



ALEC CAIRNCROSS

*Walter Bird*

# Alexander Kirkland Cairncross 1911–1998

## I. Early Life, 1911–39

THE TITLE OF CAIRNCROSS'S AUTOBIOGRAPHY, published in the year of his death, is *Living with the Century*. As it happened, the coincidence was close. He was born on 11 February 1911 and died on 28 October 1998. His wife, Mary, had died a few months before. They had been married for 55 years.

This beautifully written autobiography gives a fascinating account of his Scottish upbringing in Lesmahagow, a village in the farming area to the south-east of Glasgow. His father had an ironmonger's shop in the village, inherited from his grandfather who came there in 1864. His mother was a schoolteacher. Alec records a radical tradition in the family, for her grandfather, Thomas MacCartney, was a nephew of 'Purley Wilson', a radical who had been hanged early in the previous century. It is also of interest that in the seventeenth century a namesake, Alexander Cairncross, had been Chancellor of the University of Glasgow roughly three centuries before he was to hold the same office.

Cairncross was the seventh child in a family of eight. They were a remarkably gifted family. Five of them took university degrees and three became professors at one time or another. One brother became an authority on Matthew Arnold and a professor in America; the youngest, John—an authority on Molière—was for a time a professor in France. Cairncross observed that John was the most able of the family. Like himself, he spent the war in Government service where—as he drily

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remarks—John achieved ‘notoriety of another kind’.<sup>1</sup> A fourth brother was killed at Dunkirk. As well as the boys, his sisters were also of high ability and became schoolteachers like their mother.

Lesmahagow is not far from Glasgow but, with the limited transport of those days, was remote and rural. He expresses no regrets about having spent his early years in a small village and gives an interesting description of life there. He went to the two grades of village school with the children of the local farmers and miners and has high praise for the education he received. As he justly claims, elementary education was better in Scotland in those days than in England, with graduates on the staff even in village schools of this kind.

He then moved on to Hamilton Academy where he was a pupil from 1925 to 1928. It was an old school founded in the year of the Armada to help to provide the universal free education on which John Knox had insisted. The school had a distinguished academic record and the teaching, he says, was excellent. As he sadly records, ‘it was one of a group of first-class secondary schools in the Glasgow area, several of which have been destroyed by post-war educational ideology when, as with so many old Grammar Schools, it was turned into a Comprehensive’.

In 1928 he won a bursary which took him to the University of Glasgow with the initial intention of becoming an accountant. He came to believe, however, that ‘. . . by 1931 the world seemed to me to be so constructed that economics was the only subject worth serious study’. He had already witnessed the extreme poverty in his village caused by coal strikes and the situation was to get very much worse as the world slid down into deep depression. This attraction to economics was felt, I think, by many of us in the 1930s. The depression must somehow be cured and

<sup>1</sup> Cairncross did not know that his brother, John, had been a paid KGB agent until 1964, when he was informed by the Head of the Civil Service, Sir Lawrence Helsby. ‘The revelation,’ he says, ‘came to me as perhaps the greatest shock I ever experienced.’ He then said he would resign from his position as Economic Adviser to the Government if requested to do so, but no such request was made. Both in his autobiography and in his introduction to his brother’s book (*‘The Enigma Spy’*, Century, 1997) he seeks to rebut some of the other charges made against his brother, but there was no denying that John had given the Russians all the information obtained by our code-breakers about the strength and disposition of the German forces before the great tank battle at Kursk. John himself took pride in this quite improper behaviour. British security had faced a dilemma. If action was always to be taken on the basis of all that the code-breakers had learned, the Germans would soon tumble to the fact that their code had been broken and would change it with disastrous consequences in the Atlantic and, later, in Western Europe. We had already accepted some losses ourselves rather than take this risk. But Kursk was one of the decisive battles of the war.

any subsequent recurrence must be prevented. It did not seem to be an idle hope for there were surely ways of achieving these objectives. These ways must be further investigated. New hope seemed to be offered by the ideas that Keynes, in particular, was developing. That was so even before the appearance of his *General Theory* in 1936. Cairncross, for his part, cannot have learned much about new macro-economic theories from his professor, W. R. Scott, but his colleague, Alec Macfie, was developing a keen interest in such matters which was to lead to a book on the trade cycle.

In 1932 Cairncross was awarded a First. He had already been making plans for his next step. For outstanding Glasgow graduates, that step was often a Snell bursary to Balliol but the subjects acceptable for this award varied from year to year, and in 1932 economics was not one of them. Cairncross had therefore applied successfully for a research studentship at Trinity College, Cambridge. In any case, Cambridge seemed much the most interesting and exciting place for the study of a new analytical framework which might lead to a remedy for depressions. It was the spell exercised by J. M. Keynes that drew so many young economists to Cambridge at that time and Cairncross found himself among contemporaries who were to make important contributions in various parts of the world. As well as the group of recent Cambridge graduates, there were Lorie Tarshis, Harry Wolfson, Walter Salant, Hans Singer, V. K. R. V. Rao, and Abba Lerner. He became a member of the Keynes Club and took part in its lively discussions.

At Trinity the supervisor was Dennis Robertson, to whom Cairncross acknowledges his deep indebtedness. The disagreements about macro-theory between Robertson and Keynes had started by this time but were to become much sharper in later years. Cairncross made no attempt to look back and discuss the respective views of these two economists who influenced him so much. To do so would have been to enter a minefield. In effect he was here adopting the advice given him by Robertson to direct his attention to applied economics rather than abstract theory. Thus he avoided the higher flights of theory although there is of necessity a vast amount of theory underlying his work both on economic history and on current economic policy.

His dissertation on 'Home and Foreign Investment—1870–1913' is acknowledged to have been a pioneering work. It was completed in August 1935 but he himself was dissatisfied with it and held it back from publication. It did not appear, in a revised form, until 1953 but its existence had been well known and it had been frequently consulted

meanwhile in the Cambridge University Library. The subtitle of the book that finally appeared was 'Studies in Capital Accumulation' and it contains some other papers as well as his initial contribution. In a review that was on some points not uncritical, Benjamin Higgins summed up by saying: 'The entire profession can be grateful to Professor Cairncross for gathering together between the covers of a single book such a wealth of factual material' (*Economica*, January 1955). It was a view that would have been widely endorsed.

The work was pioneering in two respects. First, the lack of statistics had to be made good. In constructing estimates of home investment, he was no doubt encouraged by the influence of Colin Clark whose bold approach to statistical estimation was to be mentioned by Cairncross with appreciation many years later in his autobiography.

It was, however, his conclusions rather than his statistical ingenuity that really attracted attention. It was the fact that his calculations made startlingly clear the immense quantitative importance of British overseas investment.

As he showed, three parts of British savings were invested at home and two parts abroad between 1875 and 1914. In 1913, more than half of British investment was abroad. Over the previous fifty years, the total invested abroad was the equivalent of Britain's entire industrial and commercial capital (excluding land). Only about £1,500 million was available to increase capital per head between 1875 and 1914. Here then was an explanation of the climacteric in the growth of productivity.

Cairncross concludes that: 'Home investment did little to promote a growth in national income of 2% per annum. It was not the growth of capital in British industry that transformed the standard of living, but the reduction in the price of British imports'. It was a reduction brought about substantially by the export of British capital and reflected, in particular, the vast improvements in transport.

In reflecting on the causes of slow growth in Britain, it must not be assumed that if the export of capital had been less, capital per head at home would have increased correspondingly, for the emigration of people would also presumably have been less. As Cairncross showed, the two movements were closely associated. There is another possibility suggested by Keynesian theory which, as it happened, he did not discuss. With the railways no longer making the same demand on British savings, would there have been sufficient domestic demand from other industries to absorb all the saving available at the same average level of employment?

Or would 'the Great Depression' have been turned, for a time at least, into a Keynesian depression?

In 1935 he returned to the University of Glasgow as a lecturer. The degree structure was very different from that at Cambridge. At its core was an 'ordinary degree' with several subjects—a good degree, not 'failed Honours'. A fairly small number of students would go on to an Honours course in economics, combined with some other subject. There were also service courses, notably those for accountants for which Cairncross became substantially responsible. The teaching burden was heavy but he managed to turn some of his lectures into the well-known textbook that was to run to six editions.

## II. War work, 1939–45

When war broke out, it seemed obvious that Cairncross's services would soon be required in some part of government and in January 1940 he joined the group of economists working in the War Cabinet Offices under Lord Stamp. They were later to become the Economic Section under John Jewkes and, later still, Lionel Robbins with the Central Statistical Office hived off under Harry Campion.

A vast increase in defence production would clearly be required and a flow of statistics was necessary to show how this might be achieved and how it might be monitored. The various members of the team turned their attention to problems that seemed to them to be particularly important. Thus James Meade and Richard Stone set about preparing estimates of national income and output which could be used as a basis for a Keynesian anti-inflationary fiscal policy. Cairncross, for his part, concentrated on imports, stock-building and internal transport. The future of the import programme was a key issue. It would have to be cut back severely. How could this best be done while imposing the least hardship on the British public? Obviously he enjoyed work of this kind which took him on visits to west coast harbours and required the acquisition of a little technical knowledge about sea transport and land transport.

The Economic Section recommended a great slaughter of farm animals in order to reduce the heavy imports of feeding stuffs. There was also another economic advisory body which concerned itself with this problem—Churchill's Statistical Branch. These two bodies were to some extent rivals and it may be suggested that they should have been amalgamated. Apart from political obstacles to amalgamation, some case could

however be made for their separate existence as a means of ensuring that different views would find expression. The numbers of economists involved were small.

In June 1941 Cairncross was transferred to the Board of Trade to take the place of Richard Kahn and there he continued to work on port capacity and reserves of factory and storage space. Then, in November, he moved once more, this time to the Ministry of Aircraft Production (MAP) where he was to remain until the end of the war.

This ministry was at that time in a state of some confusion, caused by the lack of coherent procedures to deal with the vast increase in production that was intended. As minister, Beaverbrook had provided plenty of push and drive in the crisis of the Battle of Britain but he was temperamentally unsuited when a sustained and orderly rise in production was required. As Cairncross explains, he was an extreme exponent of the common but faulty practice of thinking in terms of ‘priorities’—first, second or whatever—a practice Cairncross repeatedly denounces. If it does nothing else, a training in economics provides the necessary prophylactic. One must think rather in terms of competing allocations.

In the autumn of 1941, John Jewkes—then head of the Economic Section—was invited to join MAP and form a new team of planners—the department of Statistics and Programmes (Stats P). In this task he was remarkably successful and had soon recruited an able team, including Ely Devons, David Champernowne, Alec Cairncross, Frank Paish, Brian Tew, Marjorie Craigie (later Tew), and Walter Hagenbuch. Ely Devons, who succeeded Jewkes as head of Stats P, was a man of outstanding ability, well-suited for the task in hand. Cairncross had a high regard for him and was much influenced by him.

There was a desperate shortage of statistics about current production and stocks. Without these statistics it was impossible to know what was happening, apart from planning for the future. These gaps had to be filled and regular statistical series provided by the new team.

The need to plan production was clear. A programme—a realistic, attainable programme—had to be prepared which would set out the numbers of aircraft to be produced by various types at various future dates. Their final assembly depended upon there being a planned flow of components becoming available when required. That seems an elementary condition for success but it was not being met. For example, Cairncross refers to two hundred Wellington bombers that were grounded for lack of propellers. Synchronised programmes for airframes and subsidiary programmes for the main components were badly needed. MAP

had a number of different directorates and conflicting views fortified by departmental ambitions made it hard to draw them together. As Cairncross has explained: 'The production programmes that we issued were the main instrument of co-ordination in the department; but co-ordination was something new and little understood.' The planning department's aim was consistency. It could also influence but could not of course determine by itself the scale of the programme nor the particular planes to be produced. For these decisions involved not only other parts of MAP but also the Air Ministry and, on big issues—notably the bomber offensive—the War Cabinet as well. A certain amount of friction was bound to result.

It would be an error to suppose that the planning was simply a back-room exercise with Jewkes, Devons, and their colleagues bringing together the proposals submitted to them and drawing attention to any inconsistencies that seemed to emerge. They were much more active. They were involved not only with the production departments but also with the principal firms. With the information it had collected, Stats P could anticipate trouble, allow for the effect of modifications, and provide guidance about the critically important provision of spares.

The programme was not only an instrument for coordination within MAP; it was also the basis for estimating the manpower required, although this was a hazardous statistical exercise. Cairncross was not one of those directly involved, but his own work would be affected by the outcome. The manpower budget in the war economy as a whole was the principal instrument of control with its shape finally determined at top ministerial level. There was never enough to meet demands fully. Cuts had to be made—and were anticipated in the demands presented which did not make for clarity! Cairncross was at some pains to dismiss the notion that wartime planning, even in MAP, was a marvellously scientific exercise.

There can be no doubt that Stats P came to exert great power and influence in the ministry. It did so because, though small, its members were so immensely able and so energetic. Cairncross mentions, however, one of the greatest failures of wartime production—the slowness in developing Whittle's jet engine. What little progress was made was owing largely to the prodding of Lord Cherwell. If the Germans, though ahead, had not also made great mistakes, Britain might have lost supremacy in the air in 1944 with incalculable consequences. Cairncross is thus forced to leave the question by saying that: 'Although we (the planners) were keenly interested in jet engines, we had little to do with them.' Their

development was, of course, a highly technical matter and it was left to Rolls Royce to deal with it.

Cairncross records that he and some of his colleagues had come to believe that—even apart from its brutality—the heavy bombing of German cities had ceased to be appropriate after America had entered the war with her daytime bombers. They would have preferred more landing craft, tanks, fighters, and the like. The point is made briefly, almost casually, although it means they were devoting great skill and energy to a strategy in which they did not believe—admittedly a not unfamiliar experience in wartime! In the event, area bombing did not lead to the swift German collapse unwisely predicted by Cherwell and Harris, but Germany was forced to devote vast resources to air defence—not only the equivalent of many divisions but thousands of 88 mm guns that could otherwise have been used with devastating effect against our tanks. In helping to provide the RAF with heavy bombers Cairncross and his colleagues did more to achieve victory than he himself seems to have recognised. The effectiveness of the bombing does not, of course, settle finally the moral questions it raised.

During the war (in May 1943) he married Mary Glynn whom he had met just before the War. Mary had read sociology at Bedford College and was training to become a housing manager before they were married. Thus there began a remarkable partnership that was to last for 55 years. With their five children they were a very happy family. The nature of their own relationship was well expressed in the quotation from Peter Abelard inscribed in a book Alec had once given her. ‘For, but with half a soul, what can life do?’ He survived the death of his wife in 1998 by less than four months.

### III. Immediate postwar 1945–50

Cairncross spent the winter of 1945–6 in Berlin as Treasury representative on an international team of experts charged with drawing up a plan for reparations to be made by Germany to the Allied countries. The other members of the group represented the United States and the Soviet Union (and eventually France too). At Potsdam the three governments had agreed on a formula providing that to the extent that Germany’s industrial equipment exceeded what was needed to give the Germans a standard of living equal to the European average (excluding Britain and the Soviet Union from the reckoning) this excess would be taken as

reparations. The team of experts was asked to turn this formula into a plan for detailed action.

Cairncross embarked on the operation with doubts about its feasibility. There were difficulties with the Russians and the final result was a compromise which neither Cairncross nor his colleagues in the United Kingdom mission regarded as fair or indeed feasible. His assessment of his individual contribution was modest: he was, he wrote, far more the spokesman of the UK Commission's general view than the contributor of an independent view. In the outcome the agreement rapidly became a dead letter when both the United States and the United Kingdom governments abandoned the attempt to apply it and left the Russians to continue to loot the equipment of their own (eastern) zone of Germany as they felt able and inclined to do. The only value of the exercise, he thought, was that it kept the whole problem in play, for a time, while the situation became clearer and national attitudes became more realistically attuned to it. For him personally it had the value of offering some experience of the working of the Soviet system in dealing with an international economic problem.

After his return from Berlin, Cairncross spent a few months on the staff of *The Economist*. Here he learned (from Geoffrey Crowther) 'much of the journalist's craft'; certainly in subsequent years writing came easily to him. At much the same time he was appointed a member of the Board of Trade's Wool Working Party, one of a number of such groups set up on a tripartite basis (employers, unions, outsiders) to consider the problems of various industries in the post-war period and to make recommendations. The experience left him with a lasting scepticism of the value of tripartite committees of this kind as a means of coping with industrial problems.

Before the Working Party reported Cairncross had accepted a three-year appointment as economic adviser to the Board of Trade. He had no supporting staff and his position in the Board was not well defined. He gave advice at a number of levels, ranging from the ministerial chief (first Stafford Cripps, later Harold Wilson) through the senior officials (especially the Permanent Secretary, John Henry Woods) to much junior officials. He fitted in well at the Board of Trade. The Department, at official level at least, was generally sympathetic to free trade, free markets, and consumer choice: Cairncross shared this outlook. He worked mainly on domestic problems. His previous work both as an academic economist and in wartime had given him an understanding of, and contact with, the workings of industry and this interest developed further at the Board. As

time went on he gained in confidence and was treated with increasing respect both in the Board and in Whitehall generally.

Early in his time at the Board the country was faced with the 'fuel crisis' of early 1947 when there was a shortage of coal, and stocks at the power stations threatened to run out. Initially the policy was to close down the factories in order to build up the power stations' stocks. Cairncross thought this crazy; Stafford Cripps agreed and in March 1947 got the policy changed. But much damage was done; an estimate by Cairncross that £200 million of exports were lost in consequence was used in public debate. The whole affair was a deplorable failure of economic planning and did much harm to the government's reputation.

The post-war government inherited from the war period a great number of physical controls, over production, imports, the use of raw materials, and so on. Whether and for how long these should be retained was a recurrent problem for policy, and the Board of Trade had a very large share of the responsibility for the decisions. Cairncross believed that the controls should be progressively relaxed as supply conditions returned to normal; he had no sympathy with the idea of their being kept in being as part of a 'planning' apparatus. But he was against any idea of a 'rush to freedom' before normality had returned, fearing an inflationary effect. This was indeed the general policy of the Board until a stage had been reached when Harold Wilson could have a 'bonfire of controls'. On the whole the transition was managed successfully.

One area of policy in which the issue of controls necessarily arose was that of the planning and/or control of investment. While Cairncross was at the Board, Ministers set up an 'Investment Programme Committee', a small group of officials which was given the task of making an annual review of investment 'programmes' and making recommendations designed to ensure a satisfactory total level and distribution of fixed investment—private as well as public. Cairncross was appointed a member of this Committee on a personal basis and found it an important part of his work. He was a highly effective member, his feel for and knowledge of industrial developments standing him in good stead. However, as time went on he became increasingly dissatisfied with the group's proceedings. In his view the time horizon was too short—investment was considered for one year only; also, he felt that government departments did not, in general, have a sufficient technical knowledge of 'their' industries to understand what was actually going on. He did not, however, share the view of some critics that the government was holding industrial investment at too low a level and thus damaging the country's long-term export prospects.

To sum up, Cairncross's three years at the Board of Trade must be reckoned as a period of success and increasing reputation. On major issues of policy he made incisive contributions marked by insight and good judgement: he gained the respect of his colleagues within the Board of Trade and in Whitehall more generally; and he developed his own understanding of the proper objectives and techniques of economic government.

In the autumn of 1949 Cairncross was expecting to take up appointment as Professor of Applied Economics in Glasgow. In response to an urgent invitation from the government, however, he agreed to go to Paris to succeed Donald MacDougall as Economic Adviser to the recently created Organisation for European Economic Co-operation (OEEC). Initially this was to be for six weeks only but in the event it became a year and he did not start at Glasgow until January 1951.

At the OEEC his tasks included the improvement of the statistical work of the organisation, which eventually became one of its most valuable achievements, particularly in the sphere of international trade. In the realm of policy the most striking event of the year in Paris was the German balance of payments crisis of the late autumn of 1950. Cairncross worked with Per Jacobsson (of the Bank for International Settlements) to find a solution which would not involve the suspension of the only recently instituted liberalisation of European trade. Their solution involved a rise in German interest rates (widely unpopular in Germany), plus a credit to Germany from the European Payments Union. This latter feature was important as an example of constructive self-help within the European society of nations. Although the operation had its critics at the time, it succeeded in its main aim without causing excessive disturbance.

The year in Paris constituted a useful contribution to the creation of a powerful instrument for international harmonisation of economic policy; and it also made Cairncross's name and qualities known in a wide international circle.

#### IV. University of Glasgow, 1951–61

In 1951 Cairncross returned to the University of Glasgow as Professor of Applied Economics and retained this position, with some breaks, for a decade. He set about strengthening the research department and was successful in recruiting a good team at a time when competition from the new universities made that difficult. The new team worked closely with the old

Department of Political Economy. Much of the work done related to regional policies and had particular reference to the Scottish economy. He became particularly interested in management education. He was also interested in what was to be the important university centre for Russian and East European Studies which was, however, in difficulties until some time after his departure when another Alec—Alec Nove—was appointed to take charge.

In 1952–3 he served on the Phillips Committee on Old Age, apparently the only occasion when he worked specifically on the problems of the welfare state.

In 1954 Cairncross was invited by the World Bank to set up a training school for managers from less developed countries and he obtained leave of absence from his chair in order to spend eighteen months in Washington from mid-1955 until the end of 1956. It proved to be a fascinating assignment if at times a frustrating one. Almost immediately after his return he received an invitation to serve on the Committee on the Working of the Monetary System with Lord Radcliffe as chairman and Richard Sayers as the other economist. This was rather new territory for Cairncross but he was quick to learn and develop his ideas. For him it was a formative period. The central theme was that monetary expenditure could not be effectively controlled by controlling the amount of money, for any given amount of money could be used more or less actively. No limit could be set to its velocity. It was a conclusion as far removed as it could be from the monetarism that was to come into fashion about twenty years later. Another inference was that the Chancellor should be responsible for monetary policy, an inference he continued to endorse in his autobiography in 1998, when this responsibility had already been transferred to the Governor of the Bank by the Labour government.

There were also a number of visits abroad to discuss economic issues in Yugoslavia, Turkey, Ethiopia, Sweden, and Canada. Then, in 1960, came the invitation to return to the Treasury as Economic Adviser.

## V. HM Treasury, 1961–4

In June 1961 Cairncross succeeded Robert Hall as chief economist in the Treasury and head of its Economic Section, a staff of about twelve professional economists. His principal task was to advise the Chancellor of the Exchequer (initially Selwyn Lloyd) and senior Treasury civil servants on ‘demand management’, the regulation of the level of total demand so

as to maintain desired levels of employment along with acceptable rates of inflation and a healthy balance of payments position. This had become the main theme of economic policy since the end of the Second World War. Experience had shown that while a high level of total demand kept unemployment low it was liable to encourage inflation and to weaken the balance of payments. Thus the aim was to secure and maintain a proper *balance* between these various objectives. The main instruments of demand management were budgetary policy (setting levels of taxation and of public expenditure) and monetary policy (Bank Rate plus direct controls of several kinds on bank lending and credit); but in the 1950s budgetary policy had been very much the senior partner.

This approach lent considerable importance to the comprehensive *forecasts* of demand, production, trade, and prices prepared regularly by the Economic Section, with input from other government departments represented on the 'National Income Forecasts' Committee chaired by a senior member of the Section.

The economic situation in the early months of 1961 was regarded by Treasury officials with anxiety. The pressure of demand was very high and the foreign exchange reserves were being depleted as the weeks went by. Cairncross shared the view that a substantial restraint of demand was necessary. In choosing policies, however, account had also to be taken of a relatively new theme in opinion on economic matters, namely dissatisfaction with the national rate of *economic growth*—normally measured by the rate of growth of the 'gross domestic product'. The fact that post-war growth in the United Kingdom had been well below that of the principal European (and some other) countries was causing concern, and the policies of varying demand to keep the economy in balance were criticised under the denigratory label of 'Stop-Go'. 'Go' phases were popular but 'Stop' phases were not and were thought to be contributing to the slow rate of growth. There was increasing interest in the idea of putting into effect policies designed specifically to promote growth, on the lines particularly of those believed to be practised in France: these ideas included *targets* for the percentage rate of growth and the creation of an institution of 'indicative planning' which would set out in detail the industrial make-up of a targeted rate of growth.

A different but connected element in the thinking of the time was derived from a view of *inflation* which saw it as arising not exclusively from excessive increases in demand but from institutional pressures, in particular for higher wages. There had been in the late 1940s an ambitious (and successful) attempt to control this process of 'cost inflation' by a

direct restraint upon the scale of pay increases. A return to some form of 'incomes policy' was beginning to be thought about.

In July 1961 the Chancellor announced a series of measures. There was, first, a substantial restriction of demand by fiscal policy: taxes were raised and public expenditure cut. These followed broadly, in scale at least, proposals put forward by Cairncross. Secondly, the aim of raising the rate of growth was embraced; this would be sought through the creation of an institution of economic planning, representative of government, the employers and the trade unions. Thirdly, a 'pay pause' was announced, to be applied by government pressure in the public sector and—it was hoped—through voluntary co-operation in the private sector.

So far as the growth policy was concerned, Cairncross was acquiescent rather than enthusiastic. From the start he had serious doubts (*a*) about the possibilities of creating links between the numerical objectives set by the planning organisation and the detailed operation of industry, and (*b*) about the obstacles presented to faster growth by the country's chronic balance of payments' weakness.

He was equally realistic about the incomes policy proposals, although fully co-operating in their working out as time went on. He saw the difficulty of making effective a system based on persuasion and voluntary co-operation in conditions of high demand for labour.

In the event, the measures of July 1961 were successful in reducing the pressure of demand, but there was not much improvement in the balance of payments. In 1962 it began to be felt that the check to production and employment was excessive. In retrospect Cairncross was critical of his achievement as adviser in 1962; in the later part of the year he was recommending expansionary measures, but he felt he had been slow to see the need for them. In the meantime there were developments in other directions.

The organisation to promote growth, the National Economic Development Council (NEDC) and its supporting staff (National Economic Development Office or NEDO) had been set up and started work in early 1962. Cairncross had difficulty in persuading Selwyn Lloyd to accept a target growth rate as low as 4% per annum—he (Lloyd) had wanted 5 per cent, but had no understanding of what this would involve. On the incomes policy front, Cairncross played a leading part in drafting a white paper (published February 1962) which set out a 'guiding light' of 2–2½ per cent for wage increases; and also proposed criteria for pay increases above the normal for special cases. Cairncross defended the guiding light at a public enquiry into a particular wage dispute.

Reginald Maudling, who succeeded Selwyn Lloyd as Chancellor in July 1962, was even more determined than Lloyd to improve the rate of growth, and was prepared to take some risks in demand management in order to achieve it. At the back of his mind was the thought that in the last resort it would be possible and acceptable to float the pound as a way out of obstinate balance of payments trouble. Cairncross helped in the preparation of a first batch of demand expansionary measures in the autumn of 1962 and there was further expansion in the budget of 1963. The total expansionary stimulus was very large. Achieving the NEDC target became a priority aim of policy, the theory being that with confidence in future growth the productive potential of the economy would be developed to an extent that would avert dangers of 'overheating'. Cairncross, however, remained concerned about the risks on the side of the balance of payments, and by early 1964 his anxieties on this score were strong and were shared elsewhere in the Treasury. Unfortunately, 1964 was an election year and this constrained the action taken. The April Budget provided a mild restraint, but thereafter the government did nothing in the months leading up to the Election in October, while the situation in the exchange market became more and more menacing. The result of the election was a small majority for Labour and a changeover in the party of government.

During his years with the Conservative chancellors, Cairncross had spent a good deal of his time in managing the work of the Economic Section and in particular in recruitment. He had to concern himself with questions of pay levels and periods of appointment. It proved a difficult and time-consuming task; but he had reasonable success in maintaining the strength of the section.

## VI. HM Treasury, 1964–8

With the advent of the Labour government in October 1964, there was a considerable change in Cairncross's own position. The new Chancellor (James Callaghan) wanted to bring in Robert Neild as his economic adviser and for a time the idea seemed to be that he would also become the head of the Treasury's Economic Section. Cairncross was offered a move to Washington to become the Treasury Representative there. He was unhappy about these proposed changes and in particular that a political appointee should be made Director of the Economic Section. In this attitude he was supported by the staff of the section. After a period of

tension a solution was found which was broadly acceptable all round. Cairncross continued as head of the section and was given a general oversight of departmental economic units with the title of Head of the Government Economic Service. Robert Neild was given a new appointment as economic adviser to the Treasury. In practice there was an amicable division of labour between the two and an effective working relationship was established with an overlap of interest on major policy issues.

Other changes were being made at the same time in the machinery of government which would affect the roles of both of them. A new department, the Department of Economic Affairs (DEA), was set up with the task of improving the national rate of economic growth. It was given a strong and combative minister, George Brown, and a staff of experienced civil servants and economists (Donald MacDougall, who had been the chief economist in the NEDO, was the head of the DEA's economic staff). However, the control of all the principal methods of regulating the economy remained with the Treasury. Cairncross held strongly that the idea of dividing responsibilities on the basis that the DEA was in charge of 'long term' and the Treasury 'short term' policy was unworkable. In the event there was extensive overlapping of interest, euphemistically called 'creative tension'.

Two more appointments need to be mentioned. Nicholas Kaldor came into the Treasury, nominally as adviser on taxation policy but in practice with a wide range of interest, and Thomas Balogh came into 10 Downing Street as personal adviser to the Prime Minister with self-created (and wide) terms of reference. Thus there were no fewer than five top-ranking economists participating in the discussion of economic policy matters. There was no clearly defined allocation of responsibilities and no hierarchical structure: it was a free for all. Cairncross made the best of things, but it was not a pleasant experience for him.

As it turned out, the new ministers were faced with difficulties greater and more enduring than they could have expected. The period 1964–8 was dominated by an underlying weakness of the balance of payments, erupting every so often into a crisis in the foreign exchange market, with pressure on the reserves of gold and foreign currency. All through the period, discussion and decision-making were dominated by the necessity to choose between different ways of dealing with the problem. The two polar policies discussed were devaluation of the exchange rate and a substantial deflation of (home) demand: occasionally other possible policies operating directly (usually for a limited time) on the

external position—such as the ‘import surcharge’—were considered, or even adopted.

In the early years of the government, economic policy was made by a triumvirate of ministers, the Prime Minister (Wilson), the Chancellor (Callaghan) and the First Secretary (Brown). From the very start they ruled out devaluation and both Wilson and Callaghan were steadfast in this attitude until forced off it in 1967. In this they went against the views of the four senior economists they had themselves appointed. Cairncross was the odd economist out, at least at the beginning. He was against an immediate devaluation (though believing it would eventually have to come) because he did not believe the government would be prepared to undertake the reduction of home demand on the scale that would be a necessary accompaniment of devaluation—to release the resources which would have to be shifted into the trade balance.

In October 1964 the new government found itself faced with a drain on the reserves which was essentially a legacy from the neglect practised by the preceding government. Having firmly decided not to devalue, they dealt with the problem with two kinds of policy: (1) a moderate fiscal deflation; and (2) large scale overseas borrowing. This proved to be the pattern for a good deal of what followed in the subsequent three years. After a few months the pressure died down; but it was not long before it re-emerged.

The government’s policy reactions to the series of crises which arose in the next few years were powerfully affected by two special influences. First, there was the desire to raise the rate of economic growth. This desire had institutional form and power in the shape of the DEA with its belligerent minister, its plan and its growth targets. The hopes founded on these proved illusory, but for some time they constrained any attempt to use the deflation of home demand as a prime remedy for the balance of payments weakness. Cairncross remained sceptical about the techniques of indicative planning and growth targeting and was eventually, of course, proved right.

Secondly, there was the hope of directly constraining the forces of inflation through the mechanisms of incomes policy. This had a link with the balance of payments problem because a successful incomes policy offered an alternative to devaluation as a way of improving the international competitiveness of the economy. Cairncross did not believe that incomes policy could have a large and lasting effect in conditions of high pressure of demand for labour; and this too proved correct.

The experience of 1965 showed up the inconsistencies between the

government's statements of aims and its policy decisions. A reserves crisis in mid-year was dealt with by a combination of borrowing and mild demand deflation. The first round of incomes policy, a joint 'statement of intent', in early 1965 by government, unions and employers, rather rapidly proved to be an ineffective barrier to inflationary wage settlements. Late in the year the national plan set out proposals for faster growth but contained no convincing policy for overcoming the balance of payments constraint. In 1966 these tendencies continued and were exacerbated. Again there was a reserves crisis in mid year; again the remedies were sought in borrowing and deflation. This time the deflation was much more substantial and was accompanied by a wage freeze and the beginning of a much more determined phase of incomes policy. It was evident to all that the attempt to speed up economic growth was being destroyed by the government's own policies: the national plan was rapidly buried.

When in the summer and autumn of 1967 the pressure came on again in the exchange market, it became clear to almost everyone that the attempt to hold the exchange rate had failed. Cairncross had come round to this view for some time, and urged it strongly on the Chancellor. In the end (late 1967) devaluation was accepted because it had to be. The accompanying reduction of home demand was not, in Cairncross's view, anything like sufficient. A new Chancellor (Roy Jenkins) showed that he agreed with this and in his 1968 budget made a very large fiscal deflation. Even after these powerful measures the balance of payments took a long time to come round, and there was further fiscal action before (in late 1969) success was at last clearly attained. It had proved necessary to take both the steps which had been so long resisted: a devaluation *and* a large reduction of demand. A long process of shedding illusions had to be gone through before the end was reached.

Cairncross left the Treasury at the end of 1968 while the 'two years hard slog' (Roy Jenkins' phrase) was still in progress. In a somewhat chaotic and unsuccessful phase of economic government he had made what can fairly be called a useful contribution—on most matters and at most times—of well-informed and well-judged advice. It should not be forgotten that in spite of the lack of foresight and order evident in the Labour government's methods and policies—at least up to November 1967—the actual economic record was by no means disgraceful. The growth rate was reasonably good, unemployment remained low, inflation remained moderate and even the balance of payments was righted in the end. For this the credit should perhaps be given more to favourable world conditions—strong growth in international trade and little in-

flationary stimulus—than to the actions of the UK government. That government's working methods, and in particular its way of using its officials, left little scope for Cairncross to make any considerable impact (nor was he alone in this). In retrospect it is difficult not to think that—even though it *was* a positive contribution—he would have done more for his fellow men if he had been occupied elsewhere in one of the many posts that he could have had.

It should be finally recorded that he made one contribution which was only indirectly related to the choice of macroeconomic policies. As Head of the Government Economic Service he was able gradually to establish useful common practices among the various departments in respect of recruitment, salaries, and grading of their economic divisions. This role was handed over to his successor, and came to be regarded as an important part of the work of the government's chief economist. His visits abroad continued, including one with Nita Watts and Tom Wilson to Hungary in 1968 at the invitation of the government, then embarking tentatively on economic reform.

## VII. Oxford and Glasgow, 1969–98

In 1969 Cairncross left the Treasury and became Master of St Peter's College, Oxford. He recalled that when he had been 'at the College for a week or two people asked how I liked academic life after the Treasury. I felt it was the other way round: nowhere had been so academic as the Treasury, and college life for me was largely administration.' He was chairman of the governing body and was much involved in fund-raising. It was important to get to know the undergraduates and here Mary played a crucial role, partly by providing Sunday breakfasts to which they were invited. The Master—rather than the Dean—was responsible for discipline. He recalls that this duty once involved fining a man who had had a girl in his room all night. When the undergraduate protested, Alec pointed out that the amount of the fine was no more than the usual hotel rate.

In 1971, he was invited to become Chancellor of his old University of Glasgow. 'I doubt', he says, 'whether I ever had a prouder moment'.

There was a good deal of work to be done as president of various learned societies, in particular the Royal Economic Society and the British Association. He had become a Fellow of the British Academy in 1961. He became a director of a mutual assurance fund, and of a firm of accountants. He went to Saudi Arabia with a small team of economists

to study the impact on the world economy of the rises in the price of oil, to Kiel to review the policies of the European Community and to Belfast with Charles Villiers to discuss provincial problems. He helped to found the Institute for Fiscal Studies. In Oxford he established a close connection with St. Antony's College.

He was engaged in many diverse activities while at Oxford and subsequently in retirement. For example, he became adviser to the Minister responsible for the Channel Tunnel in 1979, an old interest. In the same year he led a British Academy delegation to China on the invitation of the Chinese Academy of the Social Sciences. This visit included an interview with Deng-Xiao-Ping.

His daughter, Frances, organised notable seminars to mark his seventieth and eightieth birthdays. By some odd quirk of memory, however, he fails to mention in his autobiography the largest international gathering of economists ever held, at the University of Glasgow in 1976—that to celebrate the bicentenary of 'The Wealth of Nations'—although he himself gave the opening paper.

Cairncross was the author of an impressive number of books and articles. His well-known textbook was published in 1944 and this had been followed by his 'Home and Foreign Investment' in 1953. Most of his writing was done, however, after his retirement from St Peter's in 1978. The range of topics was wide. These included an account of the abortive attempt to reach agreement with the Russians about reparations, and studies of regional development in Scotland and in the Atlantic Provinces of Canada. In collaboration with Nita Watts, he wrote a history of the Economic Section, the advisory group located first in the War Cabinet Offices and then in the Treasury. He also wrote a life of Austin Robinson and edited the diary of Lord Roberthall, his predecessor as the Government's economic adviser.

These were important works which reflected the diversity of his interests, but his principal contribution to knowledge in these years was his series of volumes on the economic history of Britain from the end of the war until the late 1970s. Cairncross was a strong believer in the importance of economic history for economists and deplored the extent to which economics had become a mathematical exercise. His own primary concern was with a branch of economic history—the history of the formulation of macroeconomic policies and of subsequent attempts to implement them. It was history interpreted in the light of economic theory on the one hand, and history as shaped by the often conflicting views of the policy makers. His own personal role in the making of policy

allowed him to throw more light on some of the critical decisions taken—or evaded. It was his ability to view events from these different perspectives that added to the substantial contribution to knowledge made by his books. There had therefore been a large change of emphasis away from industrial economics although he still retained an interest in that area. His membership of the Radcliffe Committee marked the beginning of this change and it was naturally confirmed when he became Economic Adviser in the Treasury. Cairncross was always conscious of the danger, in histories of this kind, that too much attention might be given to ministers to the neglect of senior officials and he set himself consciously, and successfully, to avoid it.

The first of his series of volumes on macroeconomic policy (1983) was written in collaboration with Barry Eichengreen. It was concerned with the three devaluations of sterling in 1931, 1949, and 1967. Eichengreen concentrated on 1931 and Cairncross on 1949 and 1967. In his next book (1985), which was on Britain's post-war recovery, he was obliged to deal again with the devaluation of 1949 but in the context of a full history of events and policies. This is still a standard work on that period and it was followed (1996) by what became another standard work, his account of events in the 1960s. He himself was Economic Adviser in the 1960s which was the second decade of what came to be known as the 'Golden Age'. It was so-called because there were no serious recessions, unemployment was very low, inflation was accelerating only slowly and output was growing fast by historical, though not by international, standards (1996). It did not, however, seem so 'golden' at the time. There were repeated crises, usually brought to a head by deficits in the balance of payments. In addition to his history of this period he published his diary of the Wilson years (1997). His own role is described and reviewed elsewhere in this obituary. This period was also to be the subject of a conference held in 1991 to mark his 80th birthday. In collaboration with his daughter, Frances, he edited the conference papers.

A helpful review of the whole period from 1939 to 1989 was accompanied in the same year (1992) by another large and detailed work on the IMF crisis of 1976, written in collaboration with Professor Kathleen Burk. The period covered by these histories, taken together, may thus be said to correspond roughly to the 'First Keynesian era', which, for both external and internal reasons, was to end with prices and unemployment both increasing fast.

Was Cairncross a 'Keynesian'? Although the term is ambiguous, an affirmative answer can undoubtedly be given. He was strongly critical of

monetarism and dismissed as absurd the theory that there was a 'natural rate of unemployment'—in effect 'full employment'—which would be regained quite quickly if there had been some departure from it. Demand management was still required, notwithstanding the difficulty of forecasting events, of which he had had good occasion to be aware. Cairncross, for his part, was deeply sceptical about industrial planning. Although convinced of the need for financial planning, he did not share the view, held by some economists, that wartime planning provided a good model for peacetime. In a book on aircraft production, he showed that planning, though necessary in wartime needs, had been much less scientific than was often supposed. In the 1960s, he viewed with scepticism the claims made for French indicative planning and stood apart from the two indicative plans for faster growth prepared in Britain, as is recorded elsewhere in this obituary. His reflections on the various aspects of policy are given in a volume of essays published in 1982.

The most remarkable thing about Cairncross was, indeed, the variety of his interests and achievements. His first path-breaking book on home and foreign investment was soon followed by a widely used textbook, and then, after a long interval in which he was mainly engaged in the public service, by the final flow of books to which we have referred. If he was properly conscious of the importance of what he had to say, he was also well aware of his limitations both as a theorist and as a mathematician. Without making false claims, however, he had a remarkably unerring skill in sensing what was really of practical importance in what was being said in the econometric analysis he himself did not practice.

Alec Cairncross undertook a wide range of tasks with energy, skill, and enthusiasm. He could not have attempted so much or achieved so much without an unassailable self-confidence that was not, however, allowed to swell into arrogance. As Lord Jenkins rightly observes in his Introduction to Cairncross's autobiography: 'Alec Cairncross shows that you do not have to be flamboyant to achieve great influence, and that you do not have to be malicious to be interesting.' He was gentle and sociable in manner and optimistic in temperament. He came to have a large circle of friends in different parts of the world—he and Mary, for his wife, with a temperament similar to his, contributed greatly to their social life.

Cairncross was always much interested in other people and in their views, whether in harmony or in conflict with his own. He encouraged independence of thought in younger people, and would find time to read and comment on the pieces they submitted to him. It would be wrong, however, if this stress on his gregariousness and his kindness were to leave

an impression of weakness. He was far from weak. Though never aggressive, he was quite well able to stand up for himself, as he did with a combination of conspicuous dignity and magnanimity in the difficult time in the Treasury of 1964–5. It is not surprising that, in the wide circle of his friends and acquaintances, his achievement commanded so much respect, his character so much affection.

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*Note.* The responsibility for drafting was allocated between the joint authors as follows:

- I Early Life (1911–39): Wilson
- II War work (1939–45): Wilson
- III Immediate postwar (1945–50): Hopkin
- IV Glasgow University (1951–61): Wilson
- V HM Treasury (1961–4): Hopkin
- VI HM Treasury (1964–8): Hopkin
- VII Oxford and Glasgow (1969–98): Wilson

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