James Edward Meade
1907–1995

James Meade saw the role of the economist as that of helping design a better society and international order. He chose to study economics in the late 1920s because he believed it ought to be possible to end the plague of mass unemployment, and his last book in 1995 was on the subject of *Full Employment Regained?*. He served actively in policy-making as an economist for the League of Nations, and during the Second World War was one of the leading figures in the Economic Section of the Cabinet Office. In a subsequent academic career at the London School of Economics and Cambridge, his many books and articles were primarily directed at developing economic tools which would be applied to the formation of policy. In his Inaugural Lecture at the University of London in 1948, James said that ‘My main concern in economics has [always been] with the contribution which economic analysis has to make to the solution of problems of practical economic policy’ (*Collected Papers*, vol. III, p. 101).¹ Among the subjects to which he contributed were macroeconomics (both national and international), national income accounting, economic planning, welfare economics, trade policy and customs unions, public finance, growth theory, population policy, profit-sharing and labour-managed firms, and

¹ Where referring to Meade’s writings, other than books, we have chosen to cite the collected papers, rather than the original source. The full citation is Susan Howson, editor, *The Collected Papers of James Meade* (1988). There are three volumes: vol. I: *Employment and Inflation*, vol. II: *Value, Distribution and Growth*, vol. III: *International Economics*. vol. IV contains The Cabinet Office Diary 1944–6.

the distribution of income and wealth. He was awarded the Nobel
Memorial Prize in Economics in 1977 for The Theory of International
Economic Policy, written at LSE, and it is for this contribution that he is
best known, but he was equally influential in debates about domestic
policy.

Any simple characterisation of his approach to economics would fail
to do justice to the richness and originality of his thinking. Deeply influ-
enced by Keynes, James’s position on macroeconomic issues cannot be
described as conventionally ‘Keynesian’, since he gave a great deal of
weight to the supply side of the economy. Convinced that a properly func-
tioning market mechanism was an essential element in any economy, he
was equally aware of the dangers of uncontrolled laissez-faire. He sought
a balance between equity and efficiency. The subtitle to Planning and the
Price Mechanism (published in 1948) was ‘The Liberal–Socialist Sol-
dition’. While he advised the Labour Party in the 1930s, and belonged to
the Social Democratic Party in the 1980s, his views were not confined by
political boundaries, and were perhaps best captured in another book
brought to his writing radical sympathies, but iron detachment. Above
all, his work was dominated by an open-minded search for understanding
and the highest standards of intellectual honesty.

James was born on 23 June 1907 in Swanage, Dorset, and brought up
in Bath. He was at school at Malvern College, and in 1926 went to Oriel
College, Oxford, with a scholarship in classics. He was a Fellow of
Hertford College, Oxford, and Lecturer in Economics, from 1931 to 1937,
during which time he married Margaret Wilson, then secretary of the
League of Nations Union in Oxford. It was to the League of Nations in
Geneva that he moved in 1937, being recalled after the outbreak of the
Second World War to the Economic Section of the War Cabinet Secre-
tariat, of which he was Director from 1946 to 1947. He was appointed CB
in 1947, one of few temporary civil servants so honoured. He then took
up the Chair of Commerce at the London School of Economics, where
he remained until 1957, when he succeeded Sir Dennis Robertson as
Professor of Political Economy at Cambridge, and became a Fellow of
Christ’s College. He retired from the chair in 1969 five years before the
statutory age, but continued to be highly active as a professional econ-
omist, including in 1976–8 chairing the Institute of Fiscal Studies
Committee on ‘The Structure and Reform of Direct Taxation’. He was
elected a Fellow of the British Academy in 1951, and was President of the
In what follows, we describe the main stages of his intellectual career, spanning 65 years of active involvement as a professional economist, before attempting a summary of his lasting influence. Our focus is on the contribution of James and we refer to the work of others only as it appears to impinge on the development of his thinking.

James was, of course, much more than an economist. He had a fine singing voice. He was a practical man, notably as a skilled carpenter. He was devoted to his four children, and very proud of their achievements and those of their families. He and his wife, Margaret, were most generous in their hospitality. Tea or dinner with them in Little Shelford was a real treat; they had an unusual knack of making new colleagues soon feel that they were part of an extended family.

Oxford, the Keynesian ‘Circus’ and Unemployment

As a student at Oxford, after taking a first in Classical Mods, James decided to change to the recently started School of Philosophy, Politics, and Economics (PPE). His reasons for so doing are described by him as follows:

Like many of my generation I considered the heavy unemployment in the United Kingdom in the inter-war period as both stupid and wicked. Moreover, I knew the cure for this evil, because I had become a disciple of the monetary crank, Major C. H. Douglas, to whose works I had been introduced by a much loved but somewhat eccentric maiden aunt. But my shift to the serious study of economics gradually weakened my belief in Major Douglas’s A+B theorem, which was replaced in my thoughts by the expression MV = PT. (*Collected Papers*, vol. I, p. 1)

Politics also played a role, and James was part of the group around G. D. H. Cole which met to discuss practical problems of socialism (other members included Colin Clark, Evan Durbin, Gilbert Walker, Alec Grant, and Edward Radice). His support for Major Douglas may have been weakened by the criticisms made by Beatrice Webb of the paper read by James to the Cole Group on social credit.2 It may also have reflected his increasing exposure to rigorous economics. Despite rejecting Douglas’s analysis, James retained a profound interest in social credit as a tool to alleviate poverty. During his years as an undergraduate, he invited,

among others, Sir Dennis Robertson (whose aunt was his next-door neighbour in Bath) to visit him at Oriel. This is a measure of the less pressured lives people led at that time, as is the fact that James had time both for academic success and for other activities, such as coaching rowing. His rowing pupils included Geoffrey Wilson, subsequently aide to Stafford Cripps, later Permanent Secretary in the Ministry of Overseas Development, whose sister Margaret he married in 1933.

Hertford College offered him a Fellowship in Economics after graduation, but with the condition that he should spend a year in postgraduate study extending his knowledge of economics, and for this purpose he became an affiliated student at Trinity College, Cambridge in 1930/1, working with Sir Dennis Robertson. (Much later, in 1988 Trinity elected him to an Honorary Fellowship, to his great delight.) As James later described it, ‘I was sent from Oxford to Cambridge for the academic year 1930/1 “to learn my subject (economics)” before returning to Oxford to teach it’.

In 1931 the British economy was sinking into depression; and unemployment was to reach 3 million (in the winter of 1932–3)—a proportion of the labour force equivalent to nearly 5 million in today’s terms. Cambridge at this time was in intellectual ferment. Keynes had just published his *Treatise on Money*, and James quickly joined the ‘circus’ of young economists, including Richard Kahn, Austin and Joan Robinson, and Piero Sraffa, who met to discuss Keynes’s work and who stimulated the transition to the *General Theory*. As put by Donald Moggridge in his biography of Keynes, it was called a circus ‘presumably not because it was a travelling show of performing animals, acrobats and clowns but because it met the alternative dictionary definition of a scene of lively action and a group of people engaged in common activity’. Moggridge notes that ‘Keynes did not take part. Rather, Richard Kahn played in Margaret Meade’s words, describing a later occasion, the role of the messenger angel . . . who went back to heaven with the results of our deliberations’.

As James noted, in this eventful year, ‘I abandoned the formula $MV = PT$ for $I = S$’ (*Collected Papers*, vol. I, p. 1). He was in fact a major contributor to the evolving new ideas. His first recognition in print was in the form of ‘Mr Meade’s relation’ fully and justly acknowledged in Kahn’s famous article on the multiplier process. James demonstrated

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5 Kahn wrote that ‘my treatment is fundamentally based on work of Mr Meade’s’, ‘The Relation of Home Investment to Unemployment’, *Economic Journal*, 41 (1931), 187.
that, by summing the extra saving generated at each stage of the process, the total amount of saving was equal to the extra investment that stimulated the growth in output. The proof involved what he later referred to, tongue in cheek, as ‘Higher Mathematics’, i.e. the summation of an infinite geometric progression. The reality was that James was a self-taught mathematician of considerable skill. (Later in his career the frontier of his mathematical knowledge had moved from the geometric progression to Bellman equations.) Mr Meade’s Relation was seen as an important contribution, although many years later James told the story of being introduced to Keynes—‘Maynard, this is James Meade. I believe that you know Mr Meade’s relation?’—to which Keynes responded by looking round the room for someone else. This may be an indication of Keynes’s Olympian detachment from the discussions of the Circus or of his failure to appreciate immediately the significance of the relation. James was important not only in advancing the development of Keynesian ideas, but also in their exposition, particularly in his pioneering textbook *Economic Analysis and Policy*, first published in 1936 and later translated into French, Japanese, Korean, and Spanish. Its purpose is described in the Preface:

> In recent years there have been important developments in Economic Theory . . . . It is the primary object of this book to expound the whole corpus of Economic Theory without taking any knowledge of technical terms for granted . . . . There is nothing original in this work. (p. xiii)

Despite its self-proclaimed lack of originality, the book in fact contains—in addition to the exposition of the work of Keynes and Kahn—a number of highly original contributions to other areas of economics, many way ahead of their time. We find a chapter on international economic cooperation—a subject which almost disappeared from the textbooks until the recent application of game theory. There is a substantial section on the distribution of income, another issue omitted from most modern courses. This includes an account of how the poor may be deprived of access to education even though the rate of return might be substantial. He analyses the links between economic growth and population growth, and has chapters on both ‘the optimum supply of labour’ and ‘the optimum supply of capital’. The latter sets out clearly the golden rule for a stationary economy: capital should be accumulated until the rate of interest is zero.

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6 ‘The Relation of Mr Meade’s Relation to Kahn’s Multiplier’, p. 664.
Reading the book today, we can see, with hindsight, the research agenda for much of James’s subsequent career.

James espoused the Keynesian notion of public works as a solution to the problems of depression. He argued (1932) that it should be possible to keep a stock of plans for public works ready. The timing of them could be brought forwards or backwards as the state of the economy allowed. In *Consumer Credits and Unemployment*, he suggested, echoing Major Douglas’s social credit, that instead demand should be maintained by the payment to individual consumers of a credit the magnitude of which would increase with the depth of depression. During periods of very low unemployment the consumer credits were to be replaced by flat-rate taxes. It is interesting to note that the cross-over point at which there was to be neither a credit nor a tax was an unemployment rate of 11–13 per cent. James regarded 12 per cent as representing ‘intermittent and structural unemployment’—a reminder of the gloomy view of the labour market held between the wars even though the trade unions had been weakened by the failure of the General Strike and the slump.

In his subsequent macroeconomic work, James became increasingly keen on the idea of macroeconomic policy as represented not by an ad hoc discussion of the current state of the economy but by means of policy rules. He thought that policy variables should be set with reference to the state of the economy in a clearly defined way; the analysis of consumer credits gives an example of just such a rule, and he was to develop it further in the wartime Economic Section. Such a view of economic policy (also being discussed at that time in the United States with regard to monetary policy) has taken decades to become established.

What was it that led James to be far ahead of his time, and persuaded him to think in terms of policy rules, rather than policy interventions? There is no reason to believe that he considered the ‘rules versus discretion’ arguments put forward by Finn Kydland and Edward Prescott in 1977. While he showed signs of anticipating the ‘Lucas critique’ in his

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8 His contributions to the analysis of intertemporal allocation have been largely overlooked. For example, thirty years later, in an article in 1966, he demonstrated how, in an overlapping generations model with perfectly altruistic parents, the steady state could be dynamically inefficient: see ‘Life-Cycle Savings, Inheritance and Economic Growth’, *Review of Economic Studies*, 33 (1966), 66–78. We return to this when discussing *The Growing Economy* (1968), ch. XIII.


later work (this may have been inspired by his use of Phillips’s hydraulic model of the economy which we discuss below), there are no grounds for thinking that this concerned him in the 1930s. Nor did he show his subsequent worries about dynamic stability of policy structures. The best guess is that, at this time, he thought that an ad hoc policy response was likely to be implemented later than a response dictated by a policy rule (see for example *Collected Papers*, vol. IV, p. 189).

**The League of Nations, the Cabinet Office and Postwar Reconstruction**

In 1937 the Meades moved to Geneva, where, at the League of Nations, James took up the post of editor of the *World Economic Survey*, a series which had originated in a volume prepared by Bertil Ohlin, with whom James forty years later shared the Nobel Prize. The economists on the staff of the League of Nations were indeed a highly impressive group assembled by Alexander Loveday, later Warden of Nuffield College, Oxford. They included Gottfried Haberler, Tjalling Koopmans, Ragnar Nurkse, and Jan Tinbergen. James’s position involved a considerable amount of travel through an increasingly tense Europe. In September 1938 the Meades visited Prague shortly before the Munich agreement, and had difficulty in making themselves understood because the Czechs would not talk German. This trip also took them to Poland where they visited the salt mine outside Cracow and should have continued into the Balkans. It was curtailed when, in Bucharest, they read that France had mobilised, and they returned to Geneva.

Margaret was expecting a baby at the end of April 1940, and they decided to stay in Geneva until the baby was born, as it happened, during an air raid practice. This meant that they set off by car from Geneva, with 3 children aged 4, 2, and 2 weeks, at exactly the same time as the Germans broke through the French defences at Sedan. A week later, cut off from the Channel by the German advance, they arrived in Nantes and simply sat on the pavement to recover from exhaustion. Leaving their car in France, they embarked on an RAF supply ship (a tramp steamer) and then spent a week at sea waiting for a naval escort fitted with anti-aircraft guns for the trip back to Britain. Years later they received compensation of about £10 for the car they had abandoned.

James joined the Economic Section of the Cabinet Office, which under the leadership of John Jewkes and Lionel Robbins, and in close
co-operation with Keynes in the Treasury, became highly influential. The most pressing economic problem was that set out by Keynes in *How to Pay for the War*, and James was charged with providing the integrated estimates of national income necessary to assess the budgetary gap. The British Government did not then publish national income estimates; nor had they prepared any for internal use since an attempt by the Inland Revenue in 1929.\(^{11}\) After the First World War, Britain had led the United States in national accounting, but there had been a lag in the development of official statistics, with Colin Clark ploughing a lonely furrow. James set to work and provided a framework of an interdependent set of accounts, which showed the incomes and expenditures of different sectoral groups in the economy, and identified the expenditures of one sector as the receipts of another sector.

James showed his framework to Keynes, who was impressed. Dick Stone was appointed as his assistant, and together they produced the first full national accounts, being transferred for this purpose to the newly created Central Statistical Office. Stone had shown the link between Meade’s sectoral accounts and the concept of national income so that, by the time of the 1941 budget, to which the accounts were appended, there was a fully integrated framework of sectoral accounts combined with a summary account for the national economy as a whole. The work of Meade and Stone (*Collected Papers*, vol. I, ch. 8) was not merely catching up, but overtaking: ‘as is frequently the case with technological improvements, on certain fronts the newcomer to the process surged ahead for a time’.\(^{12}\) Stone’s subsequent development of national accounting led to his receiving the Nobel Prize in 1984—an event which gave James much pleasure. The two men were close friends until Stone’s death in 1991.

James remained in the newly-established Central Statistical Office for only three months, and returned to the Economic Section of the Cabinet Office, becoming its head in succession to Lionel Robbins in 1946. Here his work comprised a mixture of dealing with the day-to-day problems of the war economy and of planning for the post-war world. He was, for example, involved in the preliminary work for the Bretton Woods conference. He preferred, to the rigid system which was adopted, one in which exchange rates were automatically adjusted to balance of payments

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disequilibrium. This was another example of his belief, mentioned above, that economic policy was to do with policy rules; relying on discretion might mean that nothing would be done until too late. However this Queen Mary exchange rate system, as he called it many years later, after the ship on which a British delegation travelled to the United States in 1943, did not catch on, and the Bretton Woods system was in the end destroyed by its inherent rigidities.13

As Keynes worked on the plans for an international clearing union, James developed parallel proposals for the postwar international trade regime, serving as a member of the British delegation to the international conferences which worked on a proposed International Trade Organisation. He saw the development of such an organisation overseeing free trade as an essential complement to the international monetary reform. In his diary, he records his ‘infinite pleasure’ at receiving a cable from Sir Percivale Liesching saying that ‘When we record the Commercial Policy Agreement tomorrow I shall be thinking very specially of you as the architect’ (Collected Papers, vol. IV, p. 186). This did not come to fruit at that time, being rejected by the United States, but many of the principles were incorporated in the General Agreement on Tariffs and Trade (GATT).

James played an important role in the work on domestic postwar problems that led to the 1944 White Paper on Employment Policy,14 which described the means by which employment after the war could be maintained at a high and stable level. James produced the first draft of what was eventually to become this document, although, as described by Alec Cairncross and Nita Watts,15 it passed through many hands and aroused strong objections from Treasury Knights. The White Paper, in the preparation of which Keynes clearly played a highly significant role, is generally regarded as having set the basis for the policy of full employment as a policy target, which was followed by governments of both parties until 1976. James’s particular individual contribution was an Appendix to the White Paper describing an ingenious scheme whereby national insurance contributions would vary automatically in response to

13 The Queen Mary system varied exchange rates with reference to movements in foreign exchange reserves rather than to the current account of the balance of payments. But at this stage James was contemplating a world in which private capital movements would be controlled, so that de facto the system led to exchange rates changing in response to current account imbalances.
the level of unemployment in order to produce an automatic element of fiscal management. This was a development of the idea advocated in Consumer Credits and Unemployment and mentioned above. Although the idea survived into the final version, it attracted early criticism from Keynes on the grounds that ‘a remission of taxation on which people could rely only for an indefinitely short period might have very limited effects in stimulating their consumption’, and from Beveridge who remarked that he ‘had invented too many such devices in the early days of unemployment insurance to have retained much faith in their practical value’. From a subsequent document (Collected Papers, vol. I, ch. 15) written for Lord Woolton, the Minister of Reconstruction, which compared the White Paper with the book Full Employment in a Free Society by Beveridge, it is plain that James was fully aware of possible supply constraints on the economy. He cautioned that it might be difficult to reduce unemployment, by means of demand management, to Beveridge’s target of 3 per cent. While he hoped that it would be possible to reduce unemployment below the figure of 8 per cent taken in the White Paper for illustrative purposes (when calculating the level of social insurance contributions), he felt (Collected Papers, vol. I, ch. 15, para. 23) that it would certainly be unwise for responsible authorities to adopt as a public target an average level of unemployment anything as low as Sir William Beveridge’s 3%.

He wrote, moreover, in paragraph 13 that

Since the First World War there have been introduced many very desirable social reforms. . . . In addition to any direct effect which such reforms may have in reducing the immediate pressure on the unemployed to find a new job, they may have even more important secondary effects in making the economy more rigid. For example, as long as the unemployed . . . are cared for by the state, trade unions . . . are tempted to pay more attention to the interests of their own members who are in work than to their own unemployed members or other outsiders

and in paragraph 77,

Perhaps the gravest danger to be feared from the prosecution by the state of policies for greatly improved social security and for the maintenance of a high

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aggregate demand for labour is the removal of the incentives to work and to be moderate in wage demands.

In fact 3 per cent turned out, initially at least, to be pessimistic rather than optimistic as a forecast, but James’s remarks of 1944 were prescient in three respects. First, they indicate why the policy of full employment was eventually abandoned in the face of the severe inflation of the 1970s. Secondly, they summarise the logic of the supply-side reforms of the 1980s. And thirdly they indicate the agenda for much of James’s later work. How to find a social security system which does not damage incentives? How to use demand management without leading to inflation?

Despite these additions to the Keynesian story there is no doubt that Keynes was an enormous influence on him. ‘He was the greatest genius I have ever met’ (Collected Papers, vol. IV, diary entry for 27 April 1946). He was much saddened by Keynes’s death in April 1946, particularly because their last meeting a few days earlier had been an occasion for disagreement, with Keynes objecting to the presentation of an economic survey for 1946/7 which relied on economic forecasts. But he commented many years later that Keynes knew the answers but not the questions. He may have felt perhaps that Keynes did not specify clearly the problems that he was solving and the assumptions he was making. Certainly James always insisted that models should be clearly specified. Nothing could remain hidden.

James found his work in the Economic Section a ‘heaven of applied analysis’. It was the opportunity to demonstrate the power of economics in action. When, for example, the import programme for tobacco was under discussion, James said that unless either the price was raised or rationing introduced, there would be shortages. The response of a senior Treasury official was that ‘things are not that simple’, but James had the last laugh when he later saw the mandarin at the end of a long queue for tobacco.19

He regarded himself as a liberal socialist and was undoubtedly sympathetic to the Labour Government which came to power in July 1945. Before the war, he had been an adviser to the Labour Party, having written in 1935 a paper ‘Outline of Economic Policy for a Labour Government’ for the Policy Subcommittee of the National Executive Committee

chair by Hugh Dalton. 20 He had influenced such Labour politicians as Evan Durbin and Douglas Jay. 21 He valued however his independence. He describes in his Cabinet Office diary how, at a dinner hosted by the Chancellor of the Exchequer, he

was a bit embarrassed in being produced as one of the young Labour Party economists. I am nothing of the sort. I am a Civil Servant. (Collected Papers, Vol. IV, p. 156)

But life in the Civil Service had become less attractive. After the end of the war, James’s relations with the Treasury became more difficult, at least in part because Dalton, a former Reader at the LSE and now Chancellor of the Exchequer, did not feel a strong need for economic advice. There was fundamental disagreement with Dalton over ‘joined-up government’, with James wanting a wide-ranging approach to fiscal policy, whereas the Chancellor was concerned that this would breach the secrecy which surrounded Budget preparations. James became increasingly ill from the stress brought on by his discussions with the Treasury and in 1947 he decided to resign.

James’s contribution to the Economic section has been summarised by two of his colleagues, Alec Cairncross and Nita Watts: 22

he brought a rare clarity of mind, a systematic economic philosophy, and a flair for visualizing how new economic institutions would function. He had an eye for the central issues of policy and a constructive approach to them.

But in contrasting James with his successor, Sir Robert Hall, they also identify his limitations in Whitehall:

Whereas James Meade was prepared to make sixteen points to a meeting that had expressed a unanimous contrary view, Hall was quick to recognise when the battle was lost and switch to a more promising issue.

LSE and The Theory of International Economic Policy

James returned to academic life as Professor of Commerce at the London School of Economics. In 1948, he published Planning and the Price Mech-

20 James had hoped that this paper would appear as a Fabian pamphlet, but G. D. H. Cole and Evan Durbin recommended against publication (Collected Papers, Vol. I, p. 32). The Fabians had earlier published his pamphlet ‘Public Works in their International Aspect’.
22 This and the next quotation from Cairncross and Watts, The Economic Section 1939–1961, pp. 113 and 134.
anism. This book was intended as a contribution to the debate ‘to plan or not to plan’, but may now best be seen as a preface to his writing over the next decades. A sixteen-page review (of the 130-page book) by Richard Kahn brought out both the strengths and the weaknesses of the approach that James adopted.23 For Kahn, the latter dominated. In particular, he criticised James for leaving so many possibilities in the form of open questions.

At the LSE, James embarked on the project of developing the body of theory on which he had relied in government service, and in 1951 produced the first volume of *The Theory of International Economic Policy*.24 *The Balance of Payments* set out, for the first time, a full account of the determination of the balance of payments, taking due account of both quantity and price effects. Nowadays the balance of payments is not of the importance it was in the post-war years. Then currency controls made capital internationally immobile, exchange rates were pegged (but adjustable) and countries had to rely on foreign exchange reserves and carefully organised loans in order to see themselves through balance of payments difficulties. Arguably the analysis is still of relevance to developing countries which tend to peg their exchange rates to the US Dollar (often inappropriately as the 1998 crisis in the Far East showed) and which do not have good access to international capital markets. James showed how, if countries were to achieve internal balance, which he then described as full employment, and external balance, a balance of payments equilibrium, then they had to make use of both demand management policies and policies which affected their real exchange rates (exchange rate changes or policies which affected their price levels). Today’s governments in the developed world face the problem of combining satisfactory growth of internal demand with a satisfactory budget balance: the balance of payments is less of an issue. James’s lesson, scarcely learned, is that policy instruments interact with each other. It follows that, in the era of floating exchange rates, the setting of monetary and fiscal policy has to be considered jointly in order to deliver the targets modern governments adopt, for inflation and budget balance. And many of the subsequent

developments, such as capital mobility, are allowed for by James in his treatment of different cases.

Volume I was reviewed critically by Harry Johnson. In part, his criticisms seem well taken. He noted that the work of other theorists is acknowledged only in the Preface, and in very general terms. There are no footnote references to the literature. This made it difficult to evaluate the author’s original contributions. Johnson also took issue with the taxonomic approach, noting that the reduction of $28,781,143,379$ possible policy combinations to a mere $399$ cases still leaves an evident \textit{embarras de richesse} (shades of Kahn’s criticism of \textit{Planning and the Price Mechanism}). In defence, James himself later argued, in the Preface to \textit{The Stationary Economy}, that the analysis of economic policy inevitably involves propositions of the following kind:

\begin{align*}
\text{If conditions } \alpha, \beta, \gamma \text{ exist, then policy A will lead to result W and policy B to result X; but if conditions } \delta, \varepsilon, \zeta \text{ exist, then policy A will lead to result Y and policy B to result Z. (1965, p. 7)}
\end{align*}

It could not be more clearly stated. James was also taken to task by Fritz Machlup for his multiple uses of the concept of ‘equilibrium’. Machlup described James as

the master of a house divided against itself. He is a strong believer in, and skilled user of, the equilibrium concept as a value-free, abstract methodological device; but he is also a persuasive advocate of the equilibrium concept as a standard of performance. (Machlup, p. 18)

Given the importance of ‘balance’ to \textit{The Theory of International Economic Policy}, such a conceptual issue is highly relevant, but our re-reading of Volume I indicates no lack of clarity on the part of its author.

In the second volume, \textit{Trade and Welfare} published in 1955, James presented a systematic analysis of arguments for trade and factor controls. The analysis of factor controls and factor movements was highly original, including a model of the effects of migration on the terms of trade and a contribution to optimum population theory. But the whole

\begin{itemize}
\item J. E. Meade, \textit{The Stationary Economy} (1965).
\item In the Preface he could not resist acknowledging, among other earlier contributions, ‘the admirable taxonomic classification of possible cases contained in H. G. Johnson’s “Optimum Tariffs and Retaliation”’ (p. x). This is just one instance of his puckish sense of humour.
\end{itemize}
concept of embracing trade and factor controls in one methodology was novel, and its significance extended far beyond international economics, representing an innovative development of welfare economics. In particular, the ‘theory of second best’ shows that arguments for trade or factor controls can be made on the basis that there are various constraints, whether originating in government policies (for example, a tax) or in a feature of the private market economy (an entrenched monopoly) that must be taken as given. Optimising trade policies subject to these constraints can yield a different policy result from that in a first-best world.

The theory of the second best is usually associated with the much-cited article by Richard G. Lipsey and Kelvin Lancaster, from which rather nihilistic conclusions were drawn: that nothing in general could be said about the nature of optimal policies because of the existence of distortions. But in *Trade and Welfare* itself the emphasis is characteristically much more constructive: the optimal second-best tax or tariff would usually partially offset some other given distortion, even while creating, at the margin, new distortions. James used the principle of the second best to analyse the effects of domestic divergences from the first best, initiating the ‘theory of domestic distortions’, which has become a major field in international trade theory.

One important application of the methodology was to the welfare economics of customs unions, where he also made significant contributions to the positive theory. His de Vries Lectures on *The Theory of Customs Unions* were the first systematic analysis of this subject based on the pioneering work by Jacob Viner. He also engaged in empirical studies of economic integration in practice, publishing in 1956 a study of the pre-war Belgium–Luxembourg Economic Union which can be read with profit today, and was an active participant in debate a few years later about British accession to the European Common Market. In public, he wrote a Hobart Paper, *UK, Commonwealth and Common Market*, which went into three editions, arguing that

The UK could and should join the EEC [European Economic Community] if it has real promise of becoming a liberal, outward-looking institution. But she

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should not join if it is designed as a tight, parochial European bloc. (*Collected Papers*, vol. III, p. 273)

In private, he prepared a paper with the same message for Hugh Gaitskell, Leader of the Labour Party. Later he felt that the terms of UK membership had indeed been unfair to Australia and New Zealand.

James’s constructive approach in *Trade and Welfare* was reflected in his rejection of the ‘new welfare economics’. Even though he had drafted a greater part of the book in terms of potential welfare and the compensation principle, the very negative conclusions they yielded led him to revert to the older tradition, which allowed for interpersonal comparisons as expressed in explicit distributional weights. The attraction of this common-sense approach was that it provided a methodology sufficiently general to allow different weighting systems to be applied. In addition, James introduced a general method for measuring small changes in welfare, which was a variation on Marshallian consumers’ surplus, with its attendant limitations.

These developments built on earlier literature; but the three aspects of his welfare methodology taken together—second best, distributional weights, and the measurement of small changes—constitute fundamental contributions to a number of modern subjects. They include cost-benefit analysis, even though this form of applied welfare economics actually developed independently, his methodology being rediscovered in more operational contexts. The same pattern applies to the economics of taxation. The ‘Mathematical Supplement’ to *Trade and Welfare* contains valuable analyses of the efficiency effects of direct and indirect taxation, and of the general equilibrium incidence of taxation. They foreshadow later literature on optimal taxation and tax incidence.

When Meade’s two great volumes and the various associated books are examined as a whole, it can be said that the policy model of *The Balance of Payments* was very influential and that the work had a fairly rapid impact on policy-makers and key writers in the field. Similarly, the *Theory of Customs Unions* was widely noted, possibly because of the topicality of its subject. By contrast, the influence of *Trade and Welfare* was more delayed, and to a great extent many of its original ideas were rediscovered independently later. Both books are immensely rewarding to serious students, but the style in which they were written means that their

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messages often reached a wider audience only through the intermediation of more succinct, if less original, writers.

At the LSE, James taught many of those who went on to create the modern subject of international economics, including Dick Cooper, Max Corden, Peter Kenen, and Robert Mundell (winner of the Nobel Prize in 1999). But his influence was much wider. Notably, he identified the promise of Bill Phillips. Phillips had a colourful background, having been a hydraulic engineer, who had been captured by the Japanese in Malaya trying to convert a bus into a boat so that he could escape to India. Phillips had been studying sociology at LSE, but his interest had turned to economics, and he had the highly novel idea of constructing a hydraulic representation of the economy. He had pressed this idea on a number of LSE professors. It was James, who had made a number of beautiful mechanical toys for his children to play with, who listened and offered him the opportunity to demonstrate the machine at Lionel Robbins’s seminar, thus launching Phillips’s career. The model was not quite as useful as James had hoped. It proved to be a teaching tool rather than a usable analogue model of the economy but the connection of two separate machines, representing Britain and America provided a valuable means for demonstrating problems of international economic co-ordination. Phillips wrote two articles looking at the problems of economic management from the perspective of a control engineer. These were an enormous influence on James’s subsequent macroeconomic work. In the 1980s the LSE restored its machine, which is now in the Science Museum, and made a video recording of James demonstrating it. James took a great interest in the restoration of Cambridge’s machine in 1994/5. After what turned out to be his last visit to the Economics Faculty, he went to the Engineering Laboratory where the work was being done and was visibly excited to see the machine gleaming and almost completely in working order.

Cambridge and The Principles of Economics

James became Professor of Political Economy at Cambridge in 1957. In that year the inflation rate was 3.8 per cent (and it fell to 0.5 per cent in 1959), but he nevertheless made ‘The Control of Inflation’ the title of his inaugural lecture (Collected Papers, vol. I, ch. 18). Prices had risen continuously since 1934. He suggested that price stability should be the focus of demand management. He saw that fiscal as well as monetary means would be needed
and advocated the setting up of an independent Stabilisation Commission to function with an independent Bank of England so as to keep the matter ‘removed to some degree from the rough and tumble of party politics’. A second advance was the proposal that there should be an independent secretariat whose function would be to coordinate the policies of the Treasury, the Bank of England and the Stabilisation Commission, a return to the idea of ‘joined up’ government that he had advocated in the 1940s.

There was a tradition that the Professor of Political Economy in Cambridge gave the ‘principles of economics’ lectures to second year (Prelims) students. This had led to Sir Dennis Robertson’s book, Lectures on Economic Principles.32 James embarked on the ambitious project of writing a series of volumes which ‘put into a general conspectus the major advances of economic analysis’ (Preface to The Controlled Economy, 1971). Volume One of his Principles of Political Economy, based on his lectures, appeared in 1965 as The Stationary Economy, and it was followed in turn by The Growing Economy in 1968, The Controlled Economy in 1971, and The Just Economy in 1976.33 The first of these brought together traditional price theory with activity analysis. The second contained much more in the way of original material, drawing on his own research on life-cycle savings and inheritance in a growth model. As already noted, his contributions to this field have passed largely unrecognised. The Growing Economy included, for example, a remarkable analysis of the link between intergenerational welfare and the national debt. Should parents support their children or children their parents in order to promote intergenerational equality? The answer is that, as in so much of James’ work, it all depends on the circumstances. Today’s reader would also be surprised to see what is in effect a Euler equation analysis of intertemporal consumption complete with saddle-path diagrams and, as noted earlier, a proof that altruism (concern by parents about their children’s welfare) could lead to over-saving and dynamic inefficiency in an overlapping generations model. The format of publication, together with James’s style of writing, may in part have contributed to his work being less widely cited than the famous article by Peter Diamond on national debt in an overlapping generations model.34

Two further volumes followed. *The Controlled Economy* in 1973 owed a great deal to Bill Phillips and the years they worked together at the LSE. In Cambridge, where optimal control was exciting the young economists, in the late 1960s James ran a small seminar attended by David Livesey, a control engineer turned economist, Tony Atkinson, Ben Friedman, Geoff Heal, and David Newbery. From there, he turned to *The Just Economy*, published in 1976, but he sensed that the subject had outrun this sort of project. It was no longer possible for a single author, even one of his reach and perception, to keep pace with the evolution of the whole of economics.

1969 saw his retirement from the Chair of Political Economy in Cambridge, five years before the statutory age. Always the most gentle and courteous of men, he had found extremely depressing the quarrels between those subsequently labelled ‘Post-Keynesian’ and those in the faculty who researched the mainstream of economics. The Meades were relieved to live some way out of Cambridge despite the fact that they valued easy access. Their house in Little Shelford was conveniently situated by a bus stop, and it was presumably no co-incidence that James was elected to a Professorial Fellowship, and after retirement a Senior Research Fellowship, at Christ’s College, just by the Cambridge bus station.

But he did not stop writing; indeed, the next quarter century was one of his most productive.

The Distribution of Income, Tax Policy and Citizen’s Income

In the Preface to *The Theory of International Economic Policy*, James half-promised a ‘Theory of Domestic Economic Policy’. By the time that he came to start his *Principles of Political Economy*, he realised that this would never materialise, but much of his writing in the period after he went to Cambridge dealt with this subject. The dilemma of reconciling economic efficiency with a fair distribution of income is indeed one that occupied much of his professional life. In order to make progress in resolving this dilemma, we have to understand the determinants of the distribution of resources. As already noted, his 1936 textbook contained a substantial section (some 50 pages) on this subject, exploring the causes of inequalities in work income and in property income, and the redistributive impact of taxation and other measures, such as the socialisation of property.
His main contributions to modelling the personal distribution of income and wealth came in his *Efficiency, Equality and the Ownership of Property*, and in his Keynes Lecture, *The Inheritance of Inequalities*.\(^3\) In the former, he developed a set of equations for individual wealth-holding, where, in an elaboration of the assumptions of Luigi Pasinetti, the growth of capital depends on saving out of earned and unearned incomes. Using this framework, he identified the role of different equalising and disequalising factors, including earnings differences, increasing rates of return with levels of wealth, differences in propensities to save, and demographic factors. In his Keynes Lecture, the framework was developed in the form of a path diagram of individual life histories. (In typical Meade style, the person was Tom Jones, not individual \(i\).) Individual economic success is determined, in this framework, by genetic endowment, by material inheritance, by education and training, and by social contacts, all modified by chance factors. The resulting inter-relationships number 36, which become 72 when Tom Jones marries (it was 1973) Mary Smith. (The diagram, drawn on wallpaper, covered much of the wall.) This analysis needs to be extended in order to understand the ultimate equilibrium of the process (as in the work of Joe Stiglitz),\(^3\) but its richness has not to date been matched in the subsequent literature.

James was particularly concerned in *Efficiency, Equality and the Ownership of Property* with the impact of automation. Writing long before Information Technology, he foresaw a high rate of technical progress with a marked labour-saving bias, which could reduce the demand for labour and hence wages, leading to an ever increasing proportion of output accruing to property owners. His thinking at the time was much influenced by the report which he had written on Mauritius, where the conflict was already intense: ‘for economic efficiency labour should be treated as if it cost nothing, but a zero wage rate would allot nearly all of the Mauritian national income to a few “sugar barons”’ (pp. 18–19). He summarised Mauritius’s problems as too many jobs for first cousins and too many children. He was well aware of the irony that his son-in-law, an economic consultant, and daughter followed him there, where they had a child.

In the context of the United Kingdom, the situation has to be inter-

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interpreted in the light of labour market institutions, and James was in his later years much concerned with the reform of wage bargaining (see below). However, as he noted, even this radical reform ‘would leave unaffected the need for state action to offset the general undesirable redistributive effects of the relatively low wage rates needed to maintain Full Employment’. A return to full employment was (i) likely to lead to a reduction in the share of labour in the national product and (ii) the jobs created for the unemployed were likely to be low-paid jobs. Both of these observations led him to investigate ways in which reforms to the social security system might be used to ensure that an efficiently-functioning labour market could be combined with an equitable distribution of income.

The solution which James saw to the distributional dilemma of a full employment policy was that of paying to every citizen a universal social benefit. Under this Citizen’s Income, everyone would receive each month a tax-free cash payment. The amount might vary with age, with children receiving less than adults (the present UK Child Benefit may in fact be seen as a Citizen’s Income for children). In its pure form, Citizen’s Income would replace all existing social security benefits. The extra cost, over and above existing social security benefits, and allowing for the abolition of National Insurance contributions, would in part be met by abolishing income tax personal allowances, so that income tax would become payable on the first £1 of income, and in part by an increase in the tax rate. Whether an adequate level of Citizen’s Income can be achieved with a politically acceptable tax rate is an important issue.

Citizen’s Income, or Social Dividend, or Basic Income (all names for the same kind of scheme), interested James throughout his professional career. In his 1935 ‘Outline of Economic Policy for a Labour Government’, he referred to the use of tax revenue to extend ‘the equality of incomes first by the development of social services and later by the distribution of a social dividend’ (Collected Papers, vol. I, ch. 4). In his 1936 textbook he referred at several points to the case for a social dividend. James did not then have a fully worked out proposal for a social dividend, and when in 1948 he returned to the subject in Planning and the Price Mechanism, it was to discuss the scheme of Lady Juliet Rhys Williams. His characteristically modest reference to her as ‘the first proponent of the scheme’ led many people to be in ignorance of his own prior

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contribution, just as James, despite having been introduced to the concept by Major Douglas, was unaware of the earlier proposals for a ‘state bonus’ advocated by his friend Bertram Pickard, together with Mabel and Dennis Milner immediately after the First World War.38

James came back to the idea of a social dividend on several occasions, including his Sidney Ball Lecture in Oxford in 1972 (Collected Papers, vol. II, ch. 18), his Intelligent Radical’s Guide to Economic Policy published in 1975,39 and his writings on ‘Agathotopia’ (see below). He saw Citizen’s Income as part of a more extensive reform of economic institutions, which would combine fiscal policy, recasting of wage and price fixing mechanisms, to achieve full employment and an equitable distribution of income.

Citizen’s Income was one subject of the report of the Meade Committee, established in 1975 by the Institute of Fiscal Studies to investigate the structure of the UK tax system. James was Chairman, and among the younger members of the committee were John Flemming, Mervyn King, and John Kay, who have since achieved distinction in economics and public life. The Committee observed that the tax system at the time was a mixture of taxes on income and taxes on expenditure, and concluded that it would be preferable that tax should be levied on one or the other, with a preference for an expenditure tax. In the 20 years since the report was written, exemptions for saving have appeared in the form of TESSAs, PEPs and ISAs; and, more generally, the shift to indirect taxation has been a move towards a tax on expenditure.

Macroeconomic Policy

In 1977 James was awarded the Nobel Prize for his work on international economics. When he came to write his Nobel Lecture, he chose the subject of ‘The Meaning of Internal Balance’ (Collected Papers, vol. I, ch. 21), noting that it might be considered anomalous to mark the occasion with a lecture on domestic policy, but arguing that this was now the most important issue for the health of the world economy. In the lecture, he looked again at the roles to be played by monetary and fiscal policy (which he had bracketed together as ‘financial policy’ in The Balance of

38 D. and M. Milner, Scheme for a State Bonus (1918).
Payments) in providing internal balance. He had originally seen internal balance as full employment. But in the 1960s and 1970s it had become clear that, if internal balance is defined as some particular target for unemployment or for economic growth, then there is no policy instrument left to control inflation. Accordingly James, seeking the solution to the problem that had concerned him since the 1944 White Paper, suggested that internal balance should be redefined as achieving a pre-announced rate of growth of nominal rather than real GDP. It was then to be hoped that the split of this growth in nominal demand between increases in output and increases in prices could be altered in favour of growth in output by means of incomes policies, or what subsequently became known as supply-side policies. James later described this policy structure as New Keynesian:40 ‘Keynesian’ since it continued to see a need for active fiscal and monetary policy, but ‘New’ because the centrepiece was a target for money GDP.

He presented his Nobel Lecture to the Marshall Society—Cambridge’s student Economics Society. A research student in the audience, David Vines, asked him if this policy assignment was dynamically stable. This question set in train a research programme in the Department of Applied Economics which led to four substantial books.41 The research was financed by the ESRC (and in its last stage by the CEPR).

There were two main strands. James himself investigated possible supply-side reforms. These ranged from arbitration structures, designed to ensure that wage settlements promoted employment, to a development of the ideas suggested by Martin Weitzman,42 looking at whether some form of profit sharing might ensure that firms always had an incentive to take on extra labour provided its marginal product was positive. He rapidly identified the flaw in the proposal—that if there are two factors of production profit-sharing raises employment of labour but reduces that of capital—and he had already written on the tendency of successful cooperatives to employ wage labour (Collected Papers, vol. II, ch. 10). His


solution in *Alternative Systems of Business Organization and of Workers’ Remuneration* was that there should be two classes of share: labour participating shares and capital participating shares. An increase in employment would lead to the issue of more labour participating shares and thus ensure that the capitalists continued to earn their reward. This idea, together with a Citizen’s Income, formed the basis for James’s account of Agathotopia, designed to be a ‘Good Place’ for imperfect human beings who pursue their own economic interests. In a 1990 article, he gave an affirmative answer to the question ‘Can We Learn a Third Way from the Agathotopians?’, although it is open to debate how far the proposed mechanisms are in fact incentive-compatible.

The other part of the Department of Applied Economics project consisted of investigating control rules and their performance by ‘rerunning history’ first on the Treasury model and then on a variant of the National Institute model. The first study (*Demand Management*) was designed to show that it was possible to design fine-tuning rules with two main features. Firstly taxes were to be varied so as to keep money GDP close to a target path. Second the real exchange rate was to be manipulated so as also to keep the current account balance close to a target, under the simplifying assumption that monetary policy could be used to control the real exchange rate. This was an important departure from the earlier treatment in *The Balance of Payments* of monetary policy and exchange rate policy as independent tools. It recognised the consequences of much-increased international capital mobility. At this stage, while the policy rules implied quarterly adjustments to the real exchange rate, James wanted it to be more stable with only occasional adjustments. In his work on wage-fixing, James had suggested how pay bargaining might be reformed to focus on the promotion of employment; this was mimicked by treating the wage rate as a policy instrument set to deliver a high level of employment.

However, even before this was completed, James wanted three main extensions. The first was in the treatment of the monetary policy. James thought that, in an open economy like the UK, the primary way in which monetary policy influenced the economy was through the exchange rate. He became convinced that monetary policy should not merely seek to

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44 See, for example, the discussion by Frank Hahn and Amartya Sen in A. B. Atkinson (ed.), *Alternatives to Capitalism* (1993).
manipulate the real exchange rate so as to control the current account balance, but that it should also play a part in the control of money GDP, which had up until now been the province of tax changes. This implied greater exchange rate movement than the earlier policy. To address these issues, the work needed to explore the interconnections between fiscal and monetary policy more carefully. Doing this required taking into account effects on the exchange rate of the proposed monetary policy rules.

The second development was in the treatment of the effects of fiscal policy. Fiscal fine-tuning was used, but expectations of future tax rates did not enter into consumers’ spending decisions. James and David Vines suggested that this omission should be corrected. At the time, rational expectations were thought, at least in the UK Treasury, to be important mainly with reference to the exchange rate, but Olivier Blanchard (1985) had indicated how consumer spending could be modelled to take account of expectations of future policy changes, and this treatment was added to the model. For good measure, investment was modelled as depending on the valuation ratio (Tobin’s q), movements in which were driven by rational expectations and an arbitrage equation. James directed the building, by Nicos Christodoulakis and Martin Weale, of a variant of the National Institute model which incorporated these rational expectations effects.

Third, James had become unhappy with treating the current account balance as an objective of policy in a world of high capital mobility. Instead he proposed that the second policy objective, to be put alongside a money GDP target, was a target for the overall level of savings in the country (of which the external savings represented by a current account surplus were only a part). The outcome of this work was a full reworking of the previously-proposed policy framework, one which anticipated many of the developments in the theory and practice of macroeconomic policy during the 1990s. Despite the emphasis on rational expectations, James stressed the need to find policy rules which worked both if they were understood and if they were not understood. (The importance of this is borne out by the observation that rational expectations models have generally tended to underestimate the costs of bringing inflation under control.) In the new framework, monetary and fiscal policy were to be jointly used to control money GDP and to regulate national savings,

rather than each instrument being allocated to a specific target. A key finding was that such co-ordination could be used to moderate exchange rate swings. James’s scepticism about whether monetary and fiscal policy could sensibly be used without such co-ordination remained with him to the end of his life, and made him a trenchant critic of the idea that central banks should be independent of fiscal authorities. The problems which he saw might arise from monetary and fiscal authorities acting independently of each other were expressed in his last journal article.46

1995 saw also the production of his last book *Full Employment Regained?*,47 in which James attempted a synthesis of his ideas on demand management and the supply-side reforms, arguing that full employment was possible provided the appropriate reforms were undertaken. This brought his career full-circle. It began and ended by him being concerned about the waste of resources and misery generated by high levels of unemployment. The Institute of Fiscal Studies hosted a seminar at which the ideas in this book were discussed; this was his last public appearance, as well as a gathering of many of the people he influenced throughout his long career.

James Meade’s Influence

How can one summarise briefly the nature of his influence? First, during his period in the Cabinet Office he had a profound impact on postwar reconstruction. In the international sphere, his contribution in terms of providing orderly arrangements for trade were an essential complement to those for international monetary exchange. According to Sir Alec Cairncross (*Guardian*, 28 December 1995), James ‘was as much as any man the originator’ of the GATT agreement. In the field of domestic policy, he was influential in the development of national accounts and was deeply involved in the 1944 White Paper on Employment Policy.

Secondly, there are his contributions to the development of economic science. These are manifold. One can list the construction of national accounts, the theory of internal and external balance, the theory of the second best and domestic distortions, the economics of customs unions,

the theory of co-operatives, citizen’s income, and modelling the distribution of income and wealth. He has contributed greatly as an expositor, in the 1930s of Keynesian ideas, and after the war in The Theory of International Economic Policy, described in a recent textbook as a brilliant and prescient synthesis. He hardly published in American journals (a brief two page note in the Journal of Political Economy in 1974), but his work has been cited more than 300 times in the three major United States journals. His innovative ideas continue to re-surface. Just to give one example, there has been recent interest in the proposal to vary social insurance contributions for purposes of stabilisation.

Third, there is his influence as teacher, friend and colleague. The ideas of many of today’s economists have been shaped by the sheer power and clarity of his writing. However, his impact goes deeper. The Times obituary rightly said that ‘he made no attempt to found a school of Meadeans’, but it did not identify an important characteristic which ran through his working life: the way in which he worked in small groups. From the Circus in Cambridge, there is a continuous line through the Economic Section of the Cabinet Office to the control theory seminar in Cambridge, the Meade Committee, and the Department of Applied Economics project. He inspired those with whom he worked, not least because he appeared so willing to listen to new ideas.

Above all, James had a positive vision for the future. He was, in his own words, ‘an inveterate explorer of improvements in economic arrangements’ (Collected Papers, vol. III, p. 275). In the Preface to Efficiency, Equality and the Ownership of Property, he wrote that ‘I implore any of my fellow countrymen who read this book not to object: “It can’t be done”’ (1964, p. 7). He was ultimately concerned with what could be done to make our world a better place.

A. B. ATKINSON
Fellow of the Academy

MARTIN WEALE
National Institute of Economic and Social Research

Note. We would like to thank the late Sir Alec Cairncross, the late Edward Radice, Richard Green, and Kit Jones for information that they have supplied. The first draft of this Memoir was read by Christopher Bliss, Peter Clarke, Max Corden, David Greenaway, Frank Hahn, Geoff Heal, David Vines, David Worswick, and Donald Winch. Their comments have allowed us to improve the text very considerably, and we are most grateful to them, although they should not be held responsible for the remaining shortcomings.