural law picks out the market because strong *ought-to-be*s rubber-stamp the efficiency and the freedom. It is a one-horse race. Competitive pricing must and will win—so long as the bedrock values are those of the economic liberal. Meade argues as if supply and demand belong entirely to the realm of facts and not at all to that of judgements. Harry Johnson, referring specifically to the *Balance of Payments*, states that on every page the well-intentioned author showed himself to be profoundly deluded: 'It is a work of academic proselytism for the kind of national and international liberal economic order of which Professor Meade approves' (Johnson 1951: 812).

In his pure economics Meade seems to be treating the case for the free market as self-evident. Going beyond the free market, however, he does introduce other value judgements which suggest that the ideal will have to be a mix.

Thus Meade states explicitly that the free market will never be truly free 'unless the ugly face of capitalism is beautified' (IR, 17). Equality *and* liberty enjoy a 'high relative value … in the catalogue of social goods' (IR, 13). Competing end values draw the mixed economy to 'security and equity *as well as* to freedom and efficiency' (PPM, 38, emphasis added). There is a need for 'warm-hearted generosity' *as well as* for 'hard-headed design of incentives' (SWF, 86). In pure economics the bias must be towards the free market. In public policy it is all a question of getting the balance right.

Levelling up there are State education, the National Health Service and the social wage. Levelling down there are the progressive taxation of income and wealth and the targeted redistribution of economic power. In instances such as these there will be a clear and inevitable clash between intervention and laissez-faire: 'It is impossible in fact always to make the best of both worlds' (IR, 16). The nation does as well as it can. It may be second-best but at least it is more principled than muddling through.

12.2 Public Opinion

Agathotopia is a sensible mix situated somewhere on the middle ground. It is theory translated into practice, words substantiated into deeds. It is mind before matter. The blueprint comes first.

Marx as a historical determinist argued that economic evolution is the secret cause of ideologies and perceptions: 'New superior relations of production never replace older ones before the material conditions for their existence have matured' (Marx 1971 [1859]: 21). The philosopher arrives post festum. Meade, a lapsed classicist and a university teacher, saw things differently. The vision precedes the outcome. Most people most of the time think before they act.

Ideas have consequences. Social ideas have social consequences. Meade as a democrat consistently relies upon the will of the people to validate any changes in the going concern. For any new departures to be legitimate, there has to be 'some measure of consensus of opinion as to their desirability' (IR, 16). The 'mass of the electorate' in the system of universal suffrage is alone in a position to decide 'whether it wishes the form of control to be modified' (IR, 17). Without the stamp of approval of the sovereign vox populi, the rules cannot be changed.

The 'widespread political consensus' (CP I, 404) is the sole source of collective legitimation. The philosopher-rulers have no mandate, no power to command, that is not handed down to them by the social will. This does not mean that *cacotopia* has the last word or that the intellectual community must lie where it falls. What it does mean is that the only way for the philosopher-rulers to bring about an essential change in wage-setting or the distribution of wealth must be for them first to reshape the general will in their own preferred image.

The philosopher-rulers must lay 'the ideological foundation on which a new political consensus might be built' (LEE, 16). They must use 'reasonable arguments to persuade reasonable citizens to accept reasonable policies' (IR, 17). They must rely upon 'persistent education and persuasion' in order to trigger 'a widespread change of public opinion' (IR, 17). Titmuss, Townsend and Abel-Smith—'that remarkable triad of Professors' (CP II, 317)—put the problem of invisible poverty back into the public arena. They raised public awareness through their research. Reasonable citizens came to see the need for a better-funded welfare State.

The Good Society will not be the free gift of evolution. Evolution does not debate. Given enough time, Marx's communism will either elect itself or it will wither away. Nor will the Good Society be the creature of a people's revolution. Revolution is not British. It is not something we do around here. It is not, as the first Hugh insisted, in our unique national character: 'We prefer throwing cricket balls to throwing bombs, and kicking footballs to kicking political opponents' (Dalton 1935: 5).

It is not evolution and it is not revolution. Instead, it is jaw-jaw: 'You preach, educate, persuade Mr. Smith to change his tastes' (letter from Meade to Donald McDougall dated 5 January 1979, MP 4/30). In the end Mr. Smith will see the logic. In a lecture in welfareist Sweden, Meade pointed to the future-that-works that in Stockholm he saw all around him. No one who had visited Sweden could say, 'It can't be done' (LEE, 21). Not evolution, not revolution, public opinion in Sweden had swung towards the idea of the vibrant middle. Ideas have consequences. Intellectuals have consequences too.

Sometimes the status quo is stronger than a well-argued case for the mixed economy in general, Meade's own suggested mix in particular. Writing one year after Labour's great victory in 1945, Meade was uncharacteristically discouraged about the future of rigorous competition well mixed with socialised monopoly: 'This philosophy has not yet, I fear, made great headway' (CP IV, 235). Usually he was more optimistic about the democratic mix. Reverses like Thatcherism or Populism were the exceptions. New ideas, convincingly presented, would normally carry public opinion along with them.

Successful or not, there was no alternative but to try: 'In the sort of decent, free, democratic society in which—thank goodness—we are still privileged to live, what is politically impossible today can be made politically possible tomorrow only by developing a general understanding of the problem and building up a general consensus in favour of the needed changes' (CP I, 374). There is no possibility of bringing about any significant reforms 'in the absence of a political consensus as to their desirability' (FER, 4). If a general understanding is to make its way down to the base then there is no option for the moderate Menshevik but to preach, educate and persuade.

12.3 Preacher and Persuader

Robert Solow praises Meade for his ability to get his point across: 'James Meade has that simple translucent clarity of mind that one is taught to think of as characteristically English; but it is rare in England and rare everywhere' (Solow 1987: 986). The translucent clarity only extends so far. Solow himself admits that Meade is not one to waste words: 'With Meade it is never the medium that is the message. It is the message that is the message' (Solow 1987: 988). Indeed it is, but still the message is an academic's message. Harrod, refereeing *Consumers' Credits* for the Clarendon Press, complained that it was not 'intelligible' beyond the Quad: 'The tract is clearly intended to have a popular appeal, but "the people" might find the banking arrangements impossible to follow' (MP 17/3). Keynes in the war had asked Meade to make his drafts shorter and clearer in order to reach a wider readership. It is a matter of debate how far Meade actually took his advice.

Meade saw himself both as an economic theorist who wanted to prove and explain and as a social philosopher who sought to prescribe and convince. He was awarded the Nobel Prize for his economics. No one would say that it was other than well deserved. Whether he would also have deserved a Nobel Prize for his gentle but well-informed guidance is another matter.

Meade, author of the challenging *Balance of Payments*, knew that he would have to reach a wider audience if he wanted to convert a critical mass to his cause. There were the non-technical expositions in the *Three Banks Review* and *Lloyds Bank Review* that sought to reach a general business readership. There were the articles, interviews and letters to the editor in the quality press. There were the occasional papers for the David Hume Institute and the Institute of Economic Affairs. There were the talks on the Third Programme.

There was also *The Intelligent Radical's Guide*. Meade regarded it as a road map to the middle ground. He said that he had deliberately adopted 'the tone of a political pamphlet' (JE, 10). A Nobel Prize winner's idea of a translucent popularisation is not the same as that of the ordinary traveller on the Clapham Omnibus. Meade never published in the mass-circulation media. It is not the ordinary working man but the university-educated elite that reads *The Sunday Times*. Union members had no easy way in to his reservations about collective bullying and cost-push stagflation. If they thought of him as a right-winger and a class enemy, it was at least in part because he saw no need to present his arguments in a clear and cogent manner that they could comfortably access.

Even the specialist reader has been known to have difficulty with the elliptical literary style of an author who expects others to match him in intelligence and background: 'As a result, students find it incredibly tedious to read his books and difficult to convince themselves that the effort is worth while in terms of knowledge gained' (Johnson 1978: 65). The language can be oblique and the symbols obscure. Reflecting classroom practice, Meade is fond of terminating an argument with a question mark. It can be frustrating to a reader who has a daytime job.

Meade's pure economics is often the restatement of a mathematical proof that had been developed on highly restrictive assumptions. Laymen and businessmen find it difficult to follow his chain of reasoning. Mathematical sophisticates raise objections of their own. Working their way through the *Geometry of International Trade* or the technical appendices they have been known to observe that the well-intentioned autodidact had a unique capacity to make simple propositions into a maze.

Boulding felt that the Meade's work, overburdened with multiple objectives, had drifted into a realm of 'unreality' that partially defeated its own purpose: 'The great simplifications of economics … somehow get buried underneath the clutter of marginal productivities and elasticities of substitution' (Boulding 1969: 1162). It was in danger of becoming *Hamlet* without Hamlet, economics without economics because formal proofs had captured a polymath's imagination. Even a sympathetic reader like Sir John Hicks reported that the later sections of the *Balance of Payments* were 'very interesting' but that they were preceded by a 'barricade' of exegesis that was 'not very exciting'. Hicks told Meade that he would have preferred 'to read your book backwards' (letter to Meade from J.R. Hicks dated 3 February 1953, MP 4/1). Meade, he was hinting, should have made more of an effort to get his meaning across.

Meade may sometimes have misjudged the readership that he was hoping to reach. One reason is that, polite and self-effacing, his 'reticence in drawing attention to the originality of his own work' (Mundell 1968: 113n) meant that he was not a natural salesman who knew how to market his product. Mundell, referring specifically to the international economics, says that the 'real significance' and the 'originality' of Meade's scholarship were obscured by the 'lucid, but unexciting prose', 'forbidding notation' and 'tough geometry' (Mundell 1968: 113n). Meade's literary style was unlikely to spread his message to the wider audience that he was hoping to reach. In fairness to him, he may not have known.

Harry Johnson objects that, for a man who wanted to contribute to public policy, his *Balance of Payments* never provides anything approaching a usable handbook. Meade constructs a comparative statics model of two countries exchanging one tradable commodity for another in conditions of perfect competition. Clever as this may be, Johnson writes, it 'corresponds to no practical problem in international economics whatsoever' (Johnson 1951: 827).

After that, 'taxonomic in the extreme' (Johnson 1951: 812), Meade enumerates a range of alternative cases which simply tick off the possibilities. It turns out that there are 28,781,143,349 potential combinations of policy tools and policy ends in his book: 'Theory needs to be more concretely related to specific policy problems than is possible via a general model developed to allow consideration of a great range of possible cases' (Johnson 1978: 69). Johnson points out that five policy combinations are expanded to 25 and then reduced to 24. After that they are made subject to seven spontaneous disturbances (BOP, 108). It is long-winded, turgid and verbose. It is second-best. In the end the reader is not certain what he has learned.

Meade likes to lay out the alternative scenarios. Seven years in Whitehall drafting briefs for permanent secretaries and cabinet ministers had trained him to be pedantic in the numbering of his sub-options but also ambiguous in his choice of the path. The neoclassical rhetoric of Marshall and the textbooks is itself not free from the convenient fudge. Meade's

'Assume', 'We assume', 'We assume further', 'I shall imagine', 'We shall write', 'Consider' and 'Suppose' are a warning that a sequence of pure deductions is on its way. The logic is only intermittently supported by real-world experience. It would have been more like science if the reader had been exposed more fully to both pillars of the arch.

The lack of statistical data undermines the reader's trust in the vital last link. Meade, speaking of price elasticity, matches Marshall's ubiquitous 'perhaps' in his loose 'is likely to be' (BOP, 75) and his casual 'the presumption is' (BOP, 323). They sound suspiciously like his own opinion. Both as a scientist and a persuader Meade would have done well to have supplemented his slimmed-down reasoning with additional facts. His work on Mauritius, Benelux and the reform of direct taxation lifts the curtain on what is missing from the big books that are the trunk. Given the high level of abstraction, they could just as easily be set on the moon.

The lack of facts is compounded by the lack of sources. Meade only occasionally enters into an ongoing debate with his contemporaries or his forbears. Independent and self-contained, he does not see the need to cite the authors who had lit up his journey. His publishers did not press him for a full bibliography. Meade published his major conclusions in 'large tomes' and 'monumental treatises' rather than as journal articles for which the 'meticulous recognition and attribution of the scholarly products of others' (Johnson 1978: 65, 66) would have been indispensable.

It is a polite way of saying that Meade only occasionally includes a bibliography or flags up what is new. Without full references, it is impossible to know what, if anything, he has been reading or what he regards as his personal breakthrough. Disarmingly, he says, and says repeatedly, that he is not always certain on whose shoulders he has been standing. In *The Rate of Interest* there is the admission that 'I always find it impossible to remember where I first came across any particular idea' (RIPS, viii). In the *Introduction to Economic Analysis,* he states: 'Nearly every economic author, whom I have read, has directly or indirectly affected this book' (EAP, v). In the *Balance of Payments* he says: 'My mind often absorbs an idea without remembering the source from which the idea came' (BOP, ix).

It is true, but it also makes it difficult to situate him in an ongoing body of literature. Meade, Partha Dasgupta has said, was 'not a well-read man' and 'not a scholar'. He is unlikely to have read Walras and perhaps not even Ricardo. His books, ferried after his death to the Marshall Library, fitted comfortably into the boot of his daughter's small car. Not a bookworm, not fascinated by the classics, Meade, Dasgupta says, was essentially 'a very good economist' who simply wanted to 'hit the problem running' (personal communication). One reason for the sheer volume of his work may have been that he found it easier to think things out than to look things up. He would have had a higher public profile if he had allowed himself to be drawn into intellectual fashions or pigeonholed into a school.

Meade was an economist whose theories were universal and general. Yet he was also very English, both in the economic policies which he chose to address and in the history-bound culture which shaped his response. Some of the issues were as non-national as growth, the money supply and the rate of exchange. Others, such as union aggressiveness, inherited status and the welfare State, would have evoked an especial resonance in the Britain of Meade's own times. Industrial relations and social attitudes were different in Germany, Japan or the United States. Meade, who wrote so much about the harmonisation of policy in the IMF or the EU, always stressed that each country is unique. No one size fits all.

It is a serious flaw. OUP New York rejected Meade's *Planning and the Price Mechanism* ('an excellent little book') because it is set 'against the background of British economic experience'. Payot Paris rejected it because 'cette étude du professeur Meade est écrite spécialement pour le public anglais' (cited in letters to Meade from C. Furth dated 25 and 31 May 1948, MP 17/3). Meade, when he was addressing practical issues, was a problem-solver. The problems were most of all here. They were less frequently there.

Other countries had other priorities. So, however, did Britain, when time as well as place moved Meade's own laboratory on from the 1930s to 1980s. Britain was not precisely what it was. The context had changed. Economic theory has a respectable shelf life. Applied economics, however, dwells in the whirlwind. Economic policy comes and goes.

For all that, Meade was and is recognisably a British author. His thinking reflects the public service ethic, the tradition of fair play and the democratic aspirations of the vanguard nation which, in his perspective, had, more than any other, taught the rest of the world its ethics: 'The United Kingdom, I am quite convinced, has an absolutely unique opportunity of taking the moral lead' (Meade, in Howson and Moggridge 1990: 131).

The middle ground is the English way. No country has actually made a success of it but still it may be 'the genius of this country' (PPM, 1) to blaze the trail. The Russians have Marxism and the Americans have free enterprise. The English have tolerance and compromise, courtesy and community, gradualism and the stiff upper lip: 'The intelligent radical keeps his head' (IR, 16). There is nothing like the shadow of cricket, the Good Samaritan and *noblesse oblige* to prime the pump.

The very description of incomes policy as a 'gigantic gentleman's agreement on a national scale' (PPM, 1) seems to be an appeal to Locke to validate the *economic* social compact. It is an English summer's day and perhaps even a national myth; but it is a national myth with which Meade's thinking is imbued. It was 'Jerusalem' and not 'The Red Flag' that was sung at his Memorial Service. Liberal socialism, he once wrote to Gunnar Myrdal, is the ultimate export that reflects the true comparative advantage: 'Personally I am most anxious to see the countries of Europe under the leadership of this country adopt policies of this kind' (letter from Meade to G. Myrdal dated 23 April 1948, MP 17/3). He had clearly underestimated what Myrdal's own Sweden was capable of doing.

England is the custodian of a mission civilisatrice that is 'wholly in accord with its ancient role as leader in the development of political, social and economic ideas and institutions' (PPM, 10). Belgians, Czechs and other foreigners who visited Meade in the Economic Section revealed a 'profound love of all that is English' and a strong desire to take its message home: 'Here … is the easiest seed-bed in the world for our ideas on liberal-socialism' (CP IV, 228).

Meade was a patriot who took pride in his roots. *Metropolis* as well as *cosmopolis*, it was a mix that was by no means unique. Durbin preferred to take his holidays in Britain. Tawney addressed himself to his 'fellow-Englishmen' rather than to his 'fellow human-beings'. Gaitskell 'invariably placed his own socialist ideas and his visions of the future in a purely English setting …. He had reasoned himself into international socialism, but his vision of the future was one of England's Jerusalem' (Postan 1964: 62). Meade too situated himself in a specific, named pond. Economics may be *cosmopolis* but home is time and place.

Meade is both a world citizen and the creature of time and place. One consequence of the duality and the mix is that his economics inevitably commanded a more international readership than did his political economy.

Meade is not a natural mid-Atlantic. His books were published by good British names like Allen and Unwin. His articles were seldom submitted to American economics journals. Meade held visiting professorships at Chicago, Indiana and Harvard. He had been to Washington frequently for the Economic Section. His wife and children were evacuated to America for two years after 1939. In spite of that, he was never by temperament an American. It might have been different if the war had not prevented him from taking up a Rockefeller Fellowship in 1939.

As it was, his longest sabbatical abroad was the period of six months in 1956 that he spent at the Australian National University. Meade's exposure to American economics and economists was limited. His brand of step-by-step adjustment did not appeal to hard-line monetarists. They were confused by his interdisciplinary integration of economics with politics and social policy. The British union movement, like civil rights in America, was a topic that did not travel well. Had he have been more American in his outlook and his examples, he might have won more acolytes among the American social democrats who flocked in the 1960s and 1970s to J.K. Galbraith, Michael Harrington and Robert Heilbroner.

Even at home, Meade had admiring students but fewer actual disciples. He had some: apart from his close collaborators David Vines and Martin Weale, there were Anthony Atkinson, John Fleming, John Kay and Mervyn King, who, as Governor of the Bank of England from 2003 to 2013, was ideally placed to convert monetary theory into central banking. Even so, as his students and friends advance into history, the fact is that there are more stand-out Keynesians than card-carrying Meadeans in the marketplace for ideas.

One reason is that the middle ground is not an either/or. Marx's revolution is as apocalyptic as an earthquake. Meade reappraisal is built on marginalism and consensus. If there are fewer Meadeans than Keynesians, one reason is that Meade was very frequently formulating with academic rigour what many of his contemporaries were already taking to be true. Meade once described himself as 'one of those very rare birds who believe both in planning and in the pricing system' (letter from Meade to S. Unwin dated 18 December 1947, MP 17/3). As the old polarities were increasingly blended into a compromise consensus that bridged the ideologies, Meade was in the unusual position of being at once a luxury who said what most people knew and a necessity who provided the intellectual muscle. Be that as it may, the birds who thought as he did were by no means as rare as they had been in the past.

There is another reason for the weakness of the lineage. Not only was Meade both a scientist and a philosopher, the sheer breadth of his interests, the ease with which he mastered new knowledge and the intensity of his cast-iron work ethic meant that he was able to contribute in a number of areas. He wrote quickly in one area that interested him and then moved on just as quickly to another. There were too many avenues. Had he chosen to specialise in a narrow field like trade or macroeconomics, there might have been a second and a third generation explicitly in the business of perpetuating his tradition. A mixed bundle is more difficult to perpetuate.

There is, of course, another window on his breadth. Those around him were 'strongly influenced'—the phrase is from Martin Weale (personal communication)—by his ability to link up the disparate strands. His students must have absorbed from him the message that economics is society and politics too. It is not a lineage but still is small changes. Ripples count.

Even those who might have handed down his economics could hardly be expected to hand on his ethics as well. Meade wanted 'to maintain the maximum amount of individual liberty of action, that is compatible with a reasonably just and efficient economic system' (CP II, 10). Meade stood for liberty, efficiency and justice. Meade was in favour of 'a decent, equitable community of citizens' (FER, 4). It was purpose and not just science that linked together the disparate strands of his holistic world-view. Disciples are not easy to find who will perpetuate a *Weltanschauung*, a Gospel that has a specific message to convey. The result, as Dasgupta puts it, is that Meade in a greatly altered university environment is 'not widely read': 'We admire him but we never read him' (personal communication).

Economists believe in economising. The children of the mathematical Tripos tend to concentrate on the narrowly economic objectives of growth and allocation. The GDP to them tends to be legitimated by consumption as the index of welfare. Meade wanted something more. He was concerned that freedom was increasingly degenerating into the 'freedom of the individual citizen to make the best killing that he or she can make with the devil taking the unsuccessful' (FER, 4). It was narrow and materialistic. As society was maturing into its post-Keynesian potential, so freedom should not stop short at the lower utilities of selfish individualism. It should increasingly extend to the freedom of the neglected to enjoy the equality and the equity that would make them full citizens of a caring community.

More than growth and allocation, Meade said, the 'basic economic problem of the future' (FER, 8) will be the distribution of the national product. *Who gets what* is back on the agenda. It is a mix of objectives as well as of policy tools. Meade's unique contribution is his cross-disciplinary middle way of liberty, efficiency and social justice. His mix was his mission. Like Smith and Marshall, Meade was an instinctive humanitarian. He did his best to do good.

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