

# Recollections of a Lucky Economist \*

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In thinking about my recollections, the dominant impression which I got is that throughout my time as an economist I have been extraordinarily lucky. My interest has always been as an applied economist, concerned with the real world and ignoring "theory for theory's sake": if the problem on which I was working had a direct influence on what was done in the real world, that was best of all. Things have worked out in such a way that I have been concerned with a whole string of challenging "applied" problems, and in a good number of cases my work directly affected what happened on things in which I had a genuine interest.

## Undergraduate days

My good luck started with the factors which led to my becoming an economist, rather than a chemist – a change which I am sure was wise. I came to Cambridge in 1931 with a scholarship in Natural Sciences, but I agreed with my advisers in King's College that two years on Natural Science Part I would largely be repetition, and would leave only one year for new work on my chosen speciality (chemistry): a better plan would be to spend one year on Maths Part I, and have two years for Chemistry Part II. However, the fact that 1931/32 was a year of economic slump stimulated my desire to understand why the world was suffering from "poverty in the midst of potential plenty", and the College agreed to my switching to Econ-

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□ Cambridge (Great Britain).

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omics Part II. This combination with maths for Part I was a well-recognised course, and I have benefitted as an economist from that year of maths: indeed, my previous work on science has also proved helpful on a number of occasions.<sup>1</sup>

My change to economics also brought another piece of good fortune in the superb quality of my supervisors. I went in alternate weeks to G.F. Shove and R.F. Kahn for "normal" supervisions, and once a fortnight I went to Maynard Keynes for a sort of "super-numerary" supervision in which the subject was one in which he had a special interest. It would be hard to think of a better arrangement, and this contributed a great deal to my being placed alone in Class I, Division I in 1934. Keynes in particular was also extremely helpful over arrangements for my career.

### Book on the Russian financial system

After the exam results were known I arranged to go into the Bank of England as a special entrant, but not to start work until September. The Bank knew that I would start by visiting Russia with my father, who lectured on East European History.

By good fortune, the man in the Bank who worked on Russian banking (L.E. Hubbard) persuaded the relevant people in the Bank to let him accept an invitation from the Russian Central Bank (Gosbank) to visit Moscow and study the workings of Russian finance, and to take a young economist with him. The Bank agreed to offer me the chance to go by bringing forward the starting date for my appointment, so my career started with a fascinating month in Moscow, learning things about which very little was known in the West.

In particular, it was fascinating to find in what ways things worked similarly in Russia to the way they did in the west, and what were the important differences.

As an example, a typical town-dweller received a weekly wage as his main income, which he spent in the market in his own way, but there were important cases where particular goods were not available

<sup>1</sup> I even wrote the chapter on "The chemical industry" in the book *The Structure of British Industry* edited by Duncan Burn for the National Institute of Economic and Social Research in 1958 (Cambridge University Press, Cambridge).

on a scale to meet the whole demand and might be formally rationed.<sup>2</sup> The consumers position was then rather similar to the one prevailing in England in 1918, with varying degrees of "shortages" on many goods.

Agriculturalists were normally members of a producer's cooperative, which had to sell its main output to the state at rather low prices, which reflected the absence of any rent for the land (and its acreage and quality); the proceeds were divided between members on the basis of the work which they had contributed. Most members however also had a small private plot, which they used as they chose.

On my return to England I decided to write up an "economist's" account of what I had learned, which I entered for the Adam Smith prize at Cambridge (open to all Cambridge research students and to people who had graduated in the last three years). As I had a far better subject than any other competitor I won the prize, and Keynes (who was interested in the subject) offered to send the essay to Macmillan with a recommendation to publish it.

As a result, a "slim volume" called *The Russian Financial System* by W.B. Reddaway (Macmillan, London) appeared in 1935 (and, I am glad to say, sold out). I had not intended to publish anything for three years or so after my graduation, but "good luck" led to that intention being ignored.

### From the Bank of England to Australia

My "normal" activities in the Bank of England proved rather dull and slow-moving: there was a promotion bottle-neck in the Bank, caused by massive recruitment for financial activities connected with the Great War, and after a few months I assessed my prospects gloomily for the next five years or so. I had learned some useful practical points about how City procedures worked (e.g. the clearing system) but I decided to turn once more to Keynes and ask whether he had any good suggestions.

<sup>2</sup> The most important case was bread, which was de-rationed in late 1934. The consequences of this action are described in the book which I published in 1935 (see below).

By good fortune he greeted me with the statement that he had just received a letter from a long-standing Australian colleague (L.F. Giblin) who was Professor of Economic Research at Melbourne University, and who had just been made a non-executive Director of the Central Bank. He was getting the University to agree to use his Bank salary to recruit an Economic Research Fellow, who would work with Giblin, and getting the Central Bank to give Giblin discretion to show the Fellow any Bank papers, and discuss policies with him.

I agreed with Keynes that this was a golden opportunity, since the Australians took heed of economists' advice, and in January 1936 I started on the 5.5 weeks' journey to Melbourne. I also took an advance copy of Keynes' *General Theory of Employment Interest and Money* (Macmillan, London).

Two features of the 2-year venture to Australia are worth recording here. Firstly, the Melbourne economists decided that as I had read *The General Theory* and had worked with Keynes, I should write the review for *The Economic Record* (at the tender age of 23). As printing and publishing were done much more quickly in Melbourne than in England, this review appeared in June 1936, ahead of most English reviews, and I am glad to say that Keynes subsequently wrote to say it was very well done.<sup>3</sup> He did not in any way criticise my comments that his exposition did not bring out the extent to which the variables *mutually determine one another*, rather than following a chain process; nor that he used 'the rate of interest' as simple variable where the true factor was "the cost of capital", and that this was affected by "quantitative" controls which affected different would-be borrowers differently (e.g. bankers limitations on the amount which they would lend to particular firms).

Secondly, the Australians had a system of wage-fixing, under which (broadly speaking) a minimum wage was fixed to apply generally, and adjusted quarterly by the retail price index. When the

<sup>3</sup> In 1987 Warren Young wrote a book, *Interpreting Mr. Keynes* (Blackwell, Oxford), which considers the time-table of printed works on the central issues of the *General Theory* and contacts between the commentators. To my surprise I found that my work was quite independent (which I knew) and also appeared first. I later came to realise how many other important things I had not tackled in my review. In 1964 Lekachman invited writers of reviews to contribute a chapter to a book entitled *Keynes' General Theory: Reports of Three Decades* (Macmillan, London): I wrote on the assumptions about "Government policy" which should have been discussed in the review.

slump hit Australia in 1929/30 this wage had been reduced *in real terms*, by the independent wage fixing authority, primarily to help exporters and firms competing with imports. In 1937 I received a sub-poena from the Commonwealth Arbitration Court to give evidence in the case which the trade unions had launched for a revision of the real wage to its old level, *plus* a small addition. I was somewhat amazed that the Court should have chosen a 24 years old Englishman to act as their independent assessor, but the job was of course a fascinating one. As the initial memorandum which I submitted favoured the wage increase, I was subjected to lengthy cross-examinations by the employers' representatives; but the Court's award was essentially what I had recommended, and the new basic wage was christened "The Reddaway". With adjustment for rising prices it remained in force for some 15 years.

### Return to Cambridge, 1938

When only about six months of my two-year initial appointment remained, I was starting to wonder what I should do next. Good fortune, however, solved the problem when a letter arrived from Clare College offering me a teaching Fellowship, although I had had no contact with Clare before. In January 1938 I became a Fellow – a position which I still hold 57 years later.

A further piece of good fortune arrived very shortly after my return: Allen and Unwin asked whether I would contribute an "applied" book to a new series which they were starting. I had been talking with John Hicks, who had suggested that someone ought to analyse the consequences of a declining population. All fell into place and the book appeared in the month when war was declared, along with our first child (*The Economics of a Declining Population*, Allen and Unwin, London, 1939).

### The war years

Being in a reserved occupation I spent seven intellectually stimulating years in the Board of Trade. Nominally I was in the Statistics

Division, but in fact I was involved in a wide range of problems, usually of a novel kind. From these I learned a lot about many things, and more especially about how administrative procedures work.

The most memorable and important job was to help with the introduction of clothes rationing. The preparations had all to be done in secrecy, since a leak would have led to a run on the shops. As a result members of the small team had to undertake all sorts of jobs for which they had little or no prior qualifications: I personally drew up the list showing how many coupons were to be "paid" for each garment (on which I derived much help from my mother-in-law's pattern book). This also, in effect, decided the size of the first year's ration, and I complained that the information about probable supplies was quite inadequate; but I was told "you are the statistician".<sup>4</sup>

A second "memorable and important job" was to be one of the UK representatives on a three-sided investigation by the Governments of the UK, the USA and Canada into "The impact of the war on civilian consumption" in each of the three countries. This was undertaken in 1945, and was part of the background material for various decisions about post-war arrangements – e.g. allocation of scarce supplies, settlement of lend-lease. The results of the investigation were published in *The Impact of the War on Civilian Consumption in the UK, USA and Canada* (HMSO, London, 1945), and there is no longer space here for further analysis. I was, however, very lucky to take part in the operations, which incidentally involved a flight to Washington by a highly unusual route – Lisbon, Bathurst, Belem, Trinidad, Bermuda, Baltimore: this reflected the fact that no aeroplanes were available for civilian flights across the North Atlantic from East to West, because the winds were predominantly hostile – but a requisitioned flying boat could manage the shorter crossing from Gambia to Brazil.

On the more narrowly "statistical" side I helped with preparations for an improved post-war Census of Production and a new Census of Distribution. I also represented the Board of Trade on the inter-departmental committee which drew up the new (post-war) index of retail prices – an activity which led the Colonial Office to

<sup>4</sup> Fortunately, my luck held. Neither widespread shortages nor unsaleable stocks emerged (see my chapter on "Rationing" in *Lessons of the British War Economy* edited by D.N. Chester, Cambridge University Press, Cambridge, 1951).

send me to Cyprus in 1949, where the inadequacies of the existing index were threatening to produce serious strikes.

Fortunately a lot of ingenious common-sense and a careful discussion of problems with all the "parties" involved led to the smooth introduction of a generally accepted index, and an unofficial statement by an officer "Yours is the first report from an Adviser to be accepted for as long as I can remember".

In 1955 a similar problem arose in Sierra Leone, which led to a riot. It had already been arranged that I should go out in March, and the riot led the Governor to cable "Send Reddaway quickest".

#### Economic Director, Organisation for European Economic Cooperation

Good fortune led to my academic life after my 1947 return to Cambridge being enlivened by other "practical" jobs which I greatly enjoyed. Indeed I had barely completed a single term when the University agreed to my working half time for the Ministry of Fuel on a new "rationing" problem. The basic ration for petrol had been abolished as a contribution to solving the foreign exchange crisis (which had led to the convertibility of sterling being cancelled in 1947). There was understandable discontent and confusion when all petrol users had to make out a claim for "supplementary" coupons or "evade" the control by (for example) using petrol intended for lorries.

Much ingenuity was needed to solve this bunch of problems – such as making lorry coupons only valid for fuel coloured pink, and imposing heavy penalties on any car user with pink fuel in his tank. But it was finally agreed to restore a modest basic ration, and my contribution was to reduce the demand for supplementary coupons by getting general agreement that insurance would be supplied at half price for cars which had no supplementary coupons.

Much the most important "practical" job in this period, however, came in the years 1951/52, when was asked to work in Paris on the international secretariat of the "Marshall Plan Organisation" (to give the OECD its more revealing name). This gave me a richly varied experience of an international organisation concerned pri-

marily with liberalising trade between European countries and running the European Payments Union.<sup>5</sup>

#### Director of the Department of Applied Economics (DAE)

My next important piece of good luck came in 1955, when I was appointed Director of the (Cambridge) Department of Applied Economics, which had been formally founded in 1939 but had not begun operations until after the war, when its first Director was J.R.N. Stone. In the ordinary way he would have continued to hold the post (for which he was admirably qualified) for many years. But an outside donor (P.D. Leake) gave the University the funds with which to found a new "Professorship of Finance and Accounting"; Stone was appointed to this, and I succeeded him as Director of the DAE.

Broadly speaking, this meant that my main activity was to conduct "applied" research, with the aid of a salaried staff, and to help teaching officers of the Faculty to devise and pursue similar research. I retained, however, the right to do College teaching (supervisions), which maintained my contacts with undergraduates (which I valued). This was almost exactly in line with my academic preferences.

The regulations for the Directorship set a maximum of 15 years' tenure (including one extension of five years). My usual good luck held however; in 1969 James Meade decided to resign from his post as Professor of Political Economy and I was appointed to the vacant chair – which had earlier been held by Alfred Marshall.

The climax to my work at the DAE came with two major research projects on "The effects of direct investment overseas" and "The effects of the selective employment tax".

The first of these was commissioned by the Confederation of British Industry in 1966 (after considerable discussion as to whether the sponsor should be the Treasury, which was the other highly interested party). It called for a lot of enquiries – mostly of a highly

<sup>5</sup> See *Economic Progress and Problems of Western Europe* (OEEC, Paris), June 1951, of which I was the draftsman. Lack of space forbids a lengthier discussion, but that experience emphasised to me the importance of personal relationships in international negotiations.

original character – to companies which had done the investment. The results were published in two reports in 1967 and 1968 – the first reflecting the desire of all parties to get quick guidance about what controls, if any, should be imposed on overseas investment.<sup>6</sup>

The project required a great deal of careful thought as to what issues really needed to be addressed, and how the relevant statistics should be obtained. In the preliminary discussion with the CBI and the Treasury, much attention was paid to the balance of payments and the effect on the exchange reserves. We decided, however, that a wider view had to be taken. Those issues would have to be addressed, because there was a problem on foreign exchange, and complicated controls were imposed by the Government on the use of foreign exchange for overseas direct investment. But a more fundamental problem was the effect on the National Economy Generally, broadly represented by "the GDP in real terms". Inevitably this involved a careful choice of relevant assumptions.

Our results are summarised in pages 340 to 352 of the *Final Report* ("Summary of both reports"), and are far too numerous and complex to be reproduced here. One can however say broadly that the return to the UK on direct investment overseas had been good, and had taken many forms – including, for example, the gain from making fuller use of research done by a company, if it uses that knowledge in overseas operations, as well as in the UK. One must however add that overseas investment in itself tends to lower the exchange reserves and increase overseas debts (as a partial counterpart of the increase in direct assets): hence it is important that general Government policy should ensure that other factors are off-setting this tendency – but many possibilities are available.

Put very widely, our conclusion might be that Government should not restrain direct investment overseas, unless it considered that the strain on the exchange reserves will otherwise be embarrassing, and that no better way of relieving the strain is available.

The second project was one commissioned by the Treasury in 1967 and when we undertook it I felt extremely doubtful as to whether any really useful results could be achieved, because of its vast

<sup>6</sup> See *Effects of UK Direct Investment Overseas* by W.B. Reddaway – *Interim Report*, 1967 and *Final Report* 1968 (Cambridge University Press, Cambridge).

size and the need to estimate for so many variables what would have happened if the tax had not been imposed. We were also worried about how far our informants would make reliable attempts to provide such estimates, and by the poor quality of the available official statistics.

However, we decided to start with the effects on the distributive trades, and we adopted various devices to impress on our informants the need for careful and honest answers. To our surprise, the statistics which emerged (showing, for example, a higher rise in productivity than would have been expected on the basis of past experience) were much more consistent and plausible than we had expected, and by very hard work we produced our *Report on the Distributive Trades* (published by HMSO, London) in January 1970; some matters had however to be held over for final treatment in a later report, when later official statistics would be available. In view of the numerous separate industries covered by the SET (Selective Employment Tax) I felt that the entire job could not be finished in the ten years which remained before my retirement. This rather alarming prospect, however, disappeared when the Treasury explained that the election of a conservative government which was pledged to abolish SET (without waiting for any report) meant that the funds for the project would be cut off after 1971, and we could use the residue to pay the specially recruited staff to work on any project which we chose.

We decided to do what we could with official statistics to cover additional industries and to round off the *Report on the Distributive Trades*. This proved a laborious process but it was cheering to see how much ground we could cover. The results were published by Cambridge University Press in 1973 as *Effects of the Selective Employment Tax - A Final Report* (Occasional Paper No. 32).

#### Work as a development economist

In 1959/60 my general work as Director of the DAE was interrupted by a year's sabbatical leave during which I worked in India, effectively in collaboration with the Head of the Perspective Planning

Division of the Indian Planning Commission (Pitambar Pant - a most excellent colleague).<sup>7</sup>

The work involved a study of "how the Indian economy worked", in both qualitative and quantitative terms. The Government exercised very important controls, and its whole approach was unorthodox, especially in its concern with long-term developments. I published my analysis in a book, *The Development of the Indian Economy* (Allen and Unwin, London, 1962), and I was cheered to find that it was still in widespread academic use a dozen years later, although the statistics had inevitably become outdated.

My work in India led to a whole string of jobs in developing countries, or in international bodies, such as the World Bank, which organise practical work in developing countries. Over the next 25 years I worked in some 20 developing countries, ranging in wealth from Argentina and Saudi Arabia to Bangladesh and Abyssinia; Papua New Guinea and Qatar were amongst the least known, but without exception the work was interesting and worthwhile. The same applied to work inside the World Bank, the IFC, the ILO and as a member of the Committee for the World Development Plan (on which Jan Tinbergen gave such a fine lead).

#### Prices and incomes policies

In 1966 I published in *Lloyds Bank Review* an article entitled "Rising prices for ever?", the main theme of which was that the combination of demand-pull forces and cost-push forces was responsible for the persistent rise which had featured in every year since the end of the Second World War; moreover, this was likely to continue indefinitely, so that the question-mark should be deleted from the title.

<sup>7</sup> The technical details of the arrangements are complex but not important. Formally I was a visiting economist at the MIT Center for International Studies, and Pitambar was employed by the Indian Statistical Institute, to which the Planning Commission had sub-contracted its work on perspective planning.

By good fortune, this article was read by Aubrey Jones, who was still working on the organisation of the official Prices and Incomes Board. The analysis appealed to him, and I was offered part-time membership of the Board, which proved a highly interesting experience, though the results achieved – particularly on money-wages – were often disappointing.<sup>8</sup>

Through personal connections with a member of the staff of the Australian Prices Justification Tribunal I was then invited to spend two months of 1974 as a consultant to that institution, which again proved very interesting. The Australian Constitution gave the Federal Government no power to act along UK lines, but it did have powers to call on *companies* to justify any increase in prices which they wished to impose. Once again, the problem was that the Tribunal could not possibly investigate all proposed price changes.

#### Other activities

Good fortune brought me a long list of other interesting activities, of which I can only mention a few, and those very briefly:

(a) From 1971 to 1976 I was editor of the *Economic Journal* – a post made much more satisfying by my having two excellent co-editors – Professor David Champernowne (handling the mathematics) and Miss Phyllis Deane (dealing with reviews).

(b) I was an economic consultant to the Confederation of British Industry from 1972 to 1983 (when the CBI sacked all its paid consultants because the “Thatcher squeeze” had seriously depleted its revenue). Before that I had much appreciated taking an active part in the work of its Economic Committees.

(c) I also acted as economic consultant for many years to the UK branch of NERA (National Economic Research Associates – a private American Organisation which did practical economic assess-

<sup>8</sup> In my view this mainly reflected the Government’s decisions to set the maximum wage which the Board could declare to be “not contrary to the public interest” in the cases referred to it at a level which would reduce the general rise in prices to zero if universally adopted. In cases *not* referred to the Board the rises were in fact higher, so that the “system” could not work effectively.

ments of problems mostly involved in public policy on industrial issues). This provided a series of highly interesting problems.

(d) I was twice engaged as a consultant to the equivalent of Royal Commissions set up by the Australian State of Victoria. The first was concerned with taxation and other forms of revenue-raising – a subject on which I could claim substantial expertise, and on which the Chairman (Dr. John Nieuwenhuysen) welcomed me as impartial adviser; it produced an excellent report in 1983, but few of its recommendations were adopted. The second was on the working of the Liquor Control Act, on which I could claim *no* real expertise, but on which the same Chairman found my basic approach to problems very helpful; of the report’s 94 recommendations, 75 were adopted, in the face of strong opposition from interested parties (who had enjoyed their cosy position of strictly limited competition).

(e) Finally, a rather special case arose out of my role as adviser to Clare College on the management of its investment portfolio, from 1953 to the present day. Throughout the whole of that period the Committee stuck to its principle of “not trying to be too clever”, and only considering changes in its Stock Exchange investments once a year. We started in 1953 by changing from the previous policy of 100% bonds to 100% equities, which were chosen basically to give a wide spread between industries: the 48 shares with which we started were chosen in one hour with no professional advice.

I have described this activity in a booklet entitled *Portfolio Management for Not-for-Profit Institutions* published in 1992 by the Institute for Public Policy Research (IPPR). This sets out the logic of the case for our policy of “inactive management”, and adds persuasive figures from the experience of the College portfolio. Thus on capital valuation (with all income distributed to the College), for every £100 invested in 1953 the value in 1992 would have been £4,286, in money terms, or £320 at 1953 prices; our “control” figure based on the All-share index was £236 at 1953 prices. The income from the original £100 in 1991/92 would have been about £19 at 1953 prices, with a control figure of £11.5.

If the original £100 had been invested on an accumulating basis, with dividends reinvested, the 1992 value would have been £4,531 in real terms.

We do not fully understand why our results are so much better than those based in the All-Share index, but the superiority reflects a fairly consistent result. Taking income and capital gain together in each of the 39 years, the College beat the index in 26 years, and only in two years was it behind by as much as two percent.

Our simple procedures are sometimes described by commentators as "simple-minded", but the results justify their logic. I think with pleasure of the many developments achieved in Clare College in the last 40 years which they helped to make possible including the founding of a new College (Clare Hall).