'Have we given up trying to gain full employment? If not, what should we be trying to do about it?' These are the fundamental questions that James Meade poses, and attempts to answer in this short but timely book. As the issue of full employment moves once again to the centre of the political debate, Professor Meade draws our attention to a number of economic and financial factors which are neglected in the current debate, and suggests a novel package of changes which could be used to tackle the full-employment problem.

He condemns the neglect of macroeconomic analysis in designing full-employment policies, and asserts that the money value of total domestic production rather than the price level should be the object of a combined fiscal–monetary policy, which itself should focus on low interest rates rather than low tax rates. He argues that to achieve full employment without unacceptable inflation or poverty would require radical reforms such as labour–capital partnerships, low real wage rates offset by a universal tax-free social benefit, the abolition of national insurance contributions, and highly progressive rates of taxation of income and wealth for budget surpluses to redeem national debt.

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Full Employment Regained?
An Agathotopian Dream

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* The Island of Agathotopia claims to be a Good Place to live in, unlike the Island of Utopia which claims to be Perfect. For a fuller discussion of Agathotopian Society see *Liberty, Equality and Efficiency* by J. E. Meade (Macmillan, 1993) and the same author's two pamphlets *Fifteen Propositions* (Employment Policy Institute, 1993) and *Full Employment without Inflation* (Employment Policy Institute and Social Market Foundation, 1994).

Full Employment Regained?

An Agathotopian Dream*

J. E. Meade

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Foreword

The temptation, in introducing this essay, is to dwell on the author and not the ideas. After all, James Meade was already a player in the days when Pigou and Keynes were cast as opponents in a vital intellectual struggle over the future of economics and, very likely, the economy itself. It is thus fascinating that, in the light of the ideas that circulate as hard currency in macroeconomics today, Pigou and Keynes look almost alike. Meade, for all his eminence, is thoughtfully and deliberately a throwback to those days. Herodotus may have been right to insist that we never step into the same river twice; but he was not thinking of the current that runs from Pigou and Keynes to James Meade.

This essay is about the macroeconomics of full employment (with one important digression to be mentioned later). These days it is fashionable to talk about 'job creation' and the conditions that favour it, as if all that mattered were the spirit of enterprise. That matters a lot, but probably more for the standard of living than for the volume of employment. Many newly-created jobs must displace old jobs, either directly, because a new product competes with an old one, or indirectly, because all goods and services compete for room in buyers' budgets. (Of course, the job displaced may be in another country, but Meade is mostly concerned about a closed economy, except in Chapter 5.) Everyday talk does not distinguish between 'gross' job creation and 'net' job creation.

Aggregate employment depends on the volume of aggregate expenditure and on the prices and wages that are charged in markets. Complications arise because the volume of spending depends on prices and wages, and prices and wages may depend on aggregate spending. This is a book about policy, so the first chapter after the Introduction is about demand management: the actions of governments and central banks have an influence on the volume of spending, though ministers and central-bank governors would sometimes rather not remind you of that. But it is one of the central themes of macroeconomics and Meade tackles it directly.

His preference is for public policy to take aggregate nominal spending as its proximate target. The main advantage of this choice is that a clear and credible commitment to an explicit figure would exhibit to those who make price and wage decisions that the cost of an inflationary bias in their decisions will be real contraction. Other targets – money supply, exchange rate, etc. – may have the same ultimate consequence, but less transparently.

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Of course, meeting a target for nominal aggregate expenditure is not easy. In principle, it requires an understanding of the macroeconomic machinery that no one has or is likely to have, in view of the fact that economic institutions and behaviour are forever changing (sometimes in response to the policy regime itself). But that problem will always be with us. There are targets that may be easier to achieve, like one or another money supply number; but then the problem is just transferred to the tenuousness of the connection between money supply and any genuine goal of policy.

Meade is perfectly aware that successful targeting of nominal aggregate spending necessitates a unified, or at least very well coordinated, control of monetary and fiscal policy. It is hard to see how this fits with the modern preference for an independent central bank to serve as a curb on the notoriously inflationary habits of the common people. One can only suppose that the Agathotopians have got beyond this sort of schizophrenia. It would be interesting to apply the new discipline of 'political economy' to see just what might be made politically feasible in Agathotopia. As befits the last of the great utilitarians, Meade tends to be optimistic about the possibility of changing attitudes by doses of rational argument.

It would not be very Agathotopic if commitment to a reasonable level of aggregate spending were met with wage and price increases large enough to convert it into a situation of high unemployment and low real income. So Meade is forced to consider ways of inducing better behaviour from setters of wages and prices. This is a harder problem than demand management because every market is a little different from every other. No one wants the government interfering in those micro-level decisions. The usual compromise is to imagine institutional changes that might be expected to allow markets to work properly while leaning against any tendency toward an inflationary bias.. That is what Meade does too.

The most striking suggestion in Chapter 3 is what he calls Discriminating Labour–Capital Partnerships. I shall leave the details to the text and only say that these are Meade's variation on the profit-sharing arrangements proposed some years ago by Martin Weitzman and on the Japanese custom of paying a substantial fraction of the compensation of workers in the form of an annual revenue-related or profit-related bonus. Meade is explicit about the 'discriminating' character of his proposal: not all workers would be treated alike. This is another place where a little political economy would be interesting. Agathotopians, after all, are merely reasonable, not saint-like. What are the internal dynamics that the spread of Discriminating Labour–Capital Partnerships would call into being? How would they turn out to behave in practice, once established?

It is characteristic of James Meade that he will not relegate the aggregative and distributional consequences of his scheme to different boxes. His primary goal is the achievement of full employment – meaning an unemployment rate of 2–3 per cent – without unacceptable inflation. He suspects that so much employment can only be achieved with fairly low real wages and a correspondingly high return to the owners of wealth, given the technology and capital stock of today and the near future. But he is unwilling to see full employment achieved at the cost of widening the gap between rich and poor. So he mulls over a number of redistributive policies. These include abolishing payroll taxes on employers and employees, making income tax more progressive, raising a larger share of revenue from pollution taxes, instituting an age-related 'Citizen's Income' or what used to be called a social dividend, moving from income taxation toward a general expenditure tax, and imposing a stiff tax on large holdings of wealth.

It cannot be said that the transition to Agathotopia would be uneventful on the political front. On the other hand, if the purpose of all this redistribution were only to offset the worsening of inequality brought about by the achievement of full employment, the necessary changes might be small, though still radical.

I have the impression that, with the bit firmly between his teeth, Meade is thinking of getting rid of a little more inequality than just that.

It has become more and more unfashionable for an economist to advocate a particular vision of the social good, as

Meade does in this little book. One reason is that economists like to think of themselves as detached scientists. Another is that some such visions are best promoted *sub rosa*. I prefer James Meade's forthright and undeceptive approach. It would be too bad if this style were to disappear. Economics and the world would lose something immensely valuable.

Robert M. Solow

Preface

I embarked on the writing of this Occasional Paper because of the neglect of macroeconomic analysis in the present lively discussions about Full-Employment policies. A strong case can be made out against excessive reliance on simple macroeconomic models for the determination of basic fiscal and monetary policies (see Simpson, 1994). But it would be disastrous in the design of such policies to neglect entirely the implications of simplified models of possible relationships between the main social-accounting variables such as the Level and Distribution of the National Income; the General Price and Wage Levels and their Rates of Inflation; the General Levels of Output, Employment, Consumption and Investment; the Budgetary Balance between Revenue and Expenditures; the International Balance of Payments; and so on.

Accordingly, the three central chapters of this book are concerned with the design of policies and institutions to control (i) the total money demand for goods and services, (ii) the setting of the general level of money prices and costs, and (iii) any consequential adverse effects on the distribution of the national income between the rich and the poor and between earned and unearned incomes. The relationships between institutions and policies designed for these three purposes are very complex; but as an old Keynesian I believe that to find an appropriate structure for these policies and institutions is a necessary condition for a successful Full-Employment policy.

The basic problem may be put in the following way. Optimists in the present debate define Full Employment as a state of affairs in which the true rate of unemployment of those who wish to work is reduced to as low a figure as 2½ or 3 per cent. Can one design a demand-management control which provides a steady market for the total output of goods and services of such a Fully-Employed economy without leading to an excessive inflationary upward pull on the prices of goods and services? Can one simultaneously devise ways of avoiding money wage claims which would cause an excessive inflationary upward push on producers' costs? What does one do if these controls lead to a totally unacceptable distribution of income between rich and poor and/or between profits and wages?

The more I thought about these matters the wider appeared to be the spread of macroeconomic relationships which were relevant to an acceptable solution of the Full-Employment problem. Indeed, I ended up producing a conglomerate of practically every reform of macroeconomic policy that I have ever advocated over my 63 years as a working economist. The result suggests the need for a rather startlingly radical reform of our present economic and financial procedures.

In their general approach to the problem of Full Employment the great majority of politicians and other interested persons tend to neglect the macroeconomic issues. They concentrate on other measures such as education and training of labour and investment in modern efficient capital equipment in order to cut the costs and improve the quality of production. These reforms are of extreme importance. But they are concerned basically with raising the output per head of those who are in employment rather than about the number of heads that will find suitable employment. It is the general macroeconomic background which will determine whether a rise in output per head will lead to an unchanged output with a reduction in the number of workers employed, or to a higher output with the same number employed, or to a much higher output with a larger number employed. There is often a strange general tendency to assume that the third of these outcomes will automatically materialise without any very profound analysis of the reason why, together with a rather superficial reminder that one will need to prevent an excessive inflation of money prices.

Preface

The question arises whether Full Employment could be attained in conditions of unbridled competitive free-enterprise with everyone making the most money they can with little regard for the unsuccessful. It would certainly require very stringent controls over rates of pay to prevent a runaway inflation. With effective wage control Full Employment in otherwise fully competitive conditions would probably have two consequences.

First, it could lead to a high level and rate of growth of total output. The maintenance of a rate of growth of gross domestic product (GDP) at an annually compounded rate of 3 per cent per annum would result in the level of total output rising in the following way:

Year	1995	2005	2015	2025
GDP	100	134	181	242

Some rise in total output may be very desirable for some purposes. But in present society there is already great congestion, a high level of pollution, and an excessive strain on natural resources. These strains will be increased by more than one third in a decade from now.

Second, the analysis in this paper suggests that Full Employment in present fully competitive conditions would probably result in an extremely unequal distribution of income, with the wealthiest and most highly qualified citizens at the top of the pile enjoying extremely high incomes while those at the bottom of the pile would have to accept very low rates of pay in order to find employment. I should regard such an outcome as intolerable. To deal with it would require more emphasis on the distribution of income and less on the level and rate of growth of total output.

One remedy would be to take the productivity benefits of increased output per unit of work in the form of shorter hours of work. This would enable the unemployed to be absorbed into the work force without any increase in the total amount of work done. In brief, the time has come to encourage a leisure economy, a problem which raises many issues which are not discussed in this paper. But a move in this direction would both curb excessive output and also decrease inequalities between the employed and the unemployed.

But the necessary direct attack on inequalities, which is a major concern of this paper, would involve far-reaching radical reforms of present policies and institutions expressly designed for this more egalitarian purpose. It is very possible that my proposals for putting greater emphasis on a more equitable distribution of income would have disincentive effects on the growth of total output; but in my view we would be wise to start now gradually preparing the way for a more leisured and compassionate society, even at the cost of a somewhat lower rate of growth of total output. My attitude to Full-Employment policies has been much affected by the difficult tasks of promoting an appropriate change in the political assessment of what constitutes a good society.