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

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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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