

James Meade

1907-1995

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James Meade, one of the great economists of this century, died on 22 December 1995.

Meade was born in 1907 in Bath and had a classical education at Malvern and Oxford. But after two years of Latin and Greek at Oriel College, he moved over to the newly established honours school of Modern Greats - Philosophy, Politics and Economics. Immediately upon graduation in 1930, he was elected to a fellowship at Hertford College which he held until 1937. But a chance acquaintance with D.H. Robertson yielded an invitation to spend the academic year 1930/31 as his student at Trinity College, Cambridge. It became "the intellectually most exciting year" of his life (Meade 1977 in Howson 1988-90). He made friends with Richard Kahn, and with him, Sraffa and Joan and Austin Robinson, became a member of the "Circus" which discussed Keynes's *Treatise on Money*, and stimulated its translation into the *General Theory*. "Keynes appeared at the week-ends when Richard Kahn reported to him our discussions of the week and when we met on Monday evenings at the Political Economy Club in Keynes's rooms in King's College" (*ibid.*)

For the next five years he taught economics at Oxford. I mentioned in my memoirs that I attended his lectures and that "the lucid simplicity with which he spoke rendered quite unnecessary his timid question, every two or three minutes, whether we were able to follow him" (Arndt 1985). He also published his first book, *An Introduction to Economic Analysis and Policy* which helped us understand the new ideas of Keynes and Joan Robinson.

Through his wife Margaret who had been secretary to the Australian-born scholar Gilbert Murray in Geneva, he met the director of the Economic Section of the League of Nations, Alexander Loveday, who appointed him editor of the League's *World Economic Survey*. Meade produced two surveys, for 1937/8 and 1938/9, which surpassed in analytical quality anything that had been written on the inter-war world economy.

In 1940, escaping with his family from the German army advancing through France, he returned to England and joined the Economic Section of the War Cabinet Secretariat led by Lionel Robbins. He remained a member until 1947, becoming Director in 1946. Through the war years the Section, in close Cooperation with Keynes at the Treasury, was influential on all aspects of the war economy. Meade, in collaboration with Richard Stone, prepared the first estimates of UK national income and expenditure, the first true double-entry social accounts for any country; he played an important role in the preparation of the White Paper on *Employment Policy*; and he took an active part in the Anglo-American negotiations which led to the post-war international economic and financial settlement, the IMF and World Bank and the GATT. The Robbins and Meade diaries which were later published give a vivid account of their experiences (Howson-Moggridge 1990). It was in his capacity as Director of the Economic Section that Meade initiated the staff exchange with the Australian Prime Minister's Department which took Trevor Swan to London, David Butt to Canberra and again Peter Lawler to London.

Throughout his long professional career, Meade never lost his passionate interest in the issues that had occupied the Cambridge "Circus" - full employment and social welfare and the policies that would promote these objectives. The titles of two of his many books, *Planning and the Price Mechanism: The Liberal Socialist Position* (1948) and *The Intelligent Radical's Guide to Economic Policy: The Mixed Economy* (1975), encapsulate his viewpoint. He was a social-democrat, in general sympathy with the Labour Party's ends but emphatic on the importance of prices and markets, as opposed to quantitative planning as the means. In books, such as his *Efficiency, Equality and the Ownership of Property* (1964), he advocated redistributive fiscal and welfare policies.

Just before his death, aged 87, he published another little book, *Full Employment Regained?* (1995a) - "probably my Swan Song as a working economist" (Meade 1995b). Among the recommendations for what he called "a rather startlingly radical reform of our present economic and financial procedures" were a new bargain between capital and labour in which newly hired workers would receive a comparatively low wage but top-up income from dividends on share certificates and a medium-term fiscal policy aimed at budget surpluses to be invested in a national stock of shares and public assets - the very reverse of the current mode of privatisation.

All these contributions to domestic macroeconomics and political economy alone would put Meade in the first rank of economists. But he received his Nobel prize, jointly with Bertil Ohlin, for his "pathbreaking contribution to the theory of trade and international capital movements". It is for his original work in international economics that Meade is best known, especially in Australia.

Having been appointed Professor of Commerce at the London School of Economics in 1947, with the primary task of teaching international economics, Meade wrote his two most famous books, *The Balance of Payments* (1951) and *Trade and Welfare* (1955), as contributions to the theory of international economic policy. "The former examined the international relations between a number of national economies constructed on the Keynesian model; the latter applied the theory of economic welfare to international transactions" (Meade 1977, p. 3). Among his Australian students were Kelvin Lancaster (Distinguished Fellow of the American Economic Association 1994) and Max Corden (Distinguished Fellow of the Australian Economic Society 1995).

In 1956, Coombs and Swan persuaded Meade to spend six months in Australia at the invitation of the Commonwealth Bank but attached to Swan's department at the ANU in Canberra. He took a keen interest in the problems of the Australian economy and published two articles in the *Economic Record*, one on "The Price Mechanism and the Balance of Payments", the other (jointly with Eric Russell) on "Wage Rates, the Cost of Living and the Balance of Payments". (The latter arose from Australia's 1951/2 wool boom. It showed that, given wage indexation, an improvement in a country's terms of trade through rising export prices could end up worsening its balance of payments (cf. Harcourt 1982).)

Both of Meade's articles were applications to the Australian situation of the central theme of his theory of economic policy, that two objectives, internal and external balance, require two policy instruments, demand management and the real exchange rate. Meade's approach was taken up by Swan, Corden, Salter and other Australian economists, while Meade in turn was during his stay in Canberra converted to what later came to be called the "Australian" theory of the exchange rate, epitomised in the Swan diagram (Cf. Arndt 1976).

The crucial innovation was a shift from the classical two-sector model (exports and imports, or foreign and home goods) to a three-sector model - tradables (exports and imports) and non-tradables. The latter model is sometimes called the "small-country" case because for the small country, like Australia, which cannot significantly influence the world prices of its tradables, the exchange rate can affect the balance of trade only by changing the tradables/non-

tradables price ratio. But even for the large country, such as the UK, which can offer its exports more cheaply in foreign currency, and thereby hope to improve its balance of trade by worsening its terms of trade (the mechanism underlying the Marshall-Lerner rule), the tradables/non-tradables price ratio is fundamental. In Canberra, Meade came to accept this completely. In his Nobel lecture Meade mentioned that he had referred to the distinction between tradables and non-tradables in *The Balance of Payments* but "looking back I regret that I did not let it play a much more central role in that book" (Meade 1977 in Howson 1988-90, Vol. 1, p. 349).

Meade's visit to Canberra, his fine mind, his charm and modesty, gave great pleasure to many Australians, and not only to economists. He in turn, in a letter written just a few months before his death, said: "My term at Canberra is one of my happiest memories" (Meade 1995b).

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