

# Citizen's Income *newsletter*

## James Meade commemorative edition

December 2005

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### On Citizen's Income and related topics

#### A compilation of writings by James Meade

(23<sup>rd</sup> June 1907 to 22<sup>nd</sup> December 1995)

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It is ten years since the death of the Nobel Laureate<sup>1</sup> James Meade, undoubtedly one of the twentieth century's most distinguished supporters of a Citizen's Income. Many of the issues which he tackled during his lifetime remain issues today, and his voice deserves to be heard more than ever.

This brief compilation, published on the occasion of the centenary of his death, will be of interest to all those interested in seeking solutions to some of the perennial issues facing economics and social policy, and particularly the issues of income maintenance, equality, and labour market efficiency.

James Meade was one of the circle of young economists surrounding John Maynard Keynes during the 1930s. In 1937 he became editor of the *World Economic Survey* of the League of Nations; during the Second World War he joined the Economic Section of the Cabinet Office and became its Director at the age of 39; he was responsible for the 1944 White Paper on Employment Policy and the GATT negotiations; in 1947 he returned to academic life, first at the London School of Economics and then as Professor of Political Economy at Cambridge from 1957 to 1967. In retirement he chaired the Meade Committee on the structure of direct taxation.

For 60 years, from the early 1930s to his death in 1995, James Meade studied the economy: the whole of the economy. He studied production, distribution, money, tax and benefits, the welfare state, and the economy's international dimensions; his interests spanned economics, history, social policy and politics; and although his thought developed in line with a changing political consensus, he consistently pursued themes established early on in his career: the need to stimulate

demand in the economy in order to reduce unemployment; administrative and economic efficiency; the market as the efficient way to produce and distribute goods and services; the reduction of economic inequality; and (particularly latterly) the importance of individual freedom.

Whether our interest is the development of his thought or the substantial consistencies across 60 years, we shall find the 'social dividend' idea occurring over and over again, and occurring in relation to every one of Meade's major interests.

In 1935, Meade wrote a paper for the Labour Party, *Outline of Economic Policy for a Labour Government*. In it he outlined four elements of the economic policy which he believed a future Labour government should pursue: 1, the abolition of unemployment; 2, a tariff policy to promote the abolition of unemployment; 3, the socialisation (nationalisation) of certain industries; and 4, an 'increase [in] the equality of distribution of the national income.'<sup>2</sup> State-owned enterprise would, he believed, generate profits, and the government would,

by paying a smaller or larger part of this sum as a social dividend to the members of the community, be able to control the amount of the national income spent on consumption and the amount allocated to capital development. When even at very low interest rates very little development is profitable, a large proportion can be paid out as a social dividend; whereas if new and profitable fields of development appear a much larger part can be apportioned to the capital budget for this capital development.<sup>3</sup>

Thus right from the beginning Meade envisaged a 'social dividend' being precisely that: a distribution of corporate profits; but in his 1936 book, *An Introduction to Economic Analysis and Policy*, he suggested that a social dividend could be funded either by the profits of publicly-owned corporations or by income tax.<sup>4</sup>

One of Meade's abiding concerns was the efficiency of a system, and the economic efficiency of an equal social dividend for every citizen made the concept particularly attractive. In a review of Abba P. Lerner's *The Economics of Control*,<sup>5</sup> Meade wrote:

**A Citizen's Income is an unconditional, non-withdrawable income payable to each individual as a right of citizenship**

Mr. Lerner argues ... that the total satisfaction achieved from any given income will be maximised if that income is so divided among individuals that its marginal utility is the same for everyone; but he adds an interesting and elegant proof of the proposition that (on the assumption that the marginal utility of income declines in the case of each individual) the maximisation of probable total satisfaction is attained by an equal division of income, even though we cannot directly compare the satisfactions of different individuals.<sup>6</sup>

But however important such efficiency might be, the maintenance of demand in the cause of reducing unemployment is a social dividend's major attraction.<sup>7</sup>

In 1948 we find Meade's concerns for a free society, a free market, administrative efficiency, the maintenance of demand, the reduction of unemployment and a more equal division of income and property - all in a single book, *Planning and the Price Mechanism*, the thesis of which is

that a large measure of state foresight and intervention is required to guide the economy from war to peace, to prevent inflationary and deflationary pressures, to ensure a tolerably equitable distribution of income and property, and to prevent or to control the anti-social rigging of the market by private interests, but that these objectives can be achieved in an efficient and a free society only if an extensive use is made of the mechanisms of competition, free enterprise and free market determination of prices and output.<sup>8</sup>

It is surely no accident that, in the context of this combination of all of Meade's interests, we find a sustained discussion of a social dividend: in this case of a scheme published by Lady Rhys Williams.<sup>9</sup> Meade wrote of the scheme:

It is suggested that a straightforward monetary payment or allowance or 'social dividend' should be paid to every man, woman and child in the country - although the rate of payment might, of course, be lower for children than for adults. This would take the place of all social security benefits, such as unemployment benefit, old-age pensions, health benefits, children's allowances. Every man, woman and child would thus have his or her basic minimum whether in sickness or in health, in work or out of work, young or old. There need

be no means test and no tests whether a man was seeking work or whether a man was genuinely ill. Doctors could stop writing out health certificates and get on with their job of curing their patients. Employment exchanges would stop fussing about unemployment insurance and get on with their job of introducing employers with vacancies to workers without jobs. The Ministry of National Insurance could be closed down.

These universal personal allowances would also take the place of the whole apparatus of allowances under the income tax. All income (other than the 'personal allowances' which would be tax-free) would be taxed at a standard rate of tax. The whole apparatus of Pay-as-You-Earn would disappear; and the only task of the Inland Revenue in this field would be to ensure that all income was taxed at the standard rate of tax. All personal assessments would cease for income tax purposes.<sup>10</sup>

Meade saw that the scheme would offer administrative simplicity, greater personal freedom, and more equal incomes, and that it would 'afford a perfect instrument for the most effective and prompt control over total national expenditure in the interests of avoiding inflation and deflation.'<sup>11</sup>

Meade was, of course, aware of a social dividend's problems. An unconditional payment might reduce the incentive to work - but the in-work or seeking-work condition which Lady Rhys-Williams' scheme contained would reintroduce an unwanted complexity.<sup>12 13</sup>

In spite of the possible difficulties, Meade's conclusion was that a Rhys Williams social dividend scheme

has the greatest attraction from the point of view of social security, equity, personal freedom, administrative simplicity and the provision of a means of exercising a prompt and effective control over purchasing power as a measure against inflation and deflation ... Could the scheme with modifications be made workable? Certainly it deserves the most careful and serious examination.<sup>14</sup>

Meade's later works offer little new on the social dividend except by way of emphasis.<sup>15</sup> *The Controlled Economy*, published in 1971, returned to a social dividend's demand-generating function, and added that 'there would be no insuperable administrative difficulty in reducing the payments in times of

unexpected inflationary pressures and increasing them in times of unexpected deflationary pressures.’<sup>16</sup> In 1975 Meade returned to the problem of funding a social dividend. Without telling us where the figure comes from, he suggested that a 50% income tax rate would be needed for a social dividend at Supplementary Benefit (now Income Support) levels and, believing that this would be a disincentive if imposed across a broad wages spectrum, suggested a 75% rate on the first slice of earned income, which would allow a rate below 50% on the rest.<sup>17</sup> Again, the administrative simplicity of a social dividend is stressed (and particularly the simplifying effect of an individual-based rather than a household-based system); and again we find a social dividend proposed because it would enable market-mechanisms to work more freely.<sup>18 19</sup>

Meade's somewhat Keynesian programme had had some influence on post-war economic policy in this country; but he rightly recognised that by the late 1970s a great deal had changed. No longer did investment mean more jobs (indeed, it could mean fewer jobs); no longer could Government fix prices and wages (except in utilities over which they had some control); and no longer would increased spending power automatically translate into demand for *this* country's goods. Meade recognised that now ‘much more attention must be paid to measures other than price and wage setting in order to achieve a fair and acceptable distribution of income and property.’<sup>20</sup> Again, a social dividend is his instrument of choice.

Meade's *Agathotopia*, published in 1989, is, according to Walter van Trier, an ‘intellectual testimony’ which ‘presents the results of a long intellectual career dedicated to the search for an institutional framework congenial to his view of a good economic life - a view resting on a deeply rooted life-long moral conviction based on the equal importance of liberty, equality and efficiency.’<sup>21</sup> In *Agathotopia*, Meade foresees a time when each of us will receive income from a variety of sources: labour shares (issued to workers and producing dividends reflecting the firm's profits); capital shares; wages; and a social dividend - the social dividend being particularly important as a stable element making it less of a problem when the other income elements fluctuate.<sup>22</sup> The aim of the social dividend is ‘the promotion of equality, the alleviation of risk-bearing, the improvement of incentives for low earners, and the simplification of the welfare state.’<sup>23</sup>

In *Agathotopia*, Meade offers a detailed description of how a transition to a social dividend might be possible,

<sup>24</sup> and again suggests a ‘surcharge’ on the first slice of earned income in order to make the scheme affordable.

<sup>25</sup> His conclusion is that

the higher the social dividend and the higher the general rate of tax imposed to finance it, the greater will be the beneficial effects on the equalisation of adjusted incomes and on the mitigation of risk-bearing. But both the rise in the social dividend (which enables people to enjoy a given income without earning so much) and the higher marginal rate of tax (which reduces the net return on any additional earnings) will tend to reduce economic incentives for work and enterprise. In the choice of policies these results must be weighed against each other.<sup>26</sup>

But however much Meade grapples with the problems posed by the attempt to fund a social dividend out of tax revenue, he has not given up hope of a social dividend being what it says it is: a distribution of profits produced by the national asset (which he hopes might one day replace the national debt), an asset made up of shares owned by the State and possibly whole companies owned by the State but not managed by it. An excellent summary of this position can be found in an article published in *Samizdat* and then in the *BIRG Bulletin*:

If the merits of a competitive system are to be preserved, and at the same time excessive inequalities are to be avoided, we need to consider radical ways in which part of the high returns on capital can be used to supplement the earned incomes of the representative worker ...

A familiar suggestion is to institute a progressive structure of taxation which falls on the rich, the revenue from which can be used to finance adequate social benefits for the relief of poverty and for the raising of standards at the lower end of the income scale. This raises a serious danger of introducing disincentives into the productive system. If the social benefits are confined strictly to the support of those in poverty, the system will inevitably lead to serious disincentives in the form of the well-known poverty trap, since any additional earnings will be offset by withdrawal of social benefits as the recipients work themselves out of poverty.

On the other hand, if the benefits are not confined to citizens who are in need, but are

paid on an adequate scale in the form of a Basic Income or Social Dividend to every citizen, the marginal rates of tax on private incomes needed for their finance would become intolerably high - perhaps implying a rise from 25% to 80% in the basic rate of income tax. The disincentive effects at the upper end of the scale become intolerable.

There is one possible radical change in our present economic system which would resolve this dilemma: a structural reform which we should, in my opinion, be considering very seriously.

Imagine the following happy state of affairs. The state, instead of being burdened with a large national debt, has not only repaid the whole of that debt but has in addition accumulated an amount of public savings which enables it to own a substantial National Asset ....This would provide a very solid base for the introduction of a true Social Dividend.

[This scenario] presents a vision of a future society in which private competitive enterprise is the ruling mode of production, but in which the state receives a substantial share of the yield on the nation's real capital resources, thus enabling it to fulfil its proper social role without the immoderately high rates of taxation which would destroy private enterprise and initiatives.<sup>27</sup>

Again, there is nothing new on the social dividend in Meade's last publication, *Full Employment Regained?*, but it contains a most useful summary paragraph:

A main objective of a Citizen's Income is to provide a reliable income from some source other than earned income (thus making the rate of pay less important relative to other sources of income) and to do so in a way which makes the personal distribution of the total national income more egalitarian.<sup>28</sup>

This publication comes full circle, listing the social dividend as one of twenty-one control variables by which the economy might be managed.<sup>29</sup> All the old themes return: full employment; demand management; greater income equality; and a social dividend (now called a Citizen's Income).

But there are also some recent new emphases. Since his earliest publications Meade was interested in 'external relations': the effects of one nation's economy on another's. In his 1991 book *The Building*

*of a New Europe* he looked particularly at the new European context of our national economy<sup>30</sup> and solved the problems posed by a Citizen's Income in only one European country by proposing a Europe-wide Citizens Income:

A .... possibility is that the central Community authority should allow free national experimentation in these policies but should itself introduce and administer a positive form of egalitarian intervention of its own. For example, it might itself raise a general community levy or tax of some form and use the proceeds to pay a modest Basic Income to all the citizens of the member countries. The national governments could be left to top this up with their different national schemes. Movements of people and capital would ... put a brake on the most extreme egalitarian experiments; but the existence of the modest Community scheme would mean that the outcome of the competition between the national experiments would be less markedly inegalitarian than would otherwise have been the case. This solution would permit more national experimentation and would involve a less complicated central bureaucratic apparatus than ... solution through centrally administered full national harmonisation.<sup>31</sup>

So in this instance too there is continuity and development, the development being a response to changing times, the continuity being a reflection of Meade's continuing pursuit of both the free market and a more equal society in an international context.

Meade was a child of his time, and thus believed that the abolition of unemployment was the route to the abolition of both idleness and poverty, of both Idleness and Want.<sup>32</sup> By 1981 he had recognised that the technological revolution had created a new situation in which either wages and unemployment would rise together or wages would decline and inequality grow.<sup>33</sup> In fact, both of these things have happened in different sectors of the economy.

It is a pity that Meade's final book, *Full Employment Regained?* did not take sufficient account of the impact of technological change on the structure of the labour market. It might be that 'full employment' in the traditional sense is no longer an option - and, moreover, that it ought not to be an option. In *Agathotopia* we see Meade grappling with a new structure for the relationship between labour and capital - but he is still in the world of *today's* kind of

capital-intensive and labour-intensive large company, whereas the trajectory of technological change is towards increasing diversity of style, size and type of enterprise.

We cannot blame Meade for failing to tackle tomorrow's problems. We can only thank him for proposing a social dividend as a partial solution to the problems of the years from 1935 to 1995 - and ourselves continue to work on the concept in the knowledge that it might be even more relevant to the new situations in which we find ourselves at the beginning of a new millennium.

## Notes

- <sup>1</sup> James Meade won the Nobel Prize for Economics in 1977
- <sup>2</sup> James Meade, 'Outline of Economic Policy for a Labour Government', in Susan Howson (ed.), *The Collected Papers of James Meade* (Unwin Hyman, 1988), vol.1, Employment and Inflation, p.33
- <sup>3</sup> *Ibid.*, p.53
- <sup>4</sup> J.E. Meade, *An Introduction to Economic Analysis and Policy* (Oxford University Press, 1938 edition), pp. 212, 267 and 246. The first edition was published in 1936
- <sup>5</sup> Abba P. Lerner, *The Economics of Control: Principles of Welfare Economies* (MacMillan, 1944)
- <sup>6</sup> J.E. Meade, 'Mr. Lerner on "The Economics of Control"', *Economic Journal*, April 1945, p.48
- <sup>7</sup> *Ibid.*
- <sup>8</sup> J.E. Meade, *Planning and the Price Mechanism: The Liberal-Socialist Solution* (George Allen and Unwin, 1948), pp.v-vi
- <sup>9</sup> Lady Rhys Williams, *Something to Look Forward To: A Suggestion for a New Social Contract* (MacDonald, 1943): a suggestion for a social dividend conditional upon the recipient being employed, looking for work, or unable to work
- <sup>10</sup> J.E. Meade, *Planning and the Price Mechanism: The Liberal-Socialist Solution* (George Alien and Unwin, 1948), p.43
- <sup>11</sup> *Ibid.*, p.44
- <sup>12</sup> *Ibid.*, p.45
- <sup>13</sup> Meade was writing at a time when the low-paid paid no income tax - so a social dividend, by reducing tax allowances, would have brought much of the low-paid's income above the tax threshold for the first time and would thus have imposed a poverty trap. Now there are few employees who pay no income tax, so this objection no longer applies to the same extent.
- <sup>14</sup> J.E. Meade. *Planning and the Price Mechanism: The Liberal-Socialist Solution* (George Alien and Unwin, 1948), p. 46
- <sup>15</sup> Some publications, such as *Equality and the Ownership of Property* (George Allen and Unwin, 1964), are mainly reprints of previously published material.
- <sup>16</sup> J.E. Meade, *The Controlled Economy* (George Alien and Unwin, 1971), p.239

- <sup>17</sup> J.E. Meade, *The Intelligent Radical's Guide to Economic Policy: The Mixed Economy* (George Allen and Unwin, 1975), p.91
- <sup>18</sup> *Ibid.*, p.101
- <sup>19</sup> It was the administrative complexity of a Negative Income Tax which led Meade to reject it, even though it would have had many of the same effects as a social dividend (for instance, on the poverty and unemployment traps). See particularly his discussion comparing social dividend and negative income tax in *Poverty in the Welfare State* (Oxford Economic Papers, vol.24, no.3, Clarendon Press, 1972); and Hermione Parker's discussion of that paper in her *Instead of the Dole: An Enquiry into Integration of the Tax and Benefit System* (Routledge, 1989), p.149. Meade's conclusion is that a social dividend does not need to adjust to changes in someone's other income or in their labour market status, whereas a negative income tax does.
- <sup>20</sup> J.E. Meade, 'Full Employment, New Technologies and the Distribution of Income', *Journal of Social Policy*, vol.13, no.2, 1984, p.130
- <sup>21</sup> Walter van Trier, *Every One a King: An investigation into the meaning and significance of the debate on basic incomes with special reference to three episodes from the British inter-war experience* (Departement Sociologie u.v. Leuven, 1995), p.346
- <sup>22</sup> J. E. Meade, *Agathotopia: The Economics of Partnership* (The David Hume Institute/Aberdeen University Press, 1989), pp.27, 30. And see Walter van Trier's discussion in *op. cit.*, p.365
- <sup>23</sup> J.E. Meade, *Agathotopia: The Economics of Partnership* (The David Hume Institute/Aberdeen University Press, 1989), p.34
- <sup>24</sup> *Ibid.*, p.36
- <sup>25</sup> *Ibid.*, p.38. In Appendix 3, Meade discusses various different social dividend schemes and their implications for incentives, redistribution, risk-bearing and administration.
- <sup>26</sup> *Ibid.*, p.67
- <sup>27</sup> James Meade, 'Topsy-turvy nationalisation', *Samizdat no. 5* (July/August 1989), reprinted in *BIRG Bulletin*, no. 10, Autumn/Winter 1990, pp.3, 4
- <sup>28</sup> J.E. Meade, *Full Employment Regained? An Agathotopian Dream* (Cambridge University Press, 1995: University of Cambridge Department of Applied Economics, Occasional Paper no. 61), p.57
- <sup>29</sup> *Ibid.*, p.85
- <sup>30</sup> J.E. Meade, *The Building of the New Europe: National Diversity versus Continental Uniformity* (The David Hume Institute, 1991).
- <sup>31</sup> *Ibid.*, pp.24-9
- <sup>32</sup> Two of the 'five giants' Beveridge wanted to see tackled as he planned his Social Insurance Scheme in the early 1940s.
- <sup>33</sup> J.E. Meade, 'Full Employment, New Technologies and the Distribution of Income', *Journal of Social Policy*, vol.13, no.2, 1984, pp.129-146

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Citizen's Income Trust  
P.O. Box 26586  
London SE3 7WY

Tel: +44 (0) 20 8305 1222

Fax: +44 (0) 20 8305 1802

Email: [info@citizensincome.org](mailto:info@citizensincome.org)

Website: [www.citizensincome.org](http://www.citizensincome.org)

Registered charity no. 328198

Director: Malcolm Torry

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