WHO FRAMED SOCIAL DIVIDEND?
A TALE OF THE UNEXPECTED.

Some preliminary notes on the roots of 'Social Dividend', featuring J.E. Meade, A.P. Lerner, and G.D.H. Cole; as well as Joan Robinson - for starters

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rapport 89/230

april 1989

SUMMARY

This paper traces the roots of one of the names used to refer to policy proposals, which are presently known as 'basic income schemes'. It establishes that similar models were part of Keynesian thinking (in the work of Robinson, Meade and Lerner) in its formative phase and traces the origin of the name to the work of G.D.H. Cole. Finally, a probable ancestor is presented and some lines for further research are set out.
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BIBLIOGRAPHY

This paper was (briefly) presented at a seminar on "Citizenship Rights and Basic Income", organised by IRES-CGIL (Roma, 5-7 April 1989). Besides some minor points and typing errors, I made only two noticeable changes. I restated (more accurately) Bill Jordan's position on terminological matters and I added a post scriptum, giving some (newly found) information on the question which closed my paper when first drafted.

Guido Erreygers commented extensively on an earlier draft. Toon Vandevelden kept me from making a rather embarrassing error in the final draft. My colleagues of the Research Unit on Labour Economics did not get nervous (or did not show it) whenever I disappeared, again, for a long visit to the basement of our library - times when they or the secretaries had to cope with my incoming telephone calls. I owe them at least the peace of mind necessary to undertake this kind of time consuming research, where succes results probably more from luck than from 'pluck'.

WHY LOOK BACKWARDS?

A few years back, getting more involved with basic incomes and working myself through the literature, I was puzzled by the use of many names for the same thing.

'Universal grant', 'basic income', 'social dividend': all three of them seemed, to me, to convey different meanings or to associate with different views of the world. Nevertheless, each of these verbal metaphors pointed at a scheme, combining in its simplest form a cash grant (equal, universal and unconditional) with a proportional tax on earned income. Significantly, the graphical or mathematical metaphor used was in each case the same. A graph or formula very similar to the one used to represent a 'negative income tax'.

When I looked into the literature for some answers as to what this was all about some inconsistencies struck me; in particular, with regard to the term 'social dividend'.

For instance, 'basic income' or 'universal grant' I traced back rather easily. Not so 'social dividend'. People still used it, but nobody seemed to know exactly where it came from. So, I got curious and reckoned it might be fun to figure out where this mysterious name originated. Section one of my paper states the elements of this (first) part of my initial puzzle more fully.

Tracing the origin of a 'social dividend' I ran into names, books and articles, bringing the name in the orbit of Keynesianism. This result was rather unexpected.

People favouring basic incomes, as well as people opposing it, frequently draw a sharp line between this kind of schemes and the institutional framework on which our present welfare state rests - and which, as we know, results out of a Keynes/Beveridge-venture. Yet, the literature I discovered indicated that certainly the name and even the concept of a social dividend somehow belonged to the 'cultural capital' of the famous Cambridge Circus, a group of economists reading and discussing Keynes's work in the formative phase of his 'General Theory'. I present the elements of this (second)
part of my puzzle in section two.

Section three does some warming up and looks more closely at the work of one of the members of the Cambridge Circus, namely Joan Robinson.

However, the most eminent sign of a link between 'social dividend' and Keynesianism is, of course, James Edward Meade. Meade is not only a life-long advocate of social dividends and, as it turns out to be, one of the first users of the term. Meade is also well-known for his important role in the building of the British Welfare State and for his early advocacy of Keynesian economic policy. His work will be dealt with in section four.

For some time it looked as if this would be my quest's finishing point. I had followed two tracks. They crossed in the work of James Meade. No evident mark was available as to which road to take after their junction. Maybe, I reached the point where I found what I set out to get in the first place: the first user of the term social dividend (in the sense used here) and some circumstantial evidence for the case that the term began its public life somewhere in the Keynesian vineyard. Mission completed, one would say.

Yet, some loose ends remained. Was Meade really the first to use 'social dividend' in its modern sense? And, if not, where did he pick up the notion? From what context did he get it? A very uneasy feeling made me suspect that I overlooked something.

A few more visits to the library, made me hit on something really unexpected. Some facts suggested that Meade could have taken the name 'social dividend' from at least two other sources: the theoretical debate on the economics of market socialism and the practical political debate on the reconstruction of British socialism after the disastrous 1931 elections. In both 'social dividend' was present and in both Meade proved to be involved. Two prominent figures and probable influences on Meade stand out: Abba Lerner and Douglas Cole. Reporting on these findings is the central purpose of this paper. Sections five and six will each deal with one of them.

A seventh section will try to go still further back, looking at the years before Cole.

*
Some warnings are in place, however.

First, this paper is the result of 'do-it-yourself' activities, not of professional craftsmanship. Neither by education nor by profession I am a historian of economic ideas. Moreover, I nearly completely relied on our own university library. Only two or three times I consulted libraries outside Antwerp. A more thorough search could (and needs to) be conducted. I certainly intend to enter this road, but until now, I did not find time nor opportunity to visit 'the scene of the crime' and work myself through archives or witnesses.

Second, the period treated is a most fascinating and crucial period in the making of modern economics and, evenly so, in the history of British socialism. Both parts of the story interconnect, even more than I suspected them to do. Being more acquainted with this tradition, it might be the case that for a lot of (British) persons involved in the basic income debate, especially those with their roots in the Labour movement like Bill Jordan, Guy Standing, David Purdy or, for that matter, Edwin Morley-Fletcher, the story I have to tell really is old hat.²

Third, there is even one more complication. As I tell the story, the material is cast more or less in the form of a detective story. I used it because it gave me an easy way to line up the facts, more or less in the order I ran into them — and as a kind of tribute to my main character (G.D.H. Cole), who was half of a famous duo writing detective stories. In fact, this kind of narrative is very difficult to sustain. Not in the least because of the lack of (cross)references in the relevant works. It is very hard to establish who used which term first or who took some idea from whom. This seems to be a common problem for scholars looking into the history of, let's say, the Keynesian period. The following lines from Austin Robinson point at what might be the matter.

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¹ I must confess that our university library has a great deal to offer with regard to the period treated. Thanks to — at least that is what I suspect — A. Muller, a father jesuit credited with being one of the main writers (with Von Well-Brüning) of the papal encyclic 'Quadragesimo Anno', the economical and socio-political literature of the Inter-War period is extremely well covered, remarkably well even bearing in mind that our university at the time only was a business school.

² A (brief) presentation of a first draft of this paper, with Jordan, Purdy, Standing and Morley-Fletcher present, learned me that my fear of kicking in open doors, really, was overdue.
Referring to the work of the Cambridge Circus in the early thirties - and to Don Patinkin's unsatisfactory account of it - he writes: "We did not then feel any need for there to be the establishment of evidence (about who found out what, wvt.). For I think one thing that the present generation forgets is that private property in ideas was only invented with the Ph.D. In 1931 we were considerably more interested in truth than we were in establishing property rights in ideas. ... I think Richard Kahn will agree with me that some of the ideas that were fed to Maynard by Joan or by him may have come from Kahn himself or from Joan herself. They may have come from Piero. They may have come from James Meade. They may have come from the five of us individually or collectively." (A. ROBERTSON, 1985:38) Tracing origins of ideas like 'social dividend' may, therefore, be bound to end inconclusively.

Fourth, as my subtitle says, these are preliminary notes. That is the reason why I make long quotations and stay rather aloof from making to much interpretations. I think it is important, certainly for what I am doing here, to leave the reader the opportunity of checking texts. Moreover, I started writing this paper merely as a public letter to people involved in the basic income discussion. Hoping to earn me some more details on the points I made or additional material for points I did not see. After some writing I discovered that what I intended to be a short note, was growing into a lengthy paper. So, I tried to rearrange my style, but obviously did not succeed. Some ambiguity still remains and may prove to be an annoyance to the reader. For this I apologize.  

Yet, and even if so, I think my story highlights some fragments of the history of basic incomes, we almost lost track off. In the present debate, their only reminder is the lasting habit of some British basic income advocates to use the name 'social dividend'. But, though still using this 'older' or 'traditional' name, even they do not make at all clear its origin. And, as I will show, the roots of 'social dividend' turn out to be rather unexpected indeed.

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3 As well as for my breathtaking attacks on the English language; I know that it takes more than the speller of my word-processor to write good English but I hope it turns out to be bearable. So please be carefull if you are quoting the paper. On the facts you should be reasonably safe, but the language may play you some nasty tricks. Comments will be received with pleasure and gratitude.
SECTION 1: A TRADITION MISLAI/ED?

In his recently published book 'Social Power and the Labour Market', David Purdy (1988:193) introduces the idea of basic incomes as follows: "'Basic income' is a new name for an old idea. Other names include 'universal grant', 'social dividend' and such less felicitous titles as 'citizen's wage' or 'social wage'.' He footnotes that, owing to BIRG, 'basic income' has become the accepted term of art and that the Belgian Collectif Charles Fourier forged 'universal grant'. 'Social dividend' is said to be the traditional term, without mentioning, however, any sources or where its origins lay.

Guy Standing still sticks to the name 'a social dividend solution' in one of his recent papers (1988). But he does not tell us where he picked it up. A footnote, in his earlier book on unemployment and labour market flexibility (1986:146), asks the question "What is in a name?" and - like Purdy - points out that 'basic income' is the currently popular term. 'Social dividend' is mentioned alongside 'social income' - without any reference to former users. The only name worthy of having its antecedents spelled out explicitly is Major Douglas's 'social credit'.

Some years back, Bill Jordan used 'a social wage' (1984) as a title for one of the first (recent) widespread articles reintroducing the concept of basic incomes. As Purdy and Standing note, 'social wage' has the inconvenience of being associated with the idea of earning, and in Jordan's work it seems to be something of a lapsus. Earlier in his writings - when discovering the idea he used guaranteed income, shifted to 'social dividend' later on, and, most recently, uses 'basic income'. In the same vein as his colleagues, Bill does not give any clue with regard to the origin of the name."

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4 As he wrote me after reading the first draft of this paper, Bill Jordan cannot reconstruct where he got the name 'social dividend' from. Although, he says that he started using it after reading the bulk of Major Douglas's work. Interestingly enough, however, in his book on the state (1985), Bill Jordan comes very close to what is the main finding of my historical journey (pp.315-317). He taps the sources I use - Cole to be precise, but not the same books - without 'clinching the frame'.
As far as I could find out only Anne Miller, 'In Praise of Social Dividends', and Tony Walter, 'Fair Shares?', refer to some definite sources.

Anne Miller (1983:1-2) writes: "Social dividend schemes are not new. Juliet Rhys-Williams outlined a scheme in 1943, James Meade has been considering variations on them for some years, and more recently Brown and Dawson and Roberts have recommended their own versions."

Tony Walter (1985:65) presents the following pedigree of Social Dividend: "First came Major Douglas, an engineer, who at the end of World War I proposed a social credit, financed by the government printing money as a way of preventing the problems of slump and unemployment which occurred in the 1920s and 30s. Governments in Canada and New Zealand paid serious attention to the idea, as did Lady Juliet Rhys-Williams in her book 'Something to Look Forward To' (1943) which formed the main alternative to the Beveridge proposals. By then the idea was that the dividend would be paid from taxation. It was not taken up in Britain but it found a home in the US Treasury of the time where the young Milton Friedman was working. By the 1960s there was much discussion about NIT in the United States. The classic reference is Friedman's 'Capitalism and Freedom' (1962). The British Labour Party was wary perhaps because of its distinctly unsocialist pedigree, but did discuss some related proposals in the 1960s. The Ecology Party included a national income scheme in its 1983 manifesto and the Scottish National Party are interested in the idea."\(^5\)

At last, some clues to go on, you may think. But some checking results in disappointment. In fact, Anne Miller's and Tony Walter's references are rather misleading. None of the persons mentioned is, properly speaking, using the name 'social dividend' (or - in the case of Meade - is really referring to it).

I leave aside Brown and Dawson - I could not consult their work, but for my case it is rather immaterial. Also, I do not consider Milton Friedman. He certainly did not use the term 'social dividend' and I am not even sure whether the alleged link with Lady Rhys-Williams indeed exists.

\(^5\) To be sure, Tony Walter's recently published book, 'Basic Income', points at the same sources and adds the Polish economist Oskar Lange. Since I hit on Lange before Tony was actually writing the book, this was not an element of my puzzle at the start.
So, let us consider Keith Roberts, Lady Rhys-Williams, Major Douglas⁶ and James Meade.

Miller's own evidence sustains my case with regards to Keith Roberts's work. The article she refers to bears as a subtitle 'towards a National Dividend Scheme' (1981). We find the same name in Roberts's more recent booklet 'Automation, Unemployment and the Distribution of Income' (1982). In his posthumous and privately produced 'A Design for a Market Economy' (1985) he turns to using 'basic income'. No trace of the name 'social dividend' in Roberts's case, thus.

Something similar applies to Lady Rhys-Williams. To my knowledge, she never uses 'social dividend' neither in 'Something to Look Forward To' (1943) nor in 'Taxation and Incentive' (1958). Worse even, she uses 'a national dividend', but only when critically discussing the work of Major Douglas (1943:115-116). Not when elaborating on her own proposals which she always names a '(New) Social Contract'.

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⁶ Major Douglas was a Scottish engineer, who started his career as a writer of social reform schemes in 1919. He gained a substantial amount of followers, amongst them a (rather right-wing) part of the former Guild Socialist Movement. He was heard by the famous MacMillan Committee as a witness. Later, he became very influential in Canada and New Zealand. In the state Alberta (Canada) a Social Credit Party got a Parliamentary Majority in the 30's and kept this majority for nearly 30 years. The most famous commentary on Major Douglas is probably Keynes's dictum that in the vast army of underconsumptionists Douglas has his place, - as "a private perhaps, but certainly not a Major." (KEYNES, 1937) I will not enter the intricacies of Major Douglas's work in this paper. Suffices it to say that the major feature of his theory was the so-called A+B theorem, which according to Douglas explained why underconsumption was bound to exist, because part of the value of production was not paid out. To counter this, the state, therefore, should print money and distribute it to all citizens as a national dividend. This strange theorem, however, was embedded in a second layer of explanation in terms of 'technocratic' development. In this larger theory, somehow, a society of abundance gave way to 'technological' unemployment, because the parts of the economic system were not fully integrated.

⁷ Is this the reason why the late Sir Brandon Rhys-Williams and Mimi Parker invented 'basic income', not eager to tempt others to associate their schemes with the social crediters's 'national dividend' if using the very similar 'social dividend'? As for 'basic income', the oldest mention of it I could trace is in Jan Tinbergen's 'Economic Policy' (1956). Though he uses it in a paragraph on guaranteed minimum incomes, it is clearly what we are looking for here: "... 'basic income' to certain groups of the population especially exposed to risks of poverty. Such a basic income should not necessarily be a sufficient income, but it might be a contribution to it, to be supplemented by other incomes dependent on the individual's activity or savings, or on other provisions of a less general character. ... The proposals are not very different from social insurance proposals; but the link between contributors and recipients is a looser one. Economically speaking, the proposals are the same; and ... the conclusion might be that such measures are to be recommended if they refer to recipients who otherwise would be very badly off in comparison with other groups of the population. At the same time it will be clear that a basic income of any importance - say 50% of normal wages - and given to an important part of the population, would meet with
So, is Douglas perhaps the one who made 'social dividend'? This seems unlikely. As Tony Walter says Douglas mainly used the name 'social credit'. And, we already saw that Lady Rhys-Williams criticized his 'National Dividend'. So, we can safely disregard Douglas - if only for the time being, as we will consider his case again later.

So, we are left with the reference to James Meade. Here, Miller seems to have a case in point. Meade, definitely, uses 'social dividend' in numerous places throughout his work. Yet, and again, this is misleading.

The article quoted, 'Poverty in the Welfare State' (1972), and Anne's phrase, that Meade considers variations on these schemes "for some years", suggest that this interest is of more or less recent origin. This, most certainly, is not the case. Even in the fourties Meade advocated similar proposals. For example, in a book published as early as 1948, Meade notes: "An exceedingly stimulating proposal for an architectonic reform in this field has been put forward in recent years. It is suggested that a straightforward monetary payment or allowance or 'social dividend' should be paid to every man, woman and child in the country - although the rate of payment might, of course, be lower for children than for adults." (1948:42-46) Looking a bit closer, there is, however, room for amazement. The passage I quoted comes from a section titled "Lady Rhys-Williams' Rationalization of Income Redistribution". The "exceedingly stimulating proposal" Meade refers to turns out to be Lady Rhys-Williams's new social contract scheme.

So, what results out of this first round up?

A term, 'social dividend', alleged to have a traditional meaning, but referring in last instance to a scheme the author named differently, i.e. Lady Rhys-Williams and her new social contract. An author, James Edward Meade, using 'social dividend' to refer to a scheme named otherwise by its maker.

Questions pop up.
Is the name social dividend as 'traditional' as one suggests? Being probably only 40 years old and not very common. Does the foregoing imply that the old ancestor of our present basic income is, after all, the 'social credit' or 'national dividend' of the heretic Major Clifford Douglas? Skipping the 'credit' and the 'national' both terms combine to what we look for. Did someone perform consciously this slight linguistic surgery to end up with something more respectable? Or did history play us this trick? Was Meade the father of the term 'social dividend'? As he probably was the cause that subsequently Lady Rhys-Williams scheme went into history as a 'social dividend' scheme?

The puzzle gets even more complicated and intriguing. For, as I was soon to find out, James Meade already used the term 'social dividend' in 1936. Some ten years before the earliest reference I found in the literature and without, at that time, the Rhys-Williams proposal available to stick it on.

Can we conclude, then, that the Rhys-Williams book (1943) provided Meade (1948) with the practical example of something which fitted a concept he already had in mind for some time (at least since 1936)? If so, where did this concept come from?

I will come back to this in section three. But, let us now turn to the second part of the puzzle which seduced me into looking backwards, i.e. the alleged incompatibility of basic incomes with the present 'Welfare State'. As we will end up with Meade again this is not really a detour.
SECTION 2: THE "KEYNES- CONNECTION"?

In fact, not only curiosity about words caused me to look into the literature of the past. There was also a more serious side to it.

Explaining the concept of basic incomes - in Belgium as well as in most other countries, I believe - one faces many times the instant remarks that these schemes imply a definite break with the policies typifying the Keynes/Beveridge-compromise and, therefore, signal the end of the welfare state.

People advocating basic incomes argue that this would be a change for the better, whereas critics stress the negative things any implementation of basic incomes would bring about. Yet, both sides would agree, more or less, that introducing a basic income implies transgressing the limits of the present welfare state. A step backward or a step forward, but certainly a step leading outside our well-known territories.

Several arguments can be aligned to sustain this case. The most important one being the 'giving up' of traditional full employment policies implied by basic incomes - "it makes full employment obsolete", Tony Walter writes somewhere. Another argument stresses the differences in terms of so-called 'social policy paradigms' (BERGHMAN & ROEBROEK, 1987). For instance, making use of universal or demogrant schemes and elements of unconditionality as compared to the social insurance based institutions we have now.

I must confess these arguments did not really impress me. Would the differences still matter so much when comparing the blueprint of basic incomes with the blueprint of the present welfare state, or, better still, when comparing the present state of affairs with a state of affairs, let us say, twenty years after a basic income had been implemented? Even some of the more principled arguments did not convince me. Are the values of basic income advocates with regard to getting rid of poverty or securing the right to work so different from what Keynes and Beveridge cherished?
In an early attempt to write a short history of basic incomes, I expressed this feeling that the old Keynes/Beveridge solution and the new social dividend solution were not as antagonistic as they were supposed to be by most participants in the debate. I did not, however, give any theoretical arguments, which at that time I only had vaguely in mind. Instead, I pointed at examples where both solutions went more or less together within the same framework or 'mind'.

Look, for example, at James Meade, I said, this life-long supporter of basic incomes was nevertheless an able architect of many of the institutions of our 'Full Employment Welfare State' (John Keane's term).

This passage earned me a rather severe remark from Philippe Van Parijs. A nice person believing both A and B does not make A and B compatible, he wrote me. This argument, i.e. the 'Meade-connection', is not acceptable, not even as a stand-in for a proof.

I think his judgement was a bit harsh. After all, I referred to Meade after pointing to something more surprising (and in my mind more convincing). Indeed, my 'argument' rested also on an article published in the 1943 Christmas issue of The Economist.

There, (one of) the editors pointed out that one better handled the reform of social security and the reform of taxation as two parts of one and the same problem. If so, the article went on, one could move to a 'Beveridge-as-you-go' system, with the following dual objective: 
"... a minimum cash income provided for every citizen, employed and unemployed, rich and poor, old and young; and a simple proportional income-tax deducted at a flat rate from all incomes however arising. (...) ... what more decisive demonstration of economic democracy could there be than that every citizen should be given a minimum income by the community, and pay to the community a fraction of all he earned." The costs are at present prohibitive and the "dream of a complete and simple combination of National Minimum with Universal Tax must therefore be deferred." There is, however, no reason, the article says, not to try an approximation as close as possible. For such an approximation, The Economist explicitly referred to schemes put forward by Lady Rhys-Williams. After noting that such a proposal, of which the details may or may not be acceptable, is not aiming at greater expenditure, but at simplification and rationalization, the article concludes: "It would be a
resounding achievement if the British community could make provision, out of a simple tax on all its citizens, for a national minimum income for all its dependants - that is, for all those who through youth or age, through sickness or unemployment, through domestic ties or misfortune, are unable to earn their own livings. It would be a still greater achievement if, at the same time, the community could proclaim its intention of moving on, as soon as its wealth permits, to the ultimate simplicity of a cash allowance for all, financed out of a tax on every income."

To be clear, the article did not mention the name 'social dividend'.

So, even if, basically, Philippe's argument is right, and I accept that it is, there was some evidence indicating that in the day-to-day political debate the opposition between both schemes was not as neat as one sees it today. Stressing the difference between the idea of basic incomes and the institutional form of the present welfare state might, then, give a rather distorted view of how the competition between both schemes was settled - if competition it was. And, might backfire as for the way we conduct the debate at present.

Although put off a bit, I was reluctant to give up my conjecture - the possible compatibility of basic incomes with the inspiration of the Keynes/Beveridge social contract - for two good reasons.

First of all, I managed to clear up my mind and to work out some (rather dualistic) theoretical argument.

I felt that, for example, looked at from a macro-economic demand-management point of view basic income schemes could function in a way very similar to the existing benefit systems. In sociological terms, I saw them more or less as functional equivalents, the actually implemented form depending for a large part on contingent factors. Both kinds of schemes, I thought, could be part of what Keynes used to call an intellectual device, designed to manage demand and gear the economy towards full employment.

Even on a more principled level, I did not see why there should be necessarily any incompatibility. In my view,
leaning on writings of Amartya Sen\textsuperscript{8}, both the old social security idea and the new basic income idea seemed to capture some kind of right to autonomy, setting people free from the labour market or safeguarding them, at least partially, for the insecurities and harassments of the (labour) market. If so, social security and basic income could be seen as two different ways of giving an institutional form to a meta-right (or goal-right) to autonomy - the right to have some room for one's own, as it were. Surely, in the case of social security this right was merged, so to speak, with several other rights or values. But, when implementing a basic income scheme one would be witnessing something similar. Seen from this angle both kinds of schemes - social security and social dividend - implied the forging of new social relations (or pattern of entitlements, as Sen would say).

For me, this meant that more was at stake than a changing paradigm of social policy (or altering the way of administering welfare). The real social meaning of these proposals was washed away by considering basic incomes primarily in terms of a social policy regime (or as part of what Marx would call the superstructure) and not in terms of altering the basic property structure or the commodification of labour (or the infrastructure). Such a view - frequently encountered in the literature - obscured that both social security and basic incomes went, in a certain sense, beyond the capitalist mode of production. It lead to stressing the differences between both kinds of schemes. Thereby, putting the insurance aspect of social security in the center of the picture and neglecting its autonomy aspect.

Sen's concepts allowed me to understand why I could see rather similarities, even if not completely relying on functionalist arguments of the kind mentioned above.

There was also a second, more factual argument.

Searching through the literature I had stumbled onto two interesting books. Both using the term 'social dividend' in the sense we are discussing it here, both written by

\textsuperscript{8} The theoretical background for this view is the work of Amartya Sen, more specifically his concepts 'goal-rights' or 'meta-rights'. "A metaright to something x can be defined as the right to have policies p(x) that genuinely pursue the objective of making the right to x realizable." (1982:345) Even if a right can't be materialized (immediately), i.e. the right not to be hungry, one can have a meta-right not to be hungry, i.e. the right to have a policy genuinely trying to establish the right not to be hungry. This leads to see rights primarily as 'goals' (SEN, 1984).
prominent members of the so-called Cambridge Circus and both preceding the Rhys-Williams proposals by five or six years. One was written by Joan Robinson, and published in 1937. The other one, as you could guess from a former remark, was written by James Meade in 1936. In the fourth section I will look at Meade's book more closely, and rejoin the argument left at the end of the first section. But, let us first find out about Joan Robinson.
SECTION 3: JOAN ROBINSON (1903-1983), FOR STARTERS.

Robinson's work contains at least two fragments bearing on our problem. The first is a passage of only a few pages in 'Introduction to the Theory of Employment', a book published in 1937 and referred to by Marc Blaug as "one of the most widely read prewar introductions to the Keynesian system." (BLAUG, ...:208). This fragment is important because it shows that 'social dividend' was for Robinson a well-known term. The second is Robinson's famous article on 'Disguised Unemployment', republished in her 'Essays in the Theory of Employment' (1937).

Social dividend and Major Douglas?.

As she explains in the introduction, Joan Robinson undertook writing 'Introduction to the Theory of Full Employment' (1937) "to provide a simplified account of the main principles of the Theory of Employment for students who find that they require some help in assimilating Mr. Keynes' General Theory of Employment, Interest and Money, and the literature which is growing round it."

The tenth chapter treats the possibilities of changing the supply of money. Its third paragraph is titled 'A Social Dividend' - the two preceding one's being 'Gold-mining' and 'Creation of Money through a Budget Deficit'.

In the very first lines of this paragraph Robinson refers to a proposal to institute a Social Dividend, financed by printing money. Next she explains the mechanism ("... every citizen would receive a note for, say, 1 £ by the first post every Saturday, the new notes being printed as required"). She remarks that conventional minds may find such a scheme too fantastic to be taken seriously - a feeling reinforced by the habit of the advocates "to make their case exceedingly complicated and unconvincingly argued". Yet, Robinson goes on, the scheme has something to recommend itself to common sense. "If there is unemployment on the one hand and unsatisfied needs on the other, why should not the two be brought
together, by the simple device of providing the needy with purchasing power to consume the products of the unemployed?" (1937:73)

Robinson's overall evaluation is rather sympathetic. In practice, she says, the Social Dividend is likely to foster opposition from powerful financial interests, but "assuming that it is allowed to work smoothly, it would produce the desired effect of increasing consumption, and therefore employment, in just the same way as an ordinary budget deficit does. (...) Further, the cumulative increase in the stock of money would bring about a fall in the rate of interest (provided panic was avoided) and so encourage investment, thus giving a further stimulus to activity." However, there exists one major drawback. This scheme "robs the monetary authorities of all their power, for while it is in force they can no longer control the quantity of money." And she concludes: "Economic life presents us always with a choice of evils, and differences between the orthodox bankers and the currency reformers arise because each chooses a different evil. The bankers are afraid, above everything, of inflation, and are light-hearted in allowing unemployment to occur; currency enthusiasts, on the other hand, see the evils of unemployment and mock at the dangers of inflation; while both differ from more radical reformers in hoping to preserve or to patch up the system of private enterprise, rather than to recast it altogether." (1937:74)

These passages clearly express the idea of a functional equivalence between social dividends and some other tools of Keynesian demand management. Finding this was, of course, comforting. As it, somehow, confirmed my case. But one was still left with a lot to wonder about.

The wording of the text, especially the references to printing money and the currency reformers, suggest that Robinson, in fact, writes about Major Douglas and his Social Credit. But, why then does Robinson use the name 'social dividend' - and not 'national dividend' (or 'social credit') as did Major Douglas and his followers themselves? And, what made these monetary cranks - as Robinson would call them afterwards - so respectable as to earn this important place in her booklet? (A critical appraisal of The Quantity Theory of Money, for example, was put in an appendix, just after the 'Social Dividend' paragraph.)

One can deal with this matter, pointing at the fact that
Keynes in his 'General Theory' gave some space to a discussion of writers as Gesell, Hobson and Douglas, and that, therefore, Robinson had to pay them some attention. This, however, would be a rather elusive answer.

Because, if not the Social Credit Movement, the Green Shirts or the Kibhu Kift, Major Douglas himself really was taken serious. In any case, serious enough to make his writings a recurrent object of critique by political parties as well as by academic writers. Indeed, the greater part of the economical and political writings of the era contained some reference to Douglas.

Two examples out of many illustrate this point well enough. Hawtrey's 'Employment and Production' (1937) gives Douglas as much space as Hayek's 'Prices and Production' or Harrod's 'Trade Cycle' and twice as much as Pigou's 'Economics of Unemployment'. John Strachey, (then) marxist and member of the Bloomsbury Group, starts 'The Nature of Capitalist Crisis' (1935) with (its first) two chapters on 'Not Enough Money?' treating the writings of C.H. Douglas, J.A. Hobson and Irving Fisher, and (its next) two chapters on 'Too Much Money?', treating the writings of F. Hayek.

But, and this is important, neither Hawtrey nor Strachey nor any other writer - like Gaitskell, Hobson, Lewis, Drinkwater, Soddy or Ezra Pound, naming a few critics with very different backgrounds - ever used the term 'social dividend' in connection with Douglasism. One named the relevant parts of the Douglas proposals 'a subsidy' or 'social credit' or 'national dividend'. One did not use 'social dividend'.

So, we seem, now, to have reasonable grounds for making the case that the name 'social dividend' was in the air, breathed by members of the Cambridge Circus. But important questions remain. Where did the name come from? What did it refer to? Besides the element of printing money, there seems hardly any evidence to sustain the case that it refers to Douglasism. But, as we will find out soon, this feature also appears in Meade and, thus, it might very well be the case that Robinson was, in fact, referring to his work (or to some other proposal, published before Lady Rhys-Williams's pamphlets (1941) and book (1943), and known to Meade and Robinson - but not to me, at that time.)
Doles and Upholland!

For the present debate the other fragment of Robinson's work is, however, much more important. It shows that something very much like a basic income scheme was not all that alien to Keynesians as Robinson. And, moreover, was judged rather favourably on economic grounds.

'Disguised Unemployment' is a well-known article by Robinson. It framed the very concept and introduced it into the framework of Keynes's General Theory. Knowing what the concept looks like in the received view, reading Robinson's article has something surprising.

As a matter of fact, Robinson forges the concept to account for the fact that, over the whole range of human history, unemployment in the modern sense is, comparatively speaking, a rare and local phenomenon.

What does 'disguised unemployment' mean?

Robinson explains it as follows: "In a society in which there is no regular system of unemployment benefit, and in which poor relief is either non-existent or 'less eligible' than almost any alternative short of suicide, a man who is thrown out of work must scratch up a living somehow or other by means of his own efforts. And under any system in which complete idleness is not a statutory condition for drawing the dole, a man who cannot find a regular job will naturally employ his time as usefully as he may. Thus, except under peculiar conditions, a decline in effective demand which reduces the amount of employment offered in the general run of industries will not lead to 'unemployment' in the sense of complete idleness, but will rather drive workers into a number of occupations - selling match-boxes in the Strand, cutting brushwood in the jungles, digging potatoes on allotments - which are still open to them. ... Thus a decline in demand for the product of the general run of industries leads to a diversion of labour from occupations in which productivity is higher to others where it is lower. The cause of this diversion, a decline in effective demand, is exactly the same as the cause of unemployment in the ordinary sense, and it is natural to describe the adoption of inferior occupations by dismissed workers as disguised unemployment."(1937:61-62)

In the main part of the article, however, Robinson considers the effects of disguised unemployment, i.e. of
individuals taking on hand-to-mouth occupation, on overall welfare in two different states of affairs: first, a state in which there does not exist any right to a form of relief; second, a state in which such a right exist, but where one is disallowed benefit when taking on hand-to-mouth occupation. (Robinson assumes payment of the doles out of borrowing and the inexistence of saleable wealth, charity or credit facilities on the part of the unemployed. She also explicitly notes that by doles she is referring to any form of relief payment.)

In a state of affairs without any relief or dole system, the individual we consider is near starvation and is forced to take on some hand-to-mouth occupation. "Anything that he earns, in kind or in cash, he devotes to immediate consumption. Whatever he succeeds in producing is a clear addition to the total output. As a first approximation we may say that from the point of view of the rest of society, taken as a whole, his activities make no difference to output, one way or another. ... The dole-less individual, who is too poor to save, is a little world to which Say's Law applies with full force." (1937:66-67) She considers some qualifications, but the conclusion stays firm: "... the self-help of a man who in any case does not draw the dole makes no appreciable difference to the rest of the community taken as a whole, though he may damage some sections and help others." Or, as she noted before, "... the products of their efforts, the equivalents of which they consume themselves, is a clear addition to the output of the regular industries." (1937:63)

The case of a man who is disallowed benefit, when taking on hand-to-mouth occupations, is markedly different. The reason for this is clear. Reducing benefits implies reducing demand. "The effect of discontinuing the dole to an unemployed man, and driving him to self-help, is to increase the total of unemployment, while causing a part of it to become disguised." (1937:68)

The conclusion is relatively clear. Depending on the prevailing situation and the views one holds, a case for as well as a case against the institution of a dole system (or its abolishment) can be made.

The next step in Robinson's argument is, for us, the important one. As she goes on to say: "... a dole for which idleness is not a qualification is an unmixed benefit."(1937:69) Pointing at the example of a scheme instituted at Upholland to make this statement clear.
"Here a community of unemployed men work at various trades for their own benefit. They continue to draw the dole to which they were entitled when they became unemployed, and with this imports in the community are paid for. Their own produce is not exported ... but is divided up and consumed within the community. Our analysis enables us to see that the output of the rest of the world is unaffected by the existence of such a community, because the dole of an unemployed man who enters Upholland continues to be spent upon the output of the outside world while the whole produce of the workers within the scheme is a clear addition to the output of the society." (1937:69) (The example has some rigid features which could be relaxed without altering the overall conclusion. The most important being the distinction between internally produced and imported goods. Robinson shows that lifting this assumption does not alter much to the conclusion.)

Robinson directs our attention to the fact that this kind of schemes is not a remedy to unemployment. It is no substitute for measures calculated to increase effective demand. Yet, it is a peculiarly effective method of reducing the ill-effects of unemployment. "... it allows the advantages of hand-to-mouth production, under unusually favourable conditions, to be obtained without imposing, upon the unemployed and the rest of society alike, the evils of cutting off the dole. Under ideal conditions, the widespread institution of such schemes could remove the ill-effects of unemployment altogether, and could produce the level of consumption corresponding to full employment, or even improve upon it." (1937:70) Communities as the one at Upholland may even become very succesful, if their rate of productivity gets higher, or if they simply get more efficient by getting more experienced. "A day may not be far distant when, taking account both of the standard of consumption and the general amenities, the life of an unemployed man in Upholland may appear preferable to the life of an employed man outside. If things ever came to this pass, it is easy to imagine the protests that would be made against continuing dole payments to men who were actually finding unemployment tolerable. But if the dole were discontinued, the whole merit, from the point of view of outside industry, of the Upholland scheme would disappear." (1937:72) Indeed, even if the rising efficiency made it possible to compensate for the loss of the doles, the outside industries would still suffer from a shrinkage of demand.
Considered in the light of Upholland, we may conclude, according to Robinson, that "provided he does not sacrifice his right to the dole, an unemployed man does himself good, and on balance does others no harm, by occupying himself as usefully as he can." (1937:73)

Why, then, do present regulations of eligibility militate strongly against this. Robinson's answer is enigmatic. "The administrative complications involved, the strong moral objection to scroungers, felt by workers as well as by taxpayers, and the difficulty of preventing employers from obtaining an illicit subsidy, may be regarded as sufficient justification for such regulations. But their economic effects can only be harmful." (1937:74)

From this to considering a social dividend scheme seems to be only a small step. Yet, Robinson does not do this.

One of the reasons might be that she, primarily, thinks of the extended Upholland scheme as something not concerned with the issue of full employment. Indeed, in the December issue of The Economic Journal (1936), Robinson rebukes a critic, who in fact proposes to use the doles to subsidise low waged jobs. She points out that here concern was not with full employment policies: "The Upholland scheme is not, as I say, a cure for unemployment, but a palliative which would cease to be necessary if schemes calculated to cure unemployment were successfully carried out, and schemes to cure unemployment must be discussed on their own merits." (1936b:759)
In the first section of this paper, I quoted a passage from 'Planning and the Price Mechanism', a book published by Meade in 1948. It showed that, at that time, Meade used the term 'social dividend' explicitly to refer to proposals put forward by Lady Juliet Rhys-Williams in 'Something to Look Forward To' (1943).

Afterwards, Meade regularly revisits the topic. An incomplete list of places where he discusses, approvingly, social dividend proposals include amongst others a well-known article on poverty in the Oxford Economic Papers (1978), another more recent article on technological development and unemployment in the Journal of Social Policy (1984), his book 'The Intelligent Radical's Guide to Economic Policy' (1975), the report of the Meade-committee on the reform of Taxation (1978), the remarkable booklet 'Efficiency, Equality and the Ownership of Property' (1965) and, most recently, an as yet unpublished paper called 'Agathotopia: the Economics of Partnership' (1988) in which he sketches the institutional framework of a society good to live in (although not a Utopia - a perfect place to live in).

Each of these writings hosts a social dividend proposal of the same and, for now, well-known form, combining an unconditional tax-free grant equal for every citizen and a (proportional) tax on earned income. The kind of scheme, let's say, implied by Lady Rhys-Williams's writing and identified by The Economist in 1943 as a 'Beveridge-as-you-go-system'.

However, as I revealed before, Meade used the term 'social dividend' already in an earlier - in fact his second - book, published in 1936. At that time Lady Rhys-Williams's scheme did not exist, yet. It only came about some five or six years later. Did Meade find in these proposals a device fitting a concept or a

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9 Meade's first book, The Rate of Interest in a Progressive State, was published in 1933. I did not see the book, yet. But a review in the Economic Journal (June 1934), by Joan Robinson, reveals that its starting point is the theme of Neutral Money.
problematic already in his mind for some time, without being able to give it a (proper) instrumental form? And, if so, where did he get the concept or problematic from? What was he referring to in 1936?  

Is there any evidence permitting us to make, at least, a start in answering these questions?

Two books, written by Meade early on in his career, shed some light on this matter and give us a lead as to which track to follow later on in our quest.

The first book, 'An Introduction to Economic Analysis and Policy', was published in 1936 - only a few months after Keynes's 'General Theory'. The second book, 'Consumers' Credits and Unemployment', was published in 1938 and reviewed by Keynes in the Economic Journal (March 1938).

Mentioning Keynes is not unimportant. Both books not only show Meade's familiarity with his work. They bear the marks of a profound influence by Keynesianism, even as early as 1936.

Indeed, though elected a Fellow of Hertford College (Oxford) in 1930 (teaching there until leaving for Geneva in 1937 to work for the League of Nations, returning to Britain in 1940), Meade first spends a year in Cambridge - "in order to transplant economics to Oxford" according to Joan Robinson (1978:xii). He becomes a member of the so-called Cambridge Circus and influences profoundly the crafting of different parts of the Keynesian toolbox. To give only one example: in his famous article on the 'multiplier' Richard Kahn (1931) acknowledges to have relied heavily on unpublished work by Meade on the same topic, commonly referred to as 'Mr. Meade's relation'. In any case, after a year in Cambridge Meade goes back to Oxford - stating afterwards that he took with him, in his head, the essential ingredients of the General Theory.

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10 At the time, I did not consider the other possibility, i.e. that a very similar proposal already was put forward prior to 1936. An omission reinforced by the lack of references as to the origin of the term in both Robinson and Meade. Or by my conviction that the only forerunner could be Major Douglas.
'Economic Analysis and Policy' (1936)

'An Introduction to Economic Analysis and Policy'\textsuperscript{11} is, first of all, a textbook. Most probably, the one which gave the best view of the state of the art at the time. Giving a synthesis of Keynes's work, of the literature on imperfect competition and monopoly, of the debate on planning and the price mechanism, and of the literature on welfare economics and the optimal regime, it covered most recent developments in economic theory.

Being the first (text)book on economic policy, synthesizing clearly the ideas of the Keynesian Revolution, it is considered to have been very influential in its advocacy of Keynesian policies. (Its American edition in 1938 was welcomed by Alvin Hansen as a book which "must contribute to fasten the coming of the days when Americans will cease to be a nation of economic illiterates").

As for the content of the book, Meade makes its objectives clear from the very beginning. Each of the (first) four parts spells out one of the four conditions to be fulfilled "before any economic system can provide the highest possible standard of living".

The first condition - "No economic resources, which are willing to work, must stand idle." - relates to the "problem of Unemployment or of poverty in the midst of plenty". (Part I) The second condition - "The available economic resources must be set to work to produce in the greatest possible quantities those products which consumers most desire; this condition will remain unfulfilled, so long as it is possible by producing less of one thing to produce more of another, which consumers desire more urgently." - relates to the problem of Competition, Monopoly, and Planning. (Part II) The third condition - "The income of the community must be distributed among individuals in such a way that the greatest possible satisfaction is obtained from the limited national income." - relates to the problem of the distribution of income. (Part III) The fourth condition - "The standard of living will not be the highest possible, unless a proper balance between work and leisure is maintained and unless the total population and

\textsuperscript{11} I am using the 2nd edition (1937). However, Meade mentions to have made only a few small corrections and alterations.
the stock of capital are forthcoming in the most appropriate amounts." - relates to the problem of "the 'optimum' supply of the factors of production, labour and capital." (Part IV)

Meade concludes: "If these four conditions are fulfilled, the standard of living will be the highest which is possible with a given knowledge of industrial technique to obtain from a given supply of natural resources." (1936:xiii)

After summing up this program, Meade points at three important restrictions.

First, the first four parts of the book assume a self-contained economic system, Meade says. In reality, however, one is confronted with the International Economic Problem. So, a fifth part deals with this complication.

Second, opinions may differ as to which problem takes precedence in a practical economic programme. Meade makes clear that the book does not lay down a definite order of preferences. Readers are expected to make their own judgement. Nevertheless, Meade thinks at least certain that in the short term the problem of unemployment should receive the greatest emphasis.

The third introductory remark confirms this central concern with the unemployment problem and gives us a good summary of Meade's overall view.

Some of the problems treated in this book are more urgent than others, some more easily solved, says Meade. "The most glaring economic absurdity at present is the existence of unemployed resources in a world in which there are many needs still to be satisfied. For this reason the policy discussed in Part I ... is the most pressing and the nearest to 'practical politics'. Fortunately, as we shall see, the solution of this problem needs least governmental interference. This problem should certainly be solved before all others; for, as long as there are unemployed resources, it is possible to produce a larger real income and so to improve every one's standards without causing any one to be worse off. The solution of this problem - unlike the problem of redistributing income - requires no change of heart and offends no vested interests; it requires simply a clearer understanding ..." (1936:xiv) By contrast, the problem tackled in Part IV - 'the optimal supply
question' - is said to be the most far removed from practical politics, although Meade makes an exception for the question of the best balance between work and leisure (1936:259-262).

After this general view of the problems the book tackles, let us turn to our 'social dividend' problem.

The name appears three times in the volume. But note, each time the name appears it is put between quotes. Even the index mentions 'social dividend', quotes included. As if Meade wants to indicate that he takes the term from some other context. Or as if to indicate that the term is newly introduced by himself.

The second and third appearance - in the third part of the book, chapters four 'Equality by Taxation' and five 'Redistribution or Socialization of Property' respectively - do not seem to be of much importance. In both cases the phrasing differs only slightly. Meade lists several ways of distributing (parts of) state revenue (either from taxes or from public property): through the provision of "educational, medical or other services" or directly by payments of "old age pensions, unemployment relief, widows' and orphans' pensions,...". To these he adds, in the first case, "or even of an equal 'social dividend' to all persons" (1936:231), and, in the second case, "or could be distributed as an equal 'social dividend' to all members of the community" (1936:251).

As I said, at first sight this does not learn us very much. 'Social dividend' does not play an important part in this episode of the story. The only things worth noting are the mention of an equality condition, which seems to set 'social dividend' apart from the other possible means of distributing state-revenue, and the context, on which I will comment later.

The first (double) appearance (1936:197), however, seems to have more content.

The seventh chapter of Part II - on the problem of Monopoly - establishes that most of the methods available for controlling industry (i.e. anti-combination laws, educational measures, rationalization, taxes and subsidies, price control) are either incomplete or impracticable. In the eighth chapter, however, Meade surveys still one other method of control, i.e. the direct management of monopolistic industries by public bodies.
Meade carefully notes that control does not necessarily imply the control of total industry, but only of the monopolistic sectors, and that it does not equal public property of the industries concerned, but public management. Then, after discussing in detail the conditions to be fulfilled in order to guarantee efficiency, he treats problems of pricing and management.

From this discussion he draws three "morals", the second being of importance to our subject. The remark runs as follows: "... even if all industries were publicly controlled and all capital and land were socially owned, use could be made of a pricing system similar to the pricing system of a competitive economy." (1936:197, Meade underlines.) Explaining how one should proceed for this pricing system to work, Meade writes the following passage: "The state would receive any profit made on the capital and land invested in each socialized concern; it could pay part of this income as a 'social dividend' to consumers and could save part to finance the capital development justified in each socialized concern at the current rate of interest. If there were unemployment, the state bank could fix lower rates of interest in order to justify greater expenditure on capital development by each socialized concern - financed if necessary in the first place by the creation of new money. Alternatively, the state could distribute a larger 'social dividend' to consumers in order to stimulate expenditure on consumption goods - again financed, if necessary, by the creation of new money, until the increased expenditure by consumers had increased the state's receipts of industrial profits sufficiently to finance the greater 'social dividend'."

From this passage it seems clear that the first appearance of the 'social dividend' in Meade's work casts it in the form of an anti-cyclical device. Its effects are considered with regard to problems of demand management and stimulating investment. It is not presented, for instance, as a tool to manage the supply of labour, as is prominent in (some) present day arguments for basic income schemes. Significantly, the later chapter on the optimal supply of labour does not even show the slightest trace of possible effects of a 'social dividend'. On the contrary, in the passage I quoted Meade treats the distribution of larger 'social dividends' to consumers as a tool to stimulate expenditure on consumption goods, and, thus, refers implicitly to a proposal, worked out much earlier in the
book (pp.49-60) and enlarged to a book-size publication in 1938. This proposal - a specific mechanism to level out fluctuations in effective demand - triggered of a discussion with Keynes, leading to several variants of the original scheme.

'Consumers' Credits and Unemployment' (1938)

The embryo of the proposal is, as I said, already present in 'Economic Analysis and Policy'. Meade introduces the argument for consumer credits in the first part of the book, after discussing two other methods of stimulating economic activity in order to solve the problem of unemployment, i.e. banking policy and public works.

Both traditional kinds of intervention may for several reasons not be sufficient, Meade says, an important one being that almost inevitably time-lags will be involved. The decision to speed up (or slow down) the economy only takes effect after some time. It does not immediately result in more (or less) expenditure. If this is the case, Meade goes on, it might be interesting to consider in detail a less orthodox method of controlling the total volume of expenditure, based on the fact that "there is one form of expenditure which should be capable of almost instantaneous expansion, and that is the purchase of consumption goods by individuals." (1936:50)

Meade presents two ways of proceeding. The first relies on the existing Unemployment Benefits and would imply linking the level of benefits (and contributions) to the level of unemployment (above what Meade named the 'standard rate'). Yet, this scheme does not level out possible fluctuations in income and expenditure for property owners. The second scheme tries to remedy this by adding some form of tax-rate flexibility to the first scheme. This last feature, Meade names consumer credits.

In 'Consumers' Credits and Unemployment', the book published in 1938, Meade apparently modified and elaborated his proposal. I did not get hold of this book yet. But for the time being, we can rely on its review

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12 In his New Palgrave article on Meade, David Vines writes: "That book foreshadows both the 'Full Employment White Paper' (Minister of Reconstruction, 1944) and the Stagnation Project on which Meade has been working over the past few years... It is perhaps the earliest official published advocacy of specifically fine-tuned Keynesian policies."

Keynes commences his review with the following remark: "Mr. Meade has performed a useful service in bringing into the picture consumers' credits - or rather consumers' subsidies, for this, and not aids to instalment purchasing, is what he has in view - not as a magical specific, but as one of the possible means of levelling out fluctuations in effective demand." The proposal is summarized as follows: "Mr. Meade's own proposal is 'to make a monthly payment, which varies with the volume of 'depression' unemployment, to every member of the community whose income is below a certain level'...". In practice, this would mean 'to (i) Old Age Pensioners, (ii) all workers insured under the existing Widows', Orphans', and Old Age Contributory Pensions Scheme, and (iii) the wives and children of such workers.' "Mr. Meade hopes to get his money back by a progressive tax on employment when times are good. He is not decisive as to whether the employers (who do not receive any part of the subsidy) should pay any part of the tax, but suggests that they should do so."

There seems to be a good idea behind this, Keynes notes. "But if the idea is to be brought within the field of practical politics it would be wise, I suggest, to make it part and parcel of the various contributory insurance schemes, even at the expense of somewhat limiting its scope." "... the policy is obviously an extension and working out of the idea of budgeting for a deficit in depressions and a surplus in recoveries. It is, in fact, a scheme providing that particular sources of savings should accrue only when there is evidence of an outlet for them in investment. All this might be useful in spite of the important criticism that it is directed towards ironing out fluctuations without necessarily raising the average level of activity to the optimum level." Three more criticisms of the argument are voiced: 1) if Meade wants to finance the subsidies by an increase in cash, there is no reason why the advisable increase in cash is equal to the advisable subsidy to consumers, 2) to arrive at the critical levels of unemployment Meade makes a rather problematic distinction between 'intermittent' and 'structural' unemployment, 3) no attempt is made to compare the effects of a given amount of funds applied to consumers' subsidies with those of an equal sum applied to increased investment - here Keynes is suggesting that the differences might not be positive for the consumers' subsidies case. Therefore, Keynes concludes, "Mr. Meade must mainly rely ... on the argument that consumers' subsidies can be introduced
without preparation and on an easily adjustable scale, on occasions when, for one reason or another, an adequate increase in investment is impracticable."

As we know, that was more or less the point Meade started from in the first place.

Some preliminary conclusions.

Four points are worth highlighting.

In the first place, it is worthwhile to note that we can more or less safely rule out the possibility that 'social dividend' is referring to 'Social Credit'. Meade spends the very first chapter of his book, criticizing the Douglas framework. Trying to answer the question: 'Can the economic system work?', he dismisses the view that the problem of unemployment cannot be solved without a revolutionary change in the economic system. "It is sometimes held that the existing economic system can never distribute purchasing power sufficient to cover the costs of the output which is produced for sale; but this view is fallacious." (1936:2) For Meade, one can accomplish this "without introducing socialism or a complete change in our monetary system" (1936:2). In the next few pages he uses an example to refute what he sees as the "essential point in the analysis of Major Douglas" (1936:2-5). Significantly, Keynes (1938), in his review of 'Consumers' Credits', takes care to note that "Mr. Meade is not what is usually called a 'social credit theorist', but he thinks that subsidies (as I should prefer to call them) to consumers have not received the attention which they deserve as a weapon in our armory against fluctuation."

In the second place, it is interesting to note that the name 'social dividend' appears for the first time in a context discussing how to use a pricing system in a publicly managed or planned economy. One of Meade's later books - the one I quoted, containing the reference to the Lady Rhys-Williams proposal - is explicitly devoted to this problem. However, in the later book 'social dividend' gets a different meaning. The possible references to consumers' subsidies are lost as well as the importance of the social dividend's effects on levelling out expenditure fluctuations. In 1948 'social dividend' points at a way of rationalizing the existing tax-, benefit- and subsidies-structure. Even the tone is
less affirmative. Meade suggests that Lady Rhys-Williams' proposal should be considered carefully. But he seems rather doubtful because of possible incentive effects. This might suggest not only that Meade in 1936/1938 had no definite mechanism in mind when using the term 'social dividend', but that in 1948, after running into such a mechanism, he used the name for something rather different.

In the third place, one can wonder whether it is significant that Meade speaks twice about equal social dividends (in both cases in the context of the redistribution of income), but does not mention the equality condition in the context of the price mechanism and planning problem. In 1936, the social dividend without equality condition occupied the center of the stage. Meade's later work seems to host only the social dividend with an equality condition, taking from 1948 onwards the guise of Lady Rhys-Williams's new social contract. Indeed, we do not need to stretch our imagination to see the relevant passage in the 1948 book as a transformed version of the equal social dividend, which in 1936 was described in the context of income redistribution by taxation. It is this same context in which we will find social dividend proposals discussed in some of Meade's more recent work.

In the fourth place, none of the passages mentioning social dividends in Meade's 1936 book describes a concrete mechanism or even a hint of how it could be administrated. This is important with regard to Joan Robinson's use of the term. She does mention a very concrete proposal - "if to every citizen with the saturday morning post". Probably we may conclude from this that she did not take Meade as her point of reference, at least not his published work. Even if Robinson and Meade have in common that both readily assume that social dividends can be paid for by printing money.

Maybe, it is time now to explain how I tried to make sense of all this. Let me attempt to state what, at the time, I considered to be a fair reading of the social dividend's place in Meade's work.

On its first appearance in Meade's work, 'social dividend' plays three different roles or, probably better, covers three different meanings. In its first role, it refers to a sum of public money, resulting out of public ownership or taxation, which can be used to
steer the economy by distributing it in order to manage demand or stimulate investment. In its second role, it points at a mechanism of integrating and replacing the existing taxes and benefits—here, Meade mentions equal social dividends. In its third role, it indicates an alternative strategy for a politics of social reconstruction (wanting to aim at restoring an equality of property ownership)—in this case Meade, again, speaks about equal social dividends.

With the first role, which plays the leading part in 'Economic Analysis and Policy', I have dealt sufficiently above. The second role has, also, been documented well enough. In this sense, social dividends reappear in 1948 and take on the Rhys-Williams guise. But what about the third role?

As I mentioned before, the third appearance of social dividends in 1936 took place in a chapter on the redistribution or socialization of property. In it, Meade returns to the problem of inequality of income; more precisely to its roots in the unequal ownership of property. To overcome this problem, Meade points out, one might want to ensure to reach a more equal ownership by all members of the community. "The ideal at which this solution would aim is the attractive 'distributist' state in which all men are free, equal and independent, because all men own a modicum of property without any glaring inequalities in such ownership." (Meade, 1936:249) To reach the 'distributist solution' one can impose steeply progressive death duties or alter the inheritance laws so as to prevent the passing on of property above a certain amount. The resulting state income could be used to redistribute property or to make the income distribution more equal in the a way we are by now familiar with, i.e. by providing free social services or cash benefits, a.o. social dividends.

Meade revisits the 'distributist state' 30 years later, when publishing the remarkable booklet 'Equality, Efficiency and Ownership of Property' (1965).

In its opening chapter, Meade stresses that a context of automation intensifies the conflict between economic efficiency and distributive justice. Automation will increase the output per head. It could, however, as well reduce the amount of labour needed in the automated industries. Absorbing new and redundant workers "might require an absolute reduction in the real wage rate on efficiency grounds". Even if this could be avoided,
"automation might well cause output per head to rise relatively to the marginal product of labour".

Taking account of this problem we should rephrase the problem of unemployment we face today, Meade urges. "What, we ask, shall we all do with our leisure when we need to work only an hour or two a day to obtain the total output of real goods and services needed to satisfy our wants? But the problem is really much more difficult than that. The question which we should ask is: what shall we all do when output per man-hour of work is extremely high but practically the whole of output goes to a few property owners, while the mass of the workers are relatively (or even absolutely) worse off than before?" (Meade, 1965:25-26)

Meade calls this foreseeable state of affairs the 'Brave New Capitalists' Paradise' and discusses four alternative lines of attacking the problem. A 'Trade Union State' - 'setting a real minimum wage level' - and a 'Welfare State' - 'taxation of incomes of the rich to subsidize the poor' - are easily discarded. Meade's attention goes primarily to a 'Property-Ownin Democracy' (Meade, 1965:40-66), clearly a repainted version of the old distributist state. At last, Meade considers the alternative of a 'Socialist State' - combining an efficient level of the real wage rate with an equitable distribution of income by turning to the social ownership of property. Such a state has the advantage that, even if the efficient wage level is a low one and a larger part of national income goes to profits, these profits would accrue to the state and could be distributed equally to every citizen as a social dividend. Meade notes that this solution has one basic point in common with the distributist solution. "In both cases income from property is equally divided between all citizens." (Meade, 1965:66)

I guess the three senses, in which we encounter social dividends in Meade's work, can be traced to different traditions with which he was familiar and in which the term social dividend was used. The first of these traditions is linked to the ideas about planning and public ownership of means of production. The second one draws on the distributist theory and the idea of equal ownership of property. The third one goes back to the right to the means of subsistence and the national minimum. Do we find traces of this or arguments for this view, somewhere, in the literature?
SECTION 5: FROM OSCAR LANGE TO ABBE A. LERNER

As far as we know, Meade used the name 'social dividend' for the first time in 1936, in his book 'Economic Analysis and Policy'. More precisely, he introduced it in a section explaining why the price mechanism could and ought to be used, even in a fully controlled economy. Significantly, 12 years later Meade published a book on the very same subject and in it referred by 'social dividend' to the Rhys-Williams proposal. It seems, therefore, straightforward to look for an origin of the name in the literature on planning, price mechanism and market socialism.

The literature on these matters rather flourished in the days between the two World Wars. In particular because of the general interest in the developments in Soviet Russia and because of the importance of planning and nationalization as central policy aims for most European socialist parties. I will come back to this political side of the question later (see section six). For now, let us look more closely to the theoretical side of the debate on the economics of market socialism.

OSCAR LANGE (1904-1965)

A most significant and important event in this field was the publication in the mid thirties of a series of articles in the 'Economic Journal' and the 'Review of Economic Studies'. These articles centered around the question of the theoretical and practical viability of a planned economy. A problem put before the defenders of a socialist state by a.o. Ludwig von Mises and Friedrich Hayek. Amongst the important contributors to this series of articles are H.D. Dickinson, Maurice Dobb, Evan Durbin and, not in the least, Oscar Lange and Abba Lerner.

The most notable figure, featuring in this debate, was the Polish economist Oscar Lange. Today, he is famous for writing two seminal articles, published in the 1936 and 1937 volumes of the 'Review of Economic Studies'. One still considers these articles to be the definitive answer to Hayek's critique.
The link between this literature and social dividends is rather straightforward. One of the questions a theory of market socialism (or a theory of planning) needs to answer is "How to distribute the profits from the socialized industries?" (or "How to reward the use of social capital?"). One way to think about this problem is to make the analogy between dividends paid to shareholders in capitalism and 'social dividends' paid to every citizen as if to an alleged shareholder or owner of the socialized industries.

Thus, one can be led to think that the roots of social dividend lay in the debate on market socialism. For instance, James Yunker (1977:91) writes: "The term 'social dividend' was introduced in 1936 by Oskar Lange in his milestone essay 'On the Economic Theory of Socialism'. It refers to the direct distribution equally among the citizen body of property income accruing to the state-owned enterprises under socialism."

Looking at the relevant passages in Lange's work, makes clear that the matter is a bit more complicated and even a little different from what Yunker tells us.

What does Lange, really, say?

"Our study of the determination of equilibrium prices in a socialist economy has shown that the process of price determination is quite analogous to that in a competitive market. (...) It follows that a substitution of planning for the functions of the market is quite possible and workable. Two problems deserve some special attention. The first relates to the determination of the best distribution of the social dividend. Freedom of choice of occupation assumed, the distribution of the social dividend may affect the amount of services of labor offered to different industries. If certain occupations received a larger social dividend than others, labor would be diverted into the occupations receiving a larger dividend. Therefore, the distribution of the social dividend must be such as not to interfere with the optimum distribution of labor services between the different industries and occupations. The optimum distribution is that which makes the differences of the marginal product of the services of labor in different industries and occupations equal to the differences in the marginal disutility of working in those industries or occupations. This distribution of the services of labor arises automatically whenever wages are the only
source of income. Therefore, the social dividend must be distributed so as to have no influence whatever on the choice of occupation. The social dividend paid to an individual must be entirely independent of his choice of occupation. For instance, it can be divided equally per head of population, or distributed according to age or size of family or any other principle which does not affect the choice of occupation." (1938:83-84)

A transcript of a lecture, held by Lange at the University of Chicago four years later, expresses the same view.

Arguing that under socialism the distribution of income would be much more equal, Lange turns to discussing the sources of income under socialism.

"... if we want to maintain freedom of choice of occupation and hence rely to a certain extent upon peculiar motives in the choice of occupation that people will choose a certain occupation because they are offered something for it in return, then this would mean that part of the people's incomes would have to be connected with the occupation or would have the form of wages. But this in a socialist society would not be the only income because there is a remaining part of the income which comes from the resources of capital and natural resources which are owned by the whole community and not by the individuals, and which provide a fund out of which incomes can be paid to individuals, a fund form of incomes which I shall propose to call social dividends. We might, therefore, think of each citizen of a social society as being a shareholder in a big corporation, this corporation being the society's productive enterprises, deriving some wages in return for his labour and some social dividend which he got as a shareholder of this communal enterprise. Now, it is this social dividend which leaves to a socialist society a considerable amount of freedom of how income can be distributed. Essentially, the social dividend can be distributed according to any criteria which we would regard as desirable. In a socialist society, this social dividend would be distributed more or less equally, with certain special allowances for special situation. There might be special allowances for sick people, or according to age, family obligations or some other factors. " (Lange, 1942)

A first point on which Yunker's statement needs some correction concerns the equal distribution condition. Contrary to what he suggests equal distribution is not
mandatory for Lange. Neither is there any mention of citizenship rights. But there is even more.

Actually, in the original article in 1936 Lange proposed something rather different. As a matter of fact, he contemplated a distribution of the social dividend proportional to wages. A critical remark by the co-editor of the Review, Abba P. Lerner, pointed out that this principle of distribution would affect somehow the allocation of labour. Lange conceded the point in the 1937 volume. And, as we saw, when reediting his text for final publication in 1938, incorporated Lerner's critique, even without mentioning neither the changes nor their source.

Commenting on the original articles, Philippe Van Parijs (1987), rightly, stresses the point that they do not contain the idea of a basic income or 'social dividend' in the present sense of the word. Indeed, Lange only mentions an equal division of the social dividend as one of the possibilities. The point made by Lerner, and conceded by Lange, is (merely) that the distribution needs to be lump-sum and, probably but less clearly, that the mechanism of distribution should cover the whole of the population.

For Lange, a socialist society contains two streams of incomes, i.e. wages and the 'social dividend'. But, nothing indicates that the 'social dividend' ought to be distributed equally nor that the 'social dividend' is instrumental in gearing the economy towards full employment.

Returning to the question of Meade's sources, it is obvious that we have a problem.

On the one hand this view shows some similarity with Meade's argument. For instance, if Meade really took his social dividend from an argument like Lange's, one could explain why Meade refers to a 'social dividend' without mentioning the need for an equal distribution. On the other hand, in Meade's book the 'social dividend' gains importance because of its possible 'anti-cyclical' effects, not as simply another way to distribute income.

So, although the 'social dividend' appears in both cases in a context which is very similar, the functional difference is marked. For Lange it is only an instrument of income distribution, whereas for Meade it has the additional feature of being a device to manage demand
and/or investment. Where did this difference come from?

And, even if we would not bother about that, a question remains: Did Meade knew enough of this debate to use it as a reference? Was he sufficiently influenced by it to take his terminology from it? After all, Meade was a Keynesian, member of the Cambridge Circus, teaching in Oxford and a socialist. The debate on market socialism and planning took place at the LSE, in the presence of Hayek, Robbins and their like, and was the result of a pure neoclassical framework. How did both collide? And, as Lange's article was published in 1936 - the same year as Meade's book - did Meade have access to a copy early enough to incorporate one of its concepts in a slightly different form in his book?

Later, in the next section, we will find some parts of the answer to these questions when following the political track, announced earlier; more specifically, when looking into Meade's contacts with G.D.H. Cole and the New Fabians, amongst whom several were educated, studying or teaching at the LSE, and participated in the theoretical debate on the economics of planning and market socialism.

First, however, we have to look more in detail at someone we only mentioned, in passing, as Lange's critic, namely Abba P. Lerner.

In the history of the market socialism debate Lerner plays a major role. In the period 1933-1937 he intervened six times; in each case, critically pointing out errors, misleading statements or vagueness in contributions by others. This form of contributing to the discussion probably explains why Lerner's impact on it is easily underrated. Probably, it is also the reason why, in the story the basic income literature tells us, he gets only a minor part.

Indeed, in the history of social dividends Lerner features at best as a neo-classical economist, who corrected Oscar Lange on some minor point, and, consequently, drops out of the bibliographical references. Tony Walter, who refers to Lange's original articles in the Review of Economic Studies, does not mention Lerner at all. Philippe Van Parijs, who mentioned Lerner when for the first time in his writings referring to Lange (VAN PARIJS, 1987), omits any reference to Lerner in his following articles (though still referring to Lange) (VAN PARIJS, 1989).
Yet, downplaying Lerner's role in these matters seems hardly justified.

**ABBA P. LERNER (1903-1982)**

Abba P. Lerner's career in economics takes off in 1929, the year he registered for the evening courses of the London School of Economics. After going through rabbinic studies, starting to work at age 16 - being tailor, capmaker, Hebrew school teacher, typesetter - and a failing attempt to start a business (i.e. a printing shop), Lerner turned to study economics - primarily, some say, to find out why his own business failed. Soon after entering the LSE he cornered the prize-market, earning him amongst others a scholarship for Cambridge in 1934-1935.

This scholarship was not the first event bringing Lerner in contact with Keynesianism. Earlier contacts had been established as part of a movement by some younger members of the London School of Economics and of the Cambridge faculty to get together behind the backs of their embattled seniors" (J. ROBINSON, 1951:x). Joan Robinson (1978:xv) tells (and Richard Kahn confirms) a story of Richard Kahn, Austin Robinson, James Meade and herself meeting some graduate students from the LSE (amongst whom Abba Lerner) in an inn at Newport in August 1933, shortly before the first number of the review appeared. During the weekend the members of the Circus explained to the LSE students, for instance, the multiplier. The legend tells how Lerner went back to the LSE a convinced Keynesian and started to give seminars on Keynesian economics. (Although it must be said that Lerner himself thinks the 1934-35 period at Cambridge much more important for his conversion.)

Anyhow, Lerner's Keynesian sympathies were not shortlived. In 1936 he published the first review article gaining world-wide attention for Keynes's 'General Theory'. Introducing the article, the editor of the ILO's International Labour Review - that's where the review was published - noted that the author got Keynes's approval in writing it. In fact, the article contained a very extensive summary of the 'General Theory' and, moreover, a readily accessible one. Lerner's subsequent articles
(1943, 1952, 1954) on Keynes's work, especially the one explaining very clearly the content of the famously messy 17th chapter of the General Theory, earned him a reputation for producing, what Samuelson termed once, a T-model Keynesianism. (Samuelson, 1964)

Though Keynes's writings of the period scarcely mention Lerner, respect seems to have been mutual. When in 1944 Lerner published the 'Economics of Control' - and hands over a copy when meeting Keynes in Washington - the latter writes the former in a, by now, famous letter: "It is a great book worthy of one's hopes for you. A most powerful piece of well organized analysis with high aesthetic quality written more perhaps than you see yourself for the cognoscenti in the temple and not for those at the gate." Further on, Keynes expresses the intention to give some seminars at the Treasury on Functional finance - the chapters Keynes judged to be the most reasoned and original parts of the book. Although he seems rather doubtful whether he can make its practical importance clear to those concerned. "It will be hard going - probably impossible. I shall have to temper austerity where I can. I think I shall ask them to let me hold a seminar of their sons instead, agreeing beforehand that, if I can convince the boys, they will take it from me that it is so!" (quoted in COLANDER, 1984:1574).

For our purpose this story implies two things. First, Meade and Lerner met personally, certainly as early as 1933. (There also appear some very positive comments on Lerner in a letter from Keynes to Meade) Second, to describe Lerner as a 'neo-classical' economist is a bit misleading. Although studying and teaching at the LSE, being the 'protégé' of Lionel Robbins, very much influenced by Hayek and von Mises, and intellectually committed to the elegant logic of marginalism, Lerner's socialist values led him to accept Keynes's scheme. For Lerner the (allegedly small) losses in efficiency from a Keynesian type of intervention did certainly not outweigh the social costs of mass unemployment.

Where does the 'social dividend' enter this story?

We know already that Lerner corrected Oscar Lange. If Lange wants to keep the social dividend from interfering

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13 Another sign of Lerner's importance in spreading the gospel of Keynesianism is in the story about how he personally convinced Haberler of Keynes's sound thinking.
with the labour market, says Lerner, it needs to have lump-sum features. Still, the picture shows Lange as the one forging the name, Lerner as the one correcting its content.

A closer look shows, however, that Lerner's subsequent work keeps giving more room to the 'social dividend' than Lange's. For instance, in Lange's 'Employment and Flexibility' (1945) the 'social dividend' is not mentioned at all. Lerner still mentions the social dividend (once) in his 'The Economics of Employment' (1951), even if only in a minimal form very similar to both limited appearances in Meade's book - as a means of inducing people to spend more by giving them more money ("... (in pensions, subsidies, social-security benefits, and even 'social dividends')...") (Lerner, 1951:126).

However, 'social dividend' plays a different and more important role in Lerner's major work 'The Economics of Control: The Economics of Welfare' (1944).

The article on Lerner in The New Palgrave describes 'The Economics of Control' as follows: "That work ... became and remains the most comprehensive non-mathematical text on welfare economics. ... As a text in welfare economics ... it is exceptionally meticulous and complete, it extends the scope of welfare principle from resource allocation narrowly defined to taxation, macroeconomics and international trade and finance, and it contains the first logically based analysis of distributional optimality." (SCITOVSKY, 1987:167) Another biographer of Lerner puts it this way: "In that work he was able to reconcile democratic socialism, belief in competitive markets, consumer sovereignty, and income distribution with the conditions requisite to a welfare optimum. Functional finance as the 'economic' steering wheel was necessary to assure that the optimum level of welfare, involving both micro and macro equilibria, the latter defined as full employment at stable prices, could be attained and maintained." (SOBEL, 1988:1144)

For several reasons the book seems rather difficult to handle.

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14 Two things are perhaps worthwhile mentioning: 1. Lerner's critical remarks were primarily directed at something of much more importance, i.e. Lange's pricing mechanism; the social dividend matter was only part of this general critique leading to the Lange-Lerner mechanism. 2. Lange and Lerner were - or subsequently became - good friends. Samuelson tells how Lange being offered a job at Berkeley turns it down because he cannot get Lerner included in the package. This can explain the readily acceptance of Lerner's critique.
It was published in 1944, a year after being submitted as a Ph.D at the London School of Economics. Yet, Lerner notes in the introduction that he worked on it from 1932 onwards. A statement reiterated by most commentators, who frequently point out that the 'Economics of Control' draws on and elaborates ideas developed by Lerner in one of his many early articles. Dating any part of the content, thus, becomes very difficult. And so is tracing its possible influence on Meade in the thirties.

Another difficulty is that the book hardly contains any references. It is written in a very unusual style, owing probably more to Lerner's training as a Talmudian student than to classical economic method. In his review Milton Friedman (1947) complains that the book is written in some sort of verbal mathematics, combining the disadvantages of formal reasoning with the lack of brevity and clarity of verbal language. Even James Meade (1945), one of the most favourable reviewers, speaks of it as being a 'queer' book.

According to Scitovsky (1984:1552) the book reads like a recipe from The Hopeless Cook's Cookbook. But - as he immediately adds - the metaphor is deceptive. Lerner writes as if he wants to give advice to 'controllers of industry'. Yet, he does not touch on practical problems at all. Even the book's most basic tool - The Rule that prices must be set as to equal marginal costs - is handed out without mentioning the difficulties managers of firms will run into when trying to figure out what their marginal costs really are. Samuelson, who speaks about a tour de force of non-mathematical exposition, stresses that Lerner concentrates on the optimum "never stooping to feasibility or second-best analysis. While he regards the book as a useful blue-print for social organization, I regard it primarily as an unequalled tone poem of necessary marginal efficiency conditions." (Samuelson, 1964:173)

Even the book's subject turns out somewhat ambiguous; for Lerner changed his mind while working on it. "Originally it was to be a development of the theory of the price mechanism of a socialist society .... conceived of as completely or almost completely collectivist. ... it gradually became clear to me that the maintenance and further development of the democratic way of life, as it grew under capitalism and was extended by the labour movement within the capitalist society, not only formed a far more essential part of the socialist ideal than the
negative 'abolition of private property in the instruments of production' but was in much greater need of careful tending. ... The economics of control is still contrasted with the economics of laissez faire, but control does not necessarily mean collectivism. It suggests the deliberate application of whatever policy will best serve the social interest, without prejudging the issue between collective ownership and administration and administration or some form of private enterprise." (Lerner, 1944:vii-viii)

'Social dividend' - in Lerner's work sometimes between quotes, but mostly in italics, like any other technical term - enters the story after Lerner formulates on page 266 the commandment: "The government must adjust consumption and investment so as to prevent inflation and unemployment." (Emphasis by Lerner, vwt) Lerner explains this rule, meanwhile defining functional finance: "A conscious policy by the government for avoiding the evils of inflation and the evils of deflation we shall call functional finance." The next commandment reads: "The payment of a social dividend, which enables this to be done, must be independent of the amount of work done by the recipients." (Emphasis by Lerner, vwt)

According to Lerner, in order to prevent the dual catastrophe of inflation and depression, "government is faced with the task of continuously maintaining a proper total demand for factors, through consumption and investment, so that there is just enough demand to give full employment but not enough to start an inflation." (1944:267)

In a collectivist economy this can be done in two ways: first, through an adjustment of the rate of interest, second and more important, through the direct effect of government action on income.

Lerner elaborates on the last point by first treating the way incomes in a collectivist society are distributed. "The consumers receive part of their income from their work in payment for their labor by the managers of production, who hire labor in accordance with the Rule. The rest of the income of consumers comes to them from the government. This can be considered as the citizen's share of the earnings of the factors of production other than labor, but however it is considered, the government must distribute just enough to induce consumers to spend the right amount which,
together with the investment demand for factors, will provide full employment. The distribution of this 'social dividend' may follow any principle that pleases the government. The only proviso that must be made in the interest of the optimum use of resources is that the amount paid out to any individual should not in any way be affected by the amount of work he does. This is because of the desirability of having the wage equal to the vmp (= value of marginal product, wvt) of labor (which is what the manager will be paying the worker quite apart from any 'social dividend') so as to induce neither too much or too little labor. In the name of the optimum division of income it can be argued that the distribution of the social dividend should not be very unequal. My personal inclination is for an equal share to be given to each member of society as his right as a citizen, with no questions asked and no exceptions. There could be no better safeguard of the freedom and independence of the individual." (1944:267-268)

Then the idea is introduced that inflation and depression can be prevented by adjusting the level of the social dividend. This could be done very easily, Lerner claims, "even from week to week, in accordance with the state of demand". If spending is still too high after reducing the social dividend to zero - which means that one can still buy more than what is produced by all the factors of production available - one "will need to have a negative social dividend - a tax - which reduces demand to the proper level." (1944:268)

In the next two chapters Lerner treats the unemployment problem in the context of a capitalist economy. This gives us more or less a restatement of the Keynesian doctrine. There is no sign whatever of social dividends. But in the 24th chapter - the one which is subtitled: functional finance - social dividends reappear.

In that particular chapter, Lerner tries to strip the reader's mind of any sign of 'unfunctional' thinking about public spending, the national debt and taxation. Not prejudice, but their function in society should guide our policies, is Lerner's motto. As well the leftist's dogma - 100% collectivism - as the dogma of the right - "to keep fiscal principles appropriate to a grocery store" (1944:302) - are rejected. About the ultimate objective, there should not be any doubt. Maintenance of full employment is the duty, perhaps even the primary duty of the government.
During his argument Lerner explains that borrowing and taxing can also be applied in reverse, if the government wants to increase the quantity of money in the hands of the people and lower the rates of interest. This can be done by repaying some of the national debt or, if there is not any, by creating a national credit, i.e. by lending or, eventually, by printing money. Government can do the same by lowering taxes. "Where this is not sufficient to bring about the required results even when taxes have been reduced to zero, negative taxes can be imposed. This means that the government instead of taking money away from people gives it to them. This may take the form of relief payments, old age pensions, bonuses, and even a social dividend when it is desired to increase consumption all round." (Lerner, 1944:310-311)\(^{15}\)

Let us pause for a moment and look at what we have found.

Lerner's argument starts from a problem stated in terms of a collectivist society, more or less comparable to a state of affairs prevailing in the case of Oscar Lange. But, as for the social dividend, one can notice three remarkable differences. First of all, for Lerner the social dividend is clearly a steering device, keeping the economy on the right but narrow track between inflation and depression. Lange's view, on the contrary, put the social dividend in a more strictly distributional framework. Secondly, whereas for Lange social dividends should not correlate with the choice of occupation, Lerner stresses the necessity of its being independent from the amount of work done. Thirdly, for Lange the rate of equality of the distribution was optional; Lerner, on the other hand, states his preference for an equal distribution, based on a dual argument: citizenship rights on the one hand and a more utilitarian argument in terms of the optimal income distribution on the other hand.

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\(^{15}\) One may think that this gave rise to the idea of negative income taxation. This may be so. However, it is important to see that the name 'negative income tax' not only, and maybe not even in the first place, indicates the 'negative taxes' or 'benefits'. It is also connected to the idea of taxing 'negative income', i.e. expenses or investments made even when one does not earn any income at all. It is in this sense that Friedman uses the name 'negative income tax'. Yet, even this idea probably goes back to one of Lerner's articles which made history, 'Functional Finance and the Federal Debt' (1943b). Citovsky (1984) tells how Domar and Musgrave (1944) were infuriated by it, set out to write a critique and ended up ... proving that Lerner was right - i.e. that income taxation would not discourage risk-taking if only losses could be offset against other income - and even went not far enough.
Lerner and Meade.

Reading Lerner's 'Economics of Control', one is several times reminded of Meade's 'Economic Analysis and Policy' or 'Planning and the Price Mechanism' - and not only because both writers have a notoriously peculiar style.

The first remarkable similarity resides in their views on the objectives of economic policy. The introduction of 'The Economics of Control' lists three major problems a controlled economy would carry out before anything else. "It would make use of all the available resources and in particular of all men who seek work. It would, in the United States, at once abolish all dire poverty and then take other steps to diminish the tremendous inequality of income and wealth. It would put an end to monopoly throughout the economy and the accompanying exploitation and economic waste." (LERNER, 1944:3) Thus, Lerner, just like Meade, stresses the priority of employment, monopoly and income distribution.

Not only the three major problems are very similar. Once we remember that Meade frequently calls his proposals a 'liberal-socialist solution' even the general phrasing of the outlook looks very much alike. As a matter of fact, Lerner ends his introductory chapter by explaining why welfare economics can reconcile liberalism and socialism. (Later, in his book on Employment (1951:372 ev.), he will call his view 'Democratic Functionalism'. Two pages later, even, the example of the 'distributist society' appears.)

Moreover, on several occasions Lerner points out that additional spending or additional investment can be brought about very easily by printing money. Lerner obviously prefers this to raising money by means of taxation - the objective of taxation being to make the income distribution more equal or to prevent people from spending to much, but not to pay for government expenditure. One of the reasons for this view is that according to Lerner only external public debt really matters. Internal public debt is "a matter of almost no significance beside the importance of maintaining full employment". (Lerner, 1944:303) (In his review of 'Control' Meade challenges this view and points out that Lerner strangely enough neglects the problem of incentives arising - even in a static framework - out of
taxes levied to pay the internal public debt.\textsuperscript{16})

Like Meade, Lerner warns his readers not to take 'control' too literally. He complains that the term 'controlled' economy is not a good one, because it puts off liberals and socialists alike. After some consideration, he rejects the term 'mixed' economy - "a very bad name because it suggests the absence of any single controlling principle but a confusion of different and perhaps contradictory principles" (Lerner, 1944:5), but considers approvingly the name a 'service' economy - "perhaps a better name ... since it is the question of which method serves best that determines which is to be used". "The fundamental point of the controlled economy is that it denies both collectivism and private enterprise as principles for the organization of society, but recognizes both of them as perfectly legitimate means. Its fundamental principle of organization is that in any particular instance the means that serves society best should be the one that prevails."\textsuperscript{17}

After having noted these general similarities between Lerner's overall approach and James Meade's work, we should not be surprised to find also similarities in the way they treat the 'social dividend'.

Both Meade and Lerner see it possible to pay for it by printing money. Both see it as a device in steering the economy to full employment. So, Meade's social dividend and Lerner's social dividend resemble each other more than each of them resembles Lange's conception. The latter is much more narrow. It lacks the important features, we just mentionned, printing money and steering power.

But, what about the other important aspect - the condition of being distributed equally? As we know, it was not present in Lange (who saw it as optional). It was present in Meade, but not in those parts of his book

\textsuperscript{16} Incentives is one problem which is strangely neglected by Lerner in the 'Economics of Control', the other being externalities.

\textsuperscript{17} Lerner's most favourite metaphor to express the essence of a controlled economy is that of a 'steering wheel'. "The uncontrolled economy may be likened to an automobile without a driver but in which many passengers keep reaching over to the steering wheel to give it a twist while complicated regulations prescribe the order and degree to which they may turn the wheel so as to prevent them from fighting each other about it. The controlled economy has a driver, so these regulations are unnecessary." (LERNER, 1944:4, but see also the first chapter of LERNER, 1951)
were his social dividend resembled the most Lerner's (and differed the most from Lange's). What tells Lerner us about equal distribution?

Some of the passages quoted already reveal that Lerner somewhat holds the problem off. He says that any distribution is possible, provided it does not influence the amount of work done; then goes on to say that in the name of the optimal distribution of income one should not distribute the social dividend unequally; finally stating that his personal inclination is for an equal share to be given to each citizen as of right.

The optimal distribution argument deserves some special attention. Not only gives it Lerner a kind of double defense against a critique of a policy directed to equalize incomes, but a similar argument is not apparent in Meade's work. Moreover, Lerner's treatment of the optimal distribution problem has been a matter of debate in the literature on welfare economics.

The interesting (and at the time novel) feature of 'The Economics of Control' we are here referring to, is the following (sequence of) statement(s): "The maximization of total satisfaction by equalizing the marginal utility of income is impossible, but the maximization of probable total satisfaction is attained by an equal division of income. Complications arising from complementarity and irrationality do not affect the general conclusion." (Lerner, 1944:28-34)

The problem Lerner considers in this part of his book, is how we should distribute income optimally once we realize that there is no way of "discovering with certainty whether any individual's marginal utility of income is greater than, equal to, or less than that of any other individual." In such a case "... every individual could declare that he has exceptionally high capacities for satisfaction and so should be given more income than anybody else if total satisfaction is to be maximized; and there is no way of testing the validity of such a claim." (Lerner; 1944:28-29) Hence, the impossibility of equalizing marginal utilities of income and of maximizing total satisfaction.

Lerner, however, tries to show that one should not despair. "It is ... still possible to divide income as to maximize the probable total satisfaction, making this greater than the probable total satisfaction that would result from any other distribution of income. If it is
impossible, on any division of income, to discover which of any two individuals has a higher marginal utility of income, the probable value of total satisfactions is maximized by dividing income evenly." (Lerner, 1944:29)

The problem faced is the extension of the classic utilitarian case for equal distribution, in the case of people with identical (money) utility functions, to a state of affairs in which we accept people to have different utility functions. In order to solve the problem Lerner makes, as we saw, a probabilistic argument, based on the impossibility of knowing anything about anyone's marginal utility of income.  

In his review of the book, Milton Friedman criticizes strongly Lerner's argument. This proof only holds, so Friedman says, if there is indeed no clue as to how efficient people as pleasure-machines are. Instead of this assumption of 'equal ignorance', look at the following postulate, Friedman argues. "... if people were classified by capacity to enjoy income, the probability distribution of income would be the same for all such classes." (Friedman, 1947:308) If one accepts this as mirroring reality, Lerner would be bound to accept a very unequal division of income in order to maximize total satisfaction.

As Sen points out this somehow reverses the problem: "Lerner's problem arises from the inability of the planner to identify this classes. In that problem incomes of individuals are the policy variables, and their pleasure capacities are given in terms of probability conditions." (SEN, 1969:214) In the same paper, Sen proves that egalitarian distribution not only maximizes the mathematical expectation of social welfare, but also that it is a 'maximin' policy. More important even, neither of these results needs the framework of an additive social welfare function - a concave one will do - and the latter holds even if one drops Lerner's much criticized 'equi-probability condition'. (SEN, 1969 and SEN, 1973)

As I mentioned, this argument for equality of income is probably the most original feature of Lerner's book and,

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18 Recently, Mancur Olson made use of Lerner's argument to tell Gordon Tullock that some Welfare-State redistribution to the poor is a great idea (1988).

19 See also the reformulation of Lerner's equal ignorance condition by Samuelson (1964).
thereby of his conception of the 'social dividend'. It makes clear, in any case, why in Lerner's work the claim for an equal distribution of it can be much stronger than in Lange. And, more solidly founded than in Meade. Meade's treatment of the distribution of income in 1936 still rests on the older utilitarian argument, which evidently puts him for some problems. In his review of 'Economics of Control', in 1944, Meade will refer to Lerner's solution as 'elegant'.
SECTION 6: FROM G.D.H. COLE TO ...

As we learned in section three, James Meade was elected a fellow of Hertford College (Oxford) in 1930. In fact, he was first sent to Cambridge to study economics. This suggests that at that time economics at Oxford did not mean very much. This is only partly true. For instance, from 1920 to 1929 the economics tutor was Lionel Robbins. Besides, the economists present have some interesting features with regard to our topic.

Meade was one reason for looking a bit more closely at the Oxford scene. Another one was my running into a book with the curious, Woody Allen-like title: 'What Everybody Wants to Know about Money. A Planned Outline of Monetary Problems.' It was first published in 1933 and, as the front page proudly announced, written by nine Economists from Oxford (Colin Clark, G.D.H. Cole, E.F.M. Durbin, H.T.N. Gaitskell, E.L. Hargreaves, R.F. Harrod, G.R. Mitchison, E.A. Radice and Aylmer Vallance). The book was planned and edited by G.D.H. Cole.

Looked at against the background of the material I gathered before, the book had some very interesting features.

For instance, one of its chapters - the one by Hugh Gaitskell - gave an extensive treatment of the views of four monetary heretics: Major Douglas, Frederick Soddy, Silvio Gesell and Robert Eisler. Keynes's later reference to Gesell, in the General Theory, relies most probably on this chapter not on direct knowledge of Gesell's work.

Two of its contributors - Evan Durbin and Hugh Gaitskell - lectured at the London School of Economics. Some years later, Evan Durbin will make some important interventions in the debate on economic planning and socialist pricing. One of his articles becomes Abba Lerner's scapegoat\(^20\) in 'Statics and Dynamics in Socialist Economics' (1937).

More important, probably, the book could, through its contributors, be linked firmly to the socialist and

\(^{20}\) I.M.D. Little (1950) even calls Lerner's attack "vitriolic".
labour movement. One had, of course, Durbin and Gaitskell, but also Harrod (still a socialist at that time), Clark, Radice and, at last but not least, G.D.H. Cole, who, next to planning and editing it, wrote nearly one third of the book.

WHY G.D.H. COLE (1889-1959)?

I knew of G.D.H. Cole as a major figure in the history of the British socialist movement and as the writer of a monumental history of Socialist Thought.

Early on in his life, he was one of the main leaders of the Guild Socialists. As such, he severely criticized the official Party Line and the position of for instance the Webbs, which he found to 'mechanic'. Even after the dismantling of Guild Socialism, Cole stayed a life long advocate of a.o. self-management, decentralised and participatory socialism.

In the thirties, Cole revitalized the Fabian Society by organizing a series of meetings, attended by most important people on the left (B. Russell, G.B. Shaw, the Webbs, H. Laski and many others) and leading to the making of the New Fabian Research Bureau. In Oxford, he organized several famous socialist debating clubs - amongst them the famous 'Cole group', set up as a kind of role playing as members of a future Labour Government. In 1940, he became Beveridge's assistant in conducting the first Manpower Survey for the government, and kept on working closely with Beveridge afterwards. According to Beveridge's biographer, "... it seems probable that the influence of Cole was at least partially responsible for the marked radicalization of Beveridge's attitudes during this period. ... it was a curious relationship, for twenty years earlier Beveridge had dismissed Cole as a brilliant but unbalanced revolutionary, whilst Cole as a guild socialist had been a leading critic of Beveridge's policies at the Ministry of Munitions." (HARRIS, 1977:370)

You may wonder why I spend some time on Cole at all. Sure, there was a link with Social Credit. R.A. Orage, one of the other Guild Socialist leaders and the editor of 'New Age' - in which columns Guild Socialism began as a social doctrine - later became Major Douglas's secondant and co-writer, and handed over the 'New Age' to Douglasism. Also, Cole displayed a lot of interest in
the role of money in modern economies. This made me hopeful. Maybe, I could find something more about this business of printing money. But indeed, as you may have guessed from my being silent on it, there was no mention of 'social dividends' in the book. So, why did I bother.

The main reason I looked for more books by Cole, was to see whether I could find some clue as to where James Meade ran into 'social dividends' (if he did not make it up himself, a possibility I began to give more plausibility at the time). I assumed that, if the name 'social dividend' or some very similar proposal existed prior to 1935, the work of someone who was famous for his encyclopedic reading might be of help.

And helpful it was.

Indeed, the books I consulted hosted the name 'social dividend'. Surprise turned into excitement. G.D.H. Cole, himself, was not merely a prior user of the name, he referred to some other books in which, he said, he advocated social dividends already years ago.

We will enter the details of Cole's work shortly, but there is one thing we have to clear up now. Can we establish any direct connection between Cole and James Meade? Being both at Oxford and considering Cole's immense influence, it is very unlikely that Meade was totally unaware of his work. Yet, from Meade's books this is not evident. Cole's name does not appear in the index neither of 'Economic Analysis and Policy' nor of 'Planning and the Price Mechanism'. But, as we know, this kind of evidence can be, certainly in the period considered, very misleading.

Here, luck was on my side. In between my visits to the library, and mainly to enlarge my background knowledge on the period I was discovering, I glossed through Elizabeth Durbin's 'New Jeruzalems', a remarkable and vividly written history of the Labour Party in the thirties and forties. This book gave me, at least, three important pieces of information, confirming that I followed more or less the right track.

First, Durbin mentions James Meade as one of the members of the New Fabian Research Bureau and as a participant in the 'Cole group' meetings, and she mentions a subcommittee of the economic section of the New Fabian Research Bureau on capital supply, set up by Colin Clark and including, amongst others, Joan Robinson and Gerald
Shove. Second, she describes the struggle between Cambridge (and its Keynesians) and London (and its price mechanists) and points at the joint London-Cambridge-Oxford seminars as the main forum for debating the theoretical issues. "Apparently, everybody came, particularly the younger economists - Durbin, Gaitskell, Lerner, Hicks, Kahn, Sraffa, Joan Robinson, Harrod, Meade; occasionally the big guns would also show up - Keynes, Hayek or Robbins." (DURBIN, 1985:108) Third, she refers to Cole's 'social dividend'. "... an obvious descendant of the national minimum, which Sidney Webb had written in the Labour party's constitution, of the 'Living wage', and of Major Douglas's 'social credit', and a forerunner of the minimum incomes provided in most modern welfare states." (DURBIN, 1985:182)

In short, Durbin's 'New Jeruzalems' confirms our information about meetings between members of the Cambridge Circus and Abba Lerner (even on more occasions and in a different context than I knew off) and gives the necessary elements to establish a direct political link between Cole's environment and James Meade (and even Joan Robinson and Abba Lerner).

Feeling more comfortable on this point, let us turn now to the details of Cole's work.

'MONEY' (1944) AND 'FULL EMPLOYMENT' (1943).

I encountered the 'social dividend' for the first time in Cole's work in two books, published in the years 1943 and 1944. In this same period the famous Beveridge reports appeared - the one on social security being published in 1943, the one on full employment in 1944.

One of Cole's books was meant as a textbook on money for the intelligent general reader, 'Money:its Present and Future' (1944). The other was on employment policies, 'The Means to Full Employment' (1943). As Cole makes clear in the introduction of the one on money both books are intimately linked. No country can attempt to achieve full employment without controlling the conditions of its internal money supply.

The book on full employment contains only a passing remark on 'social dividend', more specifically in a chapter on consumers' credits - a topic reminding us of Meade. Its context is, however, very similar to its main
appearance in the other book. So, in what follows, I will not treat the full employment book and concentrate on the one on money.

In 'Money', the 'social dividend' makes two lengthy appearances: first, in the chapter on methods of income redistribution, second, in an appendix titled 'Fifty propositions on money and production'.

Discussing methods of redistribution of income, Cole's starts with what seems the most obvious way to bring this about, i.e. the enforcement of a law "laying down minimum rates of wages below which no employment is allowed." (1944:133) After some scrutiny, such a policy seems not without drawbacks (a.o. its effects on international trade). So, Cole turns to consider several other approaches. First, "taxation levied so as to fall mainly on the richer classes, and ... the use of the proceeds ... to add to the incomes of the poorer." (1944:135) This could be done by free social services or by paying out cash benefits to needy citizens. Second, "trying to reduce the gross return on capital, instead of merely seeking to reduce the net yield by taxation after profits have been distributed" (1944:139). This can be attempted by operating on interest rates. Third, "tax remissions in slump periods, as a method of stimulating industrial activity" (1944:141). 22 Each of these methods is scrutinized and none of them gets Cole's unqualified approval.

A last proposal, he considers is "to improve the distribution of incomes by increasing the amount of direct money payment made to the general body of

21 In 1954, Cole republishes the book with a slightly modified title 'Money, Trade and Investment'. The chapter on redistribution undergoes only marginal rewriting. The appendix, however, is skipped.

22 In the chapter on consumers' credits in the book on full employment, Cole reviews extensively the tax remission proposals. At the end of the chapter, he adds the following note: "There is in some quarters, a predilection for confusing the policy of 'consumers' credits' with the policy of 'social dividends', or 'incomes for all', apart from the incomes paid out as rewards to the owners of the factors of production. They are not, however, the same. 'Social dividends' could, of course, be paid in the form of 'consumers' credits' out of State-created new money. ... But 'social dividends' could also be paid, as it is proposed in the Beveridge Report that children's allowances should be paid, out of the proceeds of general taxation. I agree that it would be very difficult to do this on an adequate scale under the capitalist system. But 'social dividends' could quite well be paid, under a Socialist or semi-Socialist system, by the method of dividing the income generated in production into two parts and paying out one part in rewards to the producers and the other in the form of a general 'social dividend'. This is the form in which I have advocated 'social dividends' in my earlier writings." (1943:162)
consumers, and financing this increase not out of proceeds of taxation or out of borrowing to meet a budget deficit, but through the direct creation of additional purchasing power." (1944:142). This kind of proposals originates, Cole says, with people pointing at an inherent tendency of the present financial system to engender a deficiency of purchasing power. "This deficiency, it is alleged, can be made good only by a policy of 'social dividend', financed not out of existing incomes by taxation or borrowing, but out of new money created for the purpose." (1944:143) Cole rejects this analysis and this kind of approach, if only because of its inevitable effect on prices.

Yet, he goes on "there is ... a special form of the policy of 'social dividends' - a form in which I have myself advocated them for many years - which is not open to the objection just raised. It would be fully practicable, under the appropriate set of social and economic institutions, instead of paying out the whole of the net revenue generated in the course of production in rent, interest, wages, salaries and profits, to deduct at source a part of this revenue and pay it out, not in rewards to the owners of the factors of production, but as 'social dividends' to all members of the community as their common birthright in the collective productive capacity of the economic system. Current productive power is, in effect, a joint result of current effort and of the social heritage of inventiveness and skill incorporated in the stage of advancement and education reached in the arts of production; and it has always appeared to me only right that all the citizens should share in the yield of this common heritage, and that only the balance of the product after this allocation should be distributed in the form of rewards for, and incentives to, current service in production." (1944:144)

As to what Cole judges an 'appropriate set of social and economic institutions', we get some hints, when on the next page he notes that the necessary correlative of a policy of 'social dividends' is "control of the incomes paid to the producers".

"... I think ... such a policy can be adopted only under an institutional set-up which confers upon the State the final authority to regulate incomes and prices as well as to levy taxation - in other words, under a socialist or largely Socialist, economic system. It would no doubt be possible in theory for an economy based mainly on private enterprise to control so thoroughly both incomes
and prices of all kinds throughout the productive system as to make possible a policy of 'social dividends'; but I very much doubt whether it would be possible in practice." As a case in point, Cole refers to Nazi Germany. There does exist a wide control over industry, but not in order to pursue a social policy even remotely resembling 'social dividends'.

Cole remarks that each of the methods considered has its drawbacks. He notes also that they are not mutually exclusive. Government can make use of several of them at the same time. Then, he considers a final objection.

"Against the last, and to some extent against all of them, it is urged that the distribution of any considerable part of the national income in the form, not of 'economic' rewards for work done, but of social payments based on needs or on civic rights, would react adversely on production, because it would lessen the incentives offered in the form of wages, profits and other incomes paid for the use of the factors of production. I feel sure this argument is not valid. The incentive to production depends in the main, not on the absolute magnitude of the rewards offered, but on their relation one to another. An offer of several thousands a year under one social system will provide no greater incentive than an offer of as many hundreds under another. ... the more nearly a community approaches to conditions of social equality, the smaller are the differences of income which will suffice to provide strong incentives to effort." (1944:147)

Cole ends his chapter on the following remarks:

"If it were decided to institute a policy of 'social dividends' payable of right to all citizens as their shares in the common heritage, quite apart from the rewards accruing to them from their individual labours, it would no doubt be necessary to begin on a small scale - with payments that would not suddenly upset the whole structure of incomes derived from the various forms of productive service. But the system, once instituted, could be extended progressively, the monetary incentives needed to elicit effort falling as community accustomed itself to the idea of greater equality and of a right to 'dividends' as attaching not to the owners of capital, but to all the citizens as their participation in their common birthright. To some of my readers, speculations of this order will doubtless appear Utopian, and out of place in such a book as this. But is the idea of a
'social dividend' so far away from the spirit of that part of the post-war social programme the country is now debating in which the notions of comprehensive free medical service and comprehensive free education seem to be finding ready acceptance? If the State assumes the responsibility of seeing to it that all its citizens are to be given the chance of free health service and free education up to a secondary stage - if it is to further, and to accept the implications of the Beveridge slogan 'Freedom from Want', what is there Utopian in suggesting that a share in the product of industry ought to accrue to every citizen as a money payment which he can spend freely, as well as in the form of certain freely provided services? It is a step further, I agree; but it is a step further on a road on which we have already agreed to travel a good deal of the way." (1944:147-148)\textsuperscript{23}

An appendix to the book reproduces one of Cole's earlier writings, in which he (originally?) made the case for a social dividend. (I could not yet find any indication as to the date of its first publication.) The same arguments can be found, however, in a book published in 1935 and we will look at that one hereafter.

From the introduction Cole added to the older text, the following lines are, nevertheless, worth quoting: "... I regard the social dividend as an indispensable instrument, under modern conditions of large-scale production, both for securing that human independence of the individual on which Distributists have particularly insisted, and for ensuring that production shall be pushed to the limits set by the demand for leisure, and not held back by allegations that it pays better to leave productive resources unused when they cannot be so employed as to show a 'profit' over total 'financial costs'. I regard it, too, as a necessary recognition of the essentially social character of production, which depends not only on the current efforts of the individual producers, but also on the accumulated stores of knowledge which are the common birthright of us all." (1944:306) They place Cole's argument in the sphere of

\textsuperscript{23} In the 1954 version of the book, the first sentence is the same but the following lines read as follows: "But is the idea of a 'social dividend' so far away from the spirit of a part of the post-war social programme endorsed by the British electorate in 1945 and subsequently put into effect - a programme in which the notions of comprehensive free medical services and comprehensive free education were decisively stated and approved?" The last lines are, again, the same (1954:168). Some pages before this passage, Cole already made the analogy between social dividends and the Beveridge proposals. "Family allowances can be fairly regarded as a first instalment of such a policy." (1954:165)
the Distributist theory and stress the importance of the demand for leisure. Two elements we already encountered several times on our journey.


When Cole refers to "the social dividend he defended already years ago", he, apparently, refers to the paper, reprinted as an appendix to his book on money, published in 1944. But, also to a proposal contained in a book, published in 1935. The book's subject is - you should have guessed - the principles of economic planning. About this book and its place within the planning debate, Elizabeth Durbin writes: "... Cole's contribution was unique in its recognition of the need to synthesize social policy with economic planning of production and incomes. While it was less new economic theory, and more sophisticated planning analysis, it included important new insights into the appropriate use of neoclassical analysis for the practical planning of income distribution, largely unappreciated at the time and still not resolved to this day." (DURBIN, 1985:182)

Where does the social dividend fit in?

Cole introduces the social dividend in the 11th chapter of the book, when treating the planned distribution of incomes and production. Cole's main objective is to get through that real planning - i.e "to secure that the available resources shall be both fully used, subject to the claims of leisure, and used to the best possible purpose" (1935:220) - not only involves control of the money machine but also needs planning of incomes.

To explain why this is, in fact, the case, Cole starts from the assumption that Socialists introducing planning will want to plan production, "at least to some degree, according to conceptions of social expediency and justice" (1935:224). Next, he considers two such criteria.

In the first place, there is need (rather than demand). "... the need for a generally diffused supply of all

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As we know for Cole, the introduction of planning under a capitalist system is hardly unlikely - the grounds given in this book are similar to the ones presented in his book on money, included the reference to Fascist Germany.
things which can be regarded as necessaries of civilised living will constitute the first overriding claim upon the available resources of production. A satisfactory minimum of food, fuel, clothing, housing, education and other common services will come before anything else, as a social claim that a planned economy must meet." (1935:224) According to Cole there will hardly be any doubt as to what is necessary for this universal minimum and, thus, as to the corresponding total size of this primary claim.

However, in advanced societies there is a wide range of goods and services which are neither necessaries nor luxuries. Cole terms them substitutable necessaries. And, to which category some product belongs depends highly on the amount we have of it. So, Cole comes to his second criterium. "... it is necessary for everybody to have at least a minimum income which he can devote to buying goods and services of this second class. What he buys is for the most part his affair; and the more advanced a society is, the wider his range of choice is likely to be. The satisfaction of this need for further goods and services which, while no one of them is a universal necessary, yet form a necessary part of a tolerable standard of living, will constitute the second claim upon the available productive resources." (1935:225) As, in this second region, there will be doubts about what and which amounts to produce, Cole judges it highly desirable "to leave the individual citizen the widest range of choice in deciding which of these secondary goods and services he prefers, and is therefore prepared to pay for out of his limited income."

At this point in Cole's argument, it becomes clear why the planning of incomes is so important. As soon as freedom of choice is assumed, it becomes apparent that the structure of demand for this second class of goods depends on the structure of the income distribution. "The primary necessaries can be distributed free to everybody, or, if they are sold, their prices can be lowered so as to bring them, or the required minimum quantities of them, within everybody's reach, or again a basic minimum income can be assured to everybody without any general control of the distribution of incomes above the minimum. But none of these methods will solve the problem of planning the production of substitutable necessaries. This will have to be done either in the light of the distribution of incomes as it is, or in the light of a planned redistribution of incomes." (1935:225-226) This point being established, Cole mentions a second advantage
of planning the income distribution, i.e. getting rid of at least one important cause of fluctuations in demand, thereby making planning easier.  

On which principles, then, incomes available for the purchase of consumer goods and services will be distributed?

At present, incomes accrue to individuals either as payments for real or imputed services to production or as 'doles' of one sort or another from the public purse. One of this system's disadvantages is that income is cut down if production is cut down. Therefore, a planned economy will, according to Cole, seek to begin at the other end. "... by distributing enough income to buy at the planned prices all the consumers' goods and services which can be produced with the available productive resources, so as to leave adequate provision for the making of the requisite supply of capital goods." (1935:234)

On the surface, the new system will not seem very different. Yet, its significance will be altered.

"Incomes will be distributed partly as rewards for work, and partly as direct payments from the State to every citizen as 'social dividends' - a recognition of each citizen's claim as a consumer to share the common heritage of productive power. I believe the tendency will be for a planned economy steadily to reduce the proportion of total income distributed in the first of these ways, and steadily to enlarge the amount of the social dividend." (1935:235) For the distribution of this dividend Cole sees no possible basis except that of need. "The aim should be as speedily as possible, to make the dividend large enough to cover the whole of the minimum needs of every citizen. Being paid as a civic right, it will be of equal amount for all, or rather for all adults, with appropriate allowances for children. It
should be from the beginning at least large enough to cover the bare physical necessities of every family in the community." (1935:235)

The level of the social dividend envisaged seems, indeed, fairly high. The next page reveals that Cole reckons them to be higher than wages or salaries for the majority of the people. This way the degree of inequality would be highly reduced. This forces Cole to consider the incentive effects. But, as he still would maintain ten years later in his book on money, the incentive problem does not frighten him.

"If the maximum a man could earn came to no more than the amount of his social dividend, the incentive to earn it, in a society living nearly at a common standard, would be fully as powerful as the incentive to earn many times as much in the class-ridden society of to-day. For the demand for little luxuries and larger supply of substitutable necessaries is the keenest of all human demands. .... Earnings will become, under such a system, more and more of the nature of 'pocket money', without any loss of the incentives to effort such as absolute equality of incomes would involve. Work will have its sufficient reward; but the main part of national income will no longer be distributed as a by-product of industry." (1935:236)

One can see that a social dividend system makes it possible to combine or to make compatible several values Cole would look for in a good society. As I would list them, they comprise amongst others a fairly equal distribution of income, acknowledging human dignity, getting rid of a system linking demand too tightly to production, keeping incentives at work, giving the fullest possible scope to consumer choice (even for the demand of leisure), and all this without relying to much on a bureaucratic system of government.

Nevertheless, and contrary to Lange, Lerner and Meade, Cole stays an advocate of administered prices. Moreover, his view seems to rest on very strong assumptions with regard to needs and consumer behaviour.

To the 11th chapter we just scrutinized, is added a 26 pages long appendix, explaining in detail how the new form of distributing incomes would differ from the existing one. Cole illustrates his argument by "... a social dividend averaging 10s. a week for persons under fifteen, £1 a week for persons between fifteen and
twenty, and £1 10s. a week for persons over twenty...". This "... would cost in all about £2,763,000,000 a year. The net national income at present is probably in the neighbourhood of £3,500,000,000 a year." To those who find that this leaves only little to be distributed as a reward for work, Cole answers that we should not take the present figures for granted. A better use of productive resources would enable national income to be scaled up by one-third rapidly. Later, Cole tries to figure out how these amounts correspond with the existing sources of income and how a part of the amount needed already is distributed through 'doles'.

At the end of the appendix, Cole notes three important advantages of the system he proposes. Two of them are rather straightforward and pose no special problem.

The first concerns the fact that the new system "would make indispensable, as well as obviously desirable, the fullest possible utilisation of the available resources of production." If the greater part of incomes is paid in the form of social dividends, it will not pay to leave any usable resources unemployed. (1935:265)

The second relates to the fact that the system "is capable of being applied by stages, so as gradually to oust the method of distributing incomes in return for actual or implied services to production by the new method of distribution according to need, in such a way that the diminution of the sums applied as incentives to effort can keep pace with the progressive abolition of class distinctions and with the growth of a new collective consciousness of fellowship in the community." (1935:265)

The third advantage bears on the problem of incentives and here Cole leads us through a rather labyrinthic argument. It goes as follows.

"... the system affords a much closer approach to economic equality than the system of distribution which now exists - a degree sufficient to make an end of class distinctions. But it achieves this without destroying or impairing the economic incentives to individual effort. This is possible because, given a close approach to economic equality, a far smaller monetary incentive than at present would suffice to call out superior effort. This follows from the law of diminishing utility of money, which involves that the higher a man's income is, the less inducement to effort the offer of an additional
£1 or £100 affords. The higher types of effort will thus be evoked under the new system by far smaller monetary incentives than are needed to-day." (1935:262-263)

Apart from the 'diminishing utility of money' argument, there is not very much to be troubled about. But then Cole goes on to consider an argument in terms of what standard neo-classical labour economics would call the higher level of the 'non-wage income' or 'unearned income'.

Even if smaller incentives suffice to evoke the higher type of effort, Cole says, the rise in assured incomes of the poorer sections of society might cause the smaller sums, offered to them as rewards in the form of wages or salaries, to be less effective as incentives than wages and salaries are today. This, Cole says, is not the case, for the following reasons.

"The incentive to effort under the present system begins in effect only at the point at which the net advantages of employment outweigh those of unemployment - that is, at which the wages received for work is sufficiently in excess of the income accruing to the unemployed person to offset the unpleasantness or pleasantness of the work minus the pleasantness or unpleasantness of being idle. The major part of the wages now paid out is not an incentive to work well, but only to work well enough to hold the job. But under the new system the social dividend would be payable to able-bodied persons only on condition that they were ready to work, and there would have to be means whereby a man's receipt of the social dividend could be questioned on grounds of proved unwillingness to perform his part in the common service. There would be no question of any willing worker being unable to find work, or, if any such case did arise on account of temporary economic friction, the social dividend would of course continue to be paid throughout the period of idleness. But in order to be entitled to receive the social dividend, an able-bodied citizen would have to be prepared to work up to a standard sufficient to justify his claim to share in the common heritage of society, just as now he has to work up to a standard sufficiently high to enable him to evade discharge. This is not the place to discuss what the precise conditions would be under which it would be possible for an individual, on account of proved slacking or negligence, to forfeit his right to the social dividend, or in what alternative and less eligible form society would determine to provide for the needs of those who did thus
forfeit their claims. But it is clear that, even if the cases involved were few, some provision for them would have to be made; for it is Utopian to suggest that, if all citizens were entitled to an adequate living income without any obligation to render reasonable service to the community in return, there would be under present conditions none who would fail to pull their weight.

Accordingly, the sums payable as rewards for work under the new system should be compared, as incentives to effort, not with the total wages now received, but with the difference between the wage that is just sufficient to enable a man to retain employment and the earnings that can be secured by doing better work. Evidently, if the sum available for wages and salaries under the new system enabled the remuneration for effort to be accorded at half the existing level, the incentive would be considerably greater under the new system, in spite of the rise in the total incomes accruing to the great majority of those in receipt of wages and salaries." (1935:263-264)

As far as I know this kind of argument does not reappear in Cole's later work. So let us consider these passages as a first attempt to cope with arguments against social dividends based on the alleged negative effects on incentives to work and without giving to much way to a practice of enforcing people to work. On the other hand, a sense of duty is certainly implied in Cole's view of citizenship and, thus, this passage can also be read as a struggle to combine a social dividend granted to everyone with the view that everyone should render society its due.26

Whatever we make of it, the appendix to the 11 chapter of 'Principles of Economic Planning' by G.D.H. Cole is probably the first real, more or less realistic example of a social dividend scheme, tentative figures included.

We might even be as daring as to conjecture that Cole in fact is the one who framed 'social dividend'.

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26 One of the reasons for feeling uneasy with this argument might even be some kind of Brechtian V-effect (effect of alienation, one could translate it very badly, I suppose). Indeed, on these matters we are used to think in terms of supply of labour and choices made in terms of income and leisure. As we saw Cole several times mentions the optimal choice between leisure and labour. Nevertheless, his thinking is most probably cast in a different framework, i.e. one of demand for income in terms of effort. (See: L. ROBBINS, On the Elasticity of Demand for Income in Terms of Effort, in: Economica, vol.10 (1930) 123-29)
Indeed, in the course of the foregoing argument - not in the appendix, but in the main text - on the point where he starts to explain in which way incomes would be distributed under a social dividend scheme, Cole writes the following line: "There are two possible ways - payments for work done, and 'doles', or, to give them a less coloured name, 'social dividends'." (I emphasize, wvt.) Do the quotes mean that Cole took the name 'social dividend' from some other context? Or do they mean that Cole at this spot forged the name? I put it to you that these are the lines, in which the name 'social dividends', in the sense used now, was forged.
SECTION 7: The years B.C. and State Bonuses.

One of the reasons I rather boldly committed myself to the view that Cole himself indeed forged the name 'social dividend', is that I did not find any indication that the term was used in the literature, which could have influenced Cole's thinking (or in any other book or article I read appearing prior to 1935).

What are these sources on which Cole draws? On what traditions the concept of a social dividend, plausibly, builds? Is there any clue as to what kind of proposals Cole was picking up?

Clearly, there is such indication. As I noted before, according to Elizabeth Durbin, Cole's 'social dividend' goes back on three sources: social credit, national minimum and living wage.

I am not wholly convinced of the accuracy of this view. This is not to deny that for instance the ideas of Major Douglas did influence Cole, or that the notion of a National Minimum as the Webbs wrote it down in their 'Constitution for a Socialist Commonwealth of Britain' resembles highly a limited form of a social dividend. So, Cole might have picked these ideas up and probably twisted them in a way as to frame a social dividend. But I believe some possible sources can be indicated, which are of more importance than those named here.

In the first place, there are some theoretical traditions, which do not figure in Durbin's list and which are certainly important in this context.

A tradition one, certainly, has to consider is referred to through the theme of the 'Distributist State'. A theme clearly present in Cole's writings - as it also runs

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27 In the case of the National Minimum, one might even consider the influence of Pigou, who uses the term in 'Wealth and Welfare' - "an objective minimum of conditions in all departments of life, below which the fortunes of no citizen are allowed to fall" (1912: chapter 12) - and later in the 'Economics of Welfare', and spells out its (negative) effects on the national dividend, the term then used to refer to the national product. Strangely enough, Douglas Jay, in his 'The Socialist Case', speaks twice about Pigou's "social dividend". But this line, I still have to explore.
through Meade and Lerner, even Robinson's article on 'Disguised Unemployment' makes an implicit reference to it in its opening paragraph.

Distributism aimed at restoring personal ownership of property. Its main spokesman at the time was Hilaire Belloc, a talended writer and essayist, and - as Robert Nisbet says - a libertarian Catholic. The distributist critique was mainly directed at capitalism and its destruction of personal ownership, and thus of the personal freedom which went along with it. The link between distributism and some form of general subsidies is not clear. Belloc himself criticised Social Credit, because it learned to think in terms of money, not in terms of property. Although he acknowledges that a social credit policy would be a much quicker means of redistributing property than the restauration of property itself. This link between social credit and distributism was very strongly stressed by a certain reverend Drinkwater in "Why not End Poverty?" (1934). He tried to convince Belloc that social credit was what distributism needed to make its approach less "mystical". "National dividends, like old-age pensions, would be a measure of social justice and a further security for individual freedom." (DRINKWATER, 1934:71)

It is known that Cole led Belloc in high esteem and, thus, distributism may have had an important influence on Cole's problematic.

Another source might have been the utopian writer, economist and journalist Theodor Hertzka. Glossing through the indexes of Cole's monumental 'History of Socialist Thought', one will find 'social dividends' mentioned only once. Namely, in the index of volume III part II treating the period of the Second International (1889-1914). The index refers one to the appendix of the chapter on developments in Austria - an appendix which gives a summary of Hertzka's most important work 'Freiland' (1891). (In some pedigrees of basic incomes, Hertzka is mentioned as one of the forerunners. Together with Bellamy and William Morris, another one of Cole's favourites.) At the end of his summary, Cole notes, sadly, "to-day the book is little read - which is a pity, for it contains a great deal of sound economic sense." However, for now, I do not have any clue as to when Cole read Hertzka for the first time.

In the second place, it is important to ask whether, next to the 'living' wage and the 'national minimum', some other policy device belonged to the stock of knowledge
available to Cole.

The most important clue as to such more direct influence, we find in a book Cole wrote in 1929, 'The Next Ten Years in British Social and Economic Policy.' One may consider the book to be a turning point in Cole's thinking. The very first lines of its preface state that he wrote the book because the movement of events compelled him to think out "afresh my social and political creed". "The problems of today are not the problems of twenty years ago; ... The new generation is, in certain respects markedly unlike the old." (1929:vii)  

This did not lead, apparently, to a highly theoretical statement of new believes. Instead, the book contained rather down to earth chapters on almost any important policy matter.

The term social dividend does not appear in it. But in the chapter on wages, family allowances and population a possible forerunner is visible.

Cole states the view that socialism "will not be worth a brass button to the ordinary man unless it can improve the standard of life." (1929:178) But, the standard recipe, i.e. merely passing laws to raise wages, will not do, Cole argues. The effect may very well be to drive other workers into unemployment. As we saw earlier on, Cole will use the same argument again in 1935.

The only road left is, therefore, one of social redistribution. Further on, Cole considers one of the possible means to accomplish this, i.e. the introduction of family allowances. He notes that it is important to state clearly the right principle. Family allowances should not have anything to do with wages. They ought to be based on need. Through them "the principle of distribution according to need will ... begin to elbow the rival principle of payment for economic value received." (1929:198) A few lines later, the following passage starts: "It seems probable that, on a somewhat longer view, this principle will be pushed a good deal further.

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28 We find some confirmation of the 'turning point' feature of the book in a remarkable story told by Hugh Gaitskell (see BRIGGS & SAVILLE). On a walking tour, in the period Cole was writing 'The Next Ten Years', spending the night in a cabin, a discussion was started in which Gaitskell made a critique of Guild Socialism and stressed the prevalence of the individual as against the community, without succeeding in convincing Cole. The next morning, Cole rises and tells Gaitskell that, overnight, he pondered the arguments and admitted that Gaitskell was right.
This may be done by the complete communisation of certain services, as we have already communised elementary education. We may come to a 'State Bonus', or to 'Dividends for All' - to use two names which have been adopted by advocates of giving every citizen, quite apart from his work, a certain minimum claim to a share in the annual social product. Wages and earnings may come to be only supplementary payments for work, and not the main source of men's livelihood." (1929:199) (I emphasize, wvt.)

This passage, clearly, is the embryo of what will develop into 'social dividend' in Cole's later work, - and, in our own times, into 'basic income' or 'universal grants'. Cole does not refer to any source or to any author of the schemes mentioned. Judging on the name, 'Dividends for All' maybe comes out of the Social Credit vineyard, or from a mixed social credit/distributist branch. But 'State Bonuses' most probably does not.

Although I never saw the scheme or do not know anything more about its author, I managed stick a name on it. Its author is a certain Dennis Milner.

Indeed, a positive reference to the scheme can be found in Hugh Dalton's "Some Aspects of Inequality in Modern Communities" (1920). On page 250, in a chapter on incomes out of civil rights, Dalton considers schemes for extending the Old Age Pensions and, then, writes: "A still ampler scheme is that of Mr. Dennis Milner, who suggests that a "pool" should be formed by a general levy of twenty per cent on all incomes, and that out of this pool 9s. a week should be paid to every member of the community, children included. This idea has the merit of simplicity, if no other." A footnote states the full title of the proposal: "Schemes for a State bonus. A Rational Method of Solving the Social Problem." No date is added.

Oddly though, two footnotes earlier - when treating on the former page the extension of pensions -, Dalton, illustrating that the idea of universal pensions is not new, referred to Tom Paine's 'Agrarian Justice'; without, that is, making the connection with the scheme of State Bonuses or noting any similarity. Oddly, because today's literature points at precisely this work by Paine as containing the first remembered example of a basic income of universal grant proposal.
Thus, now that we most probably know who framed Social Dividend, we can start asking 'Who was Dennis Milner?'


A few days after finishing the paper and presenting it (briefly) at the, already mentioned, Rome conference, I found the following review of the 'State Bonus' scheme in the The Economic Journal, vol. XXIX (March 1919) n°114, page 241.


The authors of this pamphlet propound a scheme for an equal distribution of 5s. (pre-war) per head per week for all persons, to be provided from a pool maintained by everyone contributing 20 per cent. of their incomes. The demerits of such a proposal are too obvious to need enumeration. But the psychology and ethics of the recognised economists need a fresh examination, and in many respects Mr. and Mrs. Milner's sociological views deserve careful attention. "The community should help all alike, not only those who have failed to help themselves." "No one should be driven by the threat of destitution into accepting work which is underpaid, unhealthy, or even dangerous. Therefore destitution must not exist." "The guarantee of the primal necessities of life will abolish the chief excuses there may be for begging, petty theft, the under-feeding of children etc." "It will always give the fallen man a chance to rise." "Persuading people to work is an educational problem. Starvation must not be used as an educative force, for it only makes inefficient workers. Even the slave-owner gives his slaves food and shelter before applying the whip. Of the wisdom of maintaining people in health by proper nourishment before attempting to induce them to work there can be no question." "There is abundant evidence that
those who live in want and the fear of want are cramped in their spiritual outlook, and the few who are virtuous would be so under any circumstances." "Our scheme makes men and women, rather than materials, the basis of Reconstruction."

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So, the circle closes. With 'Social dividend' as a guiding theme, starting from its recent replacement by 'basic income' - or 'universal grant', we discovered the existence of a State Bonus scheme, and even of a 'State Bonus League'. This seems to be a remarkable ancestor of 'basic incomes' and even of the Basic Income Research Group.

Let us hope, however, that the second part of Marx's opening clause of the "18th Brumaire" - qualifying Hegel's dictum that everything in history happens twice - does not apply in this case.
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