DONALD MACDOUGALL *Financial Times*

George Donald Alastair MacDougall 1912–2004

DONALD MACDOUGALL ENTITLED HIS AUTOBIOGRAPHY *Don and Mandarin.* In fact he spent two-thirds of his working life in 'Whitehall' and just one-third in academe, and he never regretted that. Sitting next to a young Research Fellow in Economics at a Nuffield College dinner, who had spent her career thus far at Oxford, and was planning her next move to an American university, he asked whether a spell in Whitehall would not be a good idea. She replied that it would be very bad for her career, as she would quickly become out of date with the literature. Donald's disapproval was evident when he told this story. What mattered most for him was economic policy. He was a great public servant, his most important work being as a young man during the war, but with a great many other significant contributions during his long life. He found economics intellectually fascinating, and, with his sharp mind, enjoyed the cut and thrust of argument, but it needed a practical bearing to engage him fully. He was unfailingly polite, never trying to use his authority or reputation to beat down an opponent, however junior. Instead, he took pains to be well briefed, and relied on his wonderful memory and immense knowledge of relevant facts and experience, and his ability to separate the important from the less important, to make his case. If he showed impatience, it was with those whose facts were wrong, and who were slow to recognise it. He had prejudices, described later, but accepted that others could reasonably differ on matters of judgement, so that discussion with him was always constructive. Away from economics he had a fund of amusing stories, and the gift of being interested in almost anything, and especially in the concerns of whoever was talking to him, so that they felt that both they and their opinions mattered. This

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made conversation with him a rare pleasure, since most of us like to talk mainly of our own concerns.

Early life, 1912–39

Donald was born in Glasgow on 26 October 1912 and brought up there. His father helped to run the family china business, which failed to prosper, and died when Donald was seventeen. His mother's father had been a trader in West Africa, who had prospered, but, with nine siblings, she inherited enough for only her own needs. Fortunately, this grandfather had left sufficient in a trust for Donald to go to Balliol College, Oxford, in 1931. This followed his education at Kelvinside Academy, Glasgow, and then at Shrewsbury boarding school. There he specialised in mathematics, and was neither happy nor particularly distinguished.

Balliol was a complete contrast. He felt free to follow his interests, and started with a year of Honour Maths. Mods., at the end of which he got a Second, having expected a Third. Convinced that he was past his peak at mathematics, he switched to PPE (Philosophy, Politics and Economics) which he was allowed (unusually) to read for another three years. He enjoyed this enormously, his economics tutor being the brilliant Maurice Allen, who might nowadays be regarded as dead weight, since his research output was nearly nil. Encouraged by him, Donald won the George Webb Medley Junior Scholarship in 1934, thus becoming one of the two top economists entering their last year. His final Honours Schools examination in 1935 was, however, a disaster. The invigilator of the statistics paper (which should have been one of Donald's best) confiscated his slide-rule, never having seen one before, which drove him back to log tables which he had not used for some years, and resulted in a relatively poor mark. His two economics examiners were (Sir) Roy Harrod and C. R. Fay, who was Reader in Economic History at Cambridge. Much of Donald's viva (lasting over an hour) consisted of Roy and Donald trying to convince Fay that what Donald had written was correct. In the end, he was awarded a Second, although Roy argued strongly that he should get a First, and considered him the best economist that year. Some twenty years later, Fay suddenly sent Roy a postcard saying, in effect, that he thought they should have given Donald a First after all.

That Donald was the best economist of the year was confirmed by the award of the George Webb Medley Senior Scholarship, with enough money to finance two years of post-graduate work at Balliol, with Roy

Harrod as his supervisor. After a term floundering in attempts at mathematical economics, Roy advised him to state what he was trying to do in literary terms 'without ever using a so-called mathematical symbol of any kind'. Donald at first resented this, but on reflection concluded that it was one of the most important pieces of advice he ever had, and that his mathematics was inadequate. So he completely changed course to an empirical study of the iron and steel industry. As a by-product, he wrote a theoretical paper on 'The definition of prime and supplementary costs' which Roy said he must submit to Keynes, then editor of *The Economic Journal.* The latter wrote to Donald suggesting improvements, and it was published in the September 1936 issue. It helped to secure Donald his first academic appointment at Leeds University that autumn.

Having achieved financial independence, in July 1937 Donald married Chris Bartrum whom he had met on a family holiday in Austria two years before. There were two children of this marriage, John, academically inclined, who became Professor of Sociology at the Universty of Lowell in Massachusetts and has two children and two grandchildren, and Mary, who decided to live and work near the family home at Tayvallich, Argyll. The marriage proved not to be a happy one. He left her in 1975, asked her to divorce him, and in 1977 married Margaret Hall, a Fellow of Somerville College, Oxford, and the divorced wife of Lord Roberthall (referred to below). This marriage was entirely successful, ending with Margaret's death in 1995.

The 1930s were dominated by heavy unemployment and the growing threat of Germany, to both of which Donald reacted in an entirely practical way. He became President of the Balliol College boys' club, which brought him into contact with working class boys in the (then) slums of St Ebbe's in Oxford and at the annual camps. He also attended a camp for the unemployed in Durham in 1934, becoming medical officer there for ten days with a hundred men in his charge. He found TCP was a wonderful panacea. After two conferences in Germany while he was at Leeds, and a briefing by (Sir) Henry Hardman, then extra-mural tutor, he became better aware of what was happening there than many of his contemporaries. In 1938–9 he arranged for four German and Austrian students, some Jewish, to come to Leeds. As well, he and Chris took several refugees into their home as lodgers, and from one of these sprang a friendship which blossomed in Donald's last years (see below).

While at Leeds, Donald wrote the main chapter in *Britain in Recovery* (British Association, 1938) produced by a research committee of the British Association, of which Roy Harrod was a member. This involved piecing together statistics from many different sources to form a readable survey of the British economy from 1929 to 1937, a valuable education in itself. Donald's professor at Leeds, J. H. Jones, was chairman of the committee, and also a member of the Barlow Commission on the Geographical Distribution of the Industrial Population. Donald wrote two studies prepared for this Commission, one of which was published in the *Journal of the Royal Statistical Society,* 1940. All three of these studies were reprinted in Donald's *Studies in Political Economy vol 1* (London, 1975). They demonstrate not only his skill and care in handling economic statistics, but also his energy, when one realises how quickly they were produced at a time when he was preparing and delivering lectures, examining, getting married, and attending conferences in Germany.

War and the Prof, 1939–45

On 3 September 1939 France and Britain declared war on Germany, following its invasion of Poland. Not long afterwards, Donald was telephoned by Roy Harrod and asked to take the first train he could to Oxford for a possible job whose nature Roy could not reveal. Roy's colleague at Christ Church, Frederick Lindemann (later Lord Cherwell), Professor of Experimental Philosophy (i.e. physics) at Oxford, and known as the Prof, was a close friend of Churchill. With the advent of war, the latter had joined Chamberlain's Cabinet as First Lord of the Admiralty, and the Prof had accompanied him to an office in Whitehall, where he was expected to advise Churchill, not only on scientific matters, but on all aspects of the conduct of the war other than military strategy and appointments. Churchill did not confine himself to naval affairs, but wished to be independently briefed on all the papers coming to the Cabinet. The Prof had wide scientific knowledge, great intelligence, and supreme self-confidence; and could express himself clearly, forcefully and succinctly. In the years since the Nazi threat had started to grow, he had been associated closely with Churchill in his attempt to warn the country and galvanise the government, and he knew Churchill's methods. He had also developed a jaundiced view of the official mind. Now he needed an economic staff to help him, and had asked Roy to find him an economist to head it.

In his memoir *The Prof* (London, 1959), Roy listed the abilities he thought necessary for this post, to which he had given much thought. Naturally, the occupant must be 'of quite first-rate intellectual calibre', but any tendency to show off would be fatal. A young man would best accept the Prof's tendency to lay down the law about matters where he had no special qualifications, and yet the young man must be tough enough not to quail before Prof's overbearing manner. In the end, the Prof was open to reason. The man 'must not be too squeamish about figures, but willing to make a rough assessment on inadequate data'. Roy knew that a merely abstract argument meant nothing to the Prof—it had to be expressed in quantitative terms. This was the most important requirement. 'I regard my choice of man on that occasion as a stroke of genius, and my best contribution to the defeat of Hitler.'

Donald was introduced to the Prof in Christ Church common room, and from the start they clicked. Soon he was installed in the Admiralty and on the telephone to government departments seeking to extract data from them which, they realised, could be used to criticise them. Their immediate reaction therefore tended to be hostile. It required immense tact, but gradually, thanks to Donald, S Branch (as it was known) became accepted and respected in Whitehall, with additional clout and a wider role after Churchill became Prime Minister in May 1940. The staff consisted of some half a dozen economists, a scientific officer, an established civil servant, a few typists, clerks and computers (people, not machines) and some chartists, about twenty people in all. Donald was effectively the head of it from the beginning, and formally from mid-1942, when Roy left.

Their bread-and-butter work was to create and update charts on all aspects of the war effort. The Prime Minister pored over these, showed them to important visitors, and copies were sent (and updated) to President Roosevelt. The most interesting, exciting and difficult work was preparing minutes from the Prof to Churchill, on average about one a day. These arose sometimes through requests from Churchill, and sometimes on the initiative of the Prof or members of the Branch, mostly recommending action, since the Prof did not want to add to the pile of information which heaped up for the Prime Minister. They were kept very brief, but could take weeks to prepare. Nearly a third could be called scientific, for example, on the development of new weapons. Of the remainder, about thirty per cent were concerned with the armed forces, and it was here that the Branch was distinguished from the Economic Section of the War Cabinet secretariat, which was not concerned with the use of resources once allocated to military purposes. Two examples show how important it could be to cover that, both relating to shipping which was scarce for most of the war.

In early 1942 Donald discovered that vehicles destined for Egypt via the Cape were being loaded on to ships fully assembled, and that six to ten times as many could be carried per ship if they were crated completely knocked down (CKD). He worked out how much shipping this would save and the extra imports into Britain it would allow. The Prof told the Prime Minister, who was slow to react, so he sent him one of his very few minutes typed in red ink, and that turned the trick. After long arguments with the military, who objected to the inconvenience, Churchill directed that the vehicles were to be CKD to the greatest possible extent, with reports to him on progress (as was usual). Much shipping was thereby saved.

The Allies planned a major offensive late in 1942 in North Africa, with landings in Morocco and Algeria, and an advance westwards from Egypt, all imposing heavy demands on our shipping. Donald worked out that the ships left to bring imports into the UK were so few that there could be severe food shortages and factory closures for lack of materials. At that low ebb of the war, after a string of defeats, and with victorious German armies sprawled across Europe, including Russia, the danger to morale at home was serious. He kept warning the Prof who kept warning Churchill, but the latter was preoccupied with military strategy. Donald argued that the ships heading round the Cape to Egypt and the East should be cut from the previous 120 a month to sixty, and that military supplies in Egypt were adequate (some said for a hundred years war). The Prof accepted this but told Churchill that a cut back to forty or fifty a month was required, expecting to have it argued up by the military. At last Churchill listened and ordered a cut back to forty. The result was that the military campaign was successful, with no shortage of supplies, and that stocks of food and materials in Britain fell about as low as they could, but consumption was maintained. Donald described this as 'the most momentous macro-economic decision in which I have been involved'.

Towards the end of the war, the work in the Branch became more concerned with post-war economic policies. Much influenced by Donald, in early 1944 the Prof submitted a paper to the Cabinet which he thought could serve as a summary of the proposed White Paper on Employment Policy, subsequently published at the end of May 1944, and which anticipated much of it. Most of Donald's work on the post-war situation, however, related to our external economic problems. The most serious was that of paying for sufficient imports, given the collapse of our exports during the war, the heavy debts we were saddled with at the end of it, the sale of overseas assets and the worsening in our terms of trade. There was the related issue of post-war world trade and payments arrangements.

The Americans insisted, as a *quid pro quo* for Lend-Lease, that we should undertake to work towards multilateral non-discriminatory trade, including the elimination of Imperial Preference. There was a strong faction within the Conservative Party favouring, on the contrary, a strengthening of Imperial Preference, and the Prime Minister was constantly lobbied for this, for agricultural protection, and for exploiting our bargaining power as a large importer through bilateral agreements on Schactian lines. Both Donald and the Prof thought our bargaining power after the war would be weak, and that we would be best served by a world in which other countries in a stronger position were not allowed to restrict their imports from us, so that we needed internationally agreed rules to protect us.

The Prof attended the Potsdam Conference in July 1945, following the end of the war in Europe, and Donald joined him from Moscow, where he had been discussing German reparations. After the British general election and defeat of the Conservatives, he was recalled to London, the Branch was abolished, and he was awarded the CBE in Churchill's resignation honours. He returned to Berlin to work further on reparations as a member of the Economic Section of the Cabinet Offices, but left before the end of 1945 to take up a Fellowship at Wadham College, Oxford on the Prof's recommendation as a Professorial Fellow of the college.

Wadham College, 1946–8

The college imposed a heavy load of teaching on its fellows, having expanded its numbers to cope with the influx of ex-servicemen. I was one of these, and remember enjoying Donald's tutorials, both because I could follow his lucid arguments and because he made economics relevant to the post-war world. Besides tutorials, he lectured, examined, became Domestic Bursar, served on government-appointed committees, and published several articles. These grew out of work undertaken in the Branch on Britain's external economic problems, and three are reprinted in *Studies in Political Economy vol 1.* Easily the longest, on 'Britain's Foreign Trade Problem', took up about half the *Economic Journal* of March 1947 (the only other article being Austen Robinson's memoir of Keynes, who had died in 1946). I remember Donald lecturing to a crowded Wadham hall on this, the practical importance of the subject making a strong appeal to his largely ex-service audience.

A year later the same journal published a critique of Donald's article by Tommy Balogh (later Lord Balogh), who had beaten Donald to an

Economics Fellowship at Balliol in 1945, together with a reply by Donald (also reprinted in *Studies vol 1*). Balogh was an advocate of discriminatory trading blocs, bulk purchase, long-term contracts, planning and controls. He represented a widely held view that the success of the war-time economy, contrasted with the miseries of the 1930s, showed that planning and controls, both domestically and internationally, would secure a more stable, just and prosperous economic order. Against this Donald argued that non-discriminatory multilateral trading rules were in our long-term interests, given our weak bargaining power. In the shorter run, however, countries like ourselves in balance of payments difficulties, with inadequate foreign exchange reserves, should be allowed to impose discriminatory import and foreign exchange controls. It should be remembered that controls and shortages were widespread at that time as countries emerged from the war. Few thought that they should be quickly swept away, and Donald, like others, favoured a more gradual approach. He was well aware of the virtues of competition and market mechanisms (I remember writing him essays on this), but he argued pragmatically, and by appeal to the facts rather than to more abstract generalisations.

Paris, 1948–9

In the summer of 1947, Donald had rejected the opportunity to join Lord Franks's team in Paris which, with representatives of other European countries, responded to General Marshall's offer of US aid to help recovery from the war. A year later, however, Robert Marjolin, Secretary-General of the new Organisation for European Economic Cooperation (OEEC) in Paris, which resulted from this offer, invited him to be its first Economics Director, and he wanted to go. But he needed to get leave from Wadham, which meant, in effect, from the Warden, Maurice Bowra. The latter liked to decide things quickly, and Donald exploited this by marching into his room and asking 'Is there any reason why I shouldn't go to Paris for a year and work in the OEEC?' Since Bowra could think of no reason on the spur of the moment, but felt he must answer at once, he said 'No'. 'Thank you very much', said Donald, and went off to Paris that autumn. In 1949 he was pressed to stay for another year, but both he and the college rejected this. Then in July he received a letter from Bowra which began: 'I am in a quandary. Severe pressure is being put on me to say that you can stay away for another year. First a blackmailing Swede [Per

Jacobsen, future Managing Director of the International Monetary Fund (IMF)] and his wife came to see me and said "Haf you no lof for your country?" and threatened me with a hideous fate; now Sir Cripps writes in red ink to much the same effect. What am I to do?' A compromise was reached to let him stay until the end of 1949.

Donald was the most important writer and editor of the OEEC's *Interim Report on the European Recovery Programme,* as well as of the succeeding *Second Report* (which, however, was completed after he left). Both were needed in Washington to keep the aid flowing. He played a crucial role at the start of the OEEC's effort to free intra-European trade from the network of quantitative import restrictions that hampered it. He also recruited the first members of its Economics Directorate.

Wadham and Nuffield Colleges, 1950–1

In 1950 Donald was elected (the first) Reader in International Economics at Oxford, attached to Nuffield College, and so had to move there at the end of the year, although he continued some undergraduate teaching for Wadham. He published two of his best-known articles in the *Economic Journal* (December 1951 and September 1952) on 'British and American Exports: a Study suggested by the Theory of Comparative Costs' (reprinted in *Studies vol 2).* This was a major piece of research for which he had a team of nine statistical assistants. The most quoted result was the direct relation between US:UK relative labour productivities and US:UK relative export quantities for different manufactures in 1937. He had used this, for a few products, when teaching the theory of comparative costs, but then found that it applied to many more when he examined it systematically. He followed this with the idea of a cross-section, as opposed to the more usual time-series, approach to the estimation of elasticities of demand (the extent to which quantities demanded respond to changes in prices) in international trade, by examining the relation between relative US:UK export prices and quantities for about a hundred manufactures in each of about twenty (mainly inter-war) years. He concluded that the elasticities were much higher than current time-series estimates had suggested, and which had resulted in wide-spread elasticity pessimism. In the early 1960s he published further estimates based on post-second world war data of productivity and exports for which the main important difference was in respect of US tariffs. Whereas in 1937 these had been 'made-to-measure', and so tended to be higher the greater the UK's comparative advantage, thus shutting our exports out of the US market, after the war this was no longer so.

The Prof again, 1951–3

In October 1951, the Conservatives defeated Labour and Churchill became Prime Minister once more with the Prof in the Cabinet as Paymaster General. Somewhat reluctantly, Donald got leave to work for him, and set up a smaller version of the Branch with two members of the wartime one and just three economists (the writer being one). There was a severe balance of payments crisis at the time, mainly due to the Korean War, which had caused a surge in commodity prices followed by a relapse. During the surge, the rest of the sterling area (RSA) had accumulated foreign exchange surpluses which showed up as large increases in the central gold and dollar reserves held in London. After a lag, these countries started to spend their wealth, and this coincided with the relapse in prices. On top of this, the UK Labour Government had launched a rearmament programme which led to a steel shortage, hampered exports of engineering goods, and with stockpiling and the worsening in our terms of trade resulted in a large deficit in our current account. So the reserves started to roar down even faster than they had roared up. Imports were already restricted by consumer rationing and import controls, and one of the first actions of the new government was to tighten these. A Commonwealth Finance Ministers' Conference was assembled in January 1952 at which the RSA countries undertook to restore equilibrium in their accounts later in the year by various economies, and the UK restricted imports still further and planned various deflationary measures including a tough budget in March. The Prime Minister, the Prof and Donald sailed to America to negotiate successfully for a million tons of steel. The fall in the reserves was thus intended to be ended by these measures.

It was then with astonishment that the Prof and Donald learned in late February that emergency action of a most radical kind was proposed by the Chancellor, R. A. Butler, involving blocking of ninety per cent of sterling balances held by non-sterling non-dollar countries, eighty per cent of those of the RSA countries, convertibility into dollars of the remainder and of further accruals, and a floating exchange rate for the pound. The plan was called ROBOT, possibly because the original authors were Sir Leslie ROwan (Treasury), Sir George Bolton (Bank of England), and

OTto Clark (Treasury). Butler admitted that these measures, unilaterally taken, would antagonise the governments of Commonwealth countries (whose reserves would largely be frozen and whose finance ministers had so recently agreed to a quite different set of measures), and those of Continental European countries, since the recently formed European Payments Union and the programme to free intra-European trade would be disrupted, and even that of the USA, since the floating rate was contrary to the provisions of the IMF and because of the effects on European recovery. He also admitted that convertibility of the pound into dollars would, in a world of dollar shortage, tend to make other countries restrict imports from the UK more severely in order to earn dollars, and that, on the domestic front, 'the basic idea of internal stability of prices and employment will not be maintainable. . . . It will not be possible to avoid unemployment. . . . The pressure will fall particularly on the cost of living.' Butler is even said to have admitted that the plan could mean the end of the Conservative Party for twenty years. Despite that, it appealed strongly to two instincts of senior ministers: it was represented as a patriotic necessity, and the more painful the measures the more effective they must surely be. The Prime Minister gave it his initial backing, and at the first meeting of a restricted group of ministers to be informed of it on Friday, 22 February the Prof's was a lone voice raised in opposition.

Over the weekend in Oxford, the Prof and Donald prepared a paper to go to ministers criticising ROBOT. This, first, pointed out that nothing substantial had happened since the Finance Ministers' Conference to justify emergency action now. The measures taken then needed time to take effect. (In fact, the fall in the reserves was $300 million in January, $221 million in February, $114 million in March, after which they remained steady until the last quarter of 1952, when they rose strongly.) Secondly, however, even if the reserves were going to plunge dangerously low (as the Treasury now warned), ROBOT would harm rather than help. The exchange rate would fall and this would worsen our terms of trade, thus increasing our current account deficit. Little alleviation could be expected from lower import quantities (already severely restricted), nor from greater export quantities (given the overloaded economy and the effects of convertibility admitted by Butler). The strain on our reserves would thus be greater, not less. Apart from that, there were all the external and domestic effects mentioned in the Chancellor's paper. A better alternative was to keep the rate fixed, and defend it with a tough budget, more import restrictions, and borrowing from the IMF and elsewhere.

In the end, after further meetings of ministers and the Cabinet, and much lobbying, ROBOT was rejected at least for the time being at a Cabinet meeting on 29 February. The budget, which had been postponed from 4 to 11 March, saw bank rate raised from $2\frac{1}{2}$ per cent to 4 per cent, a cut in food subsidies, and other tough measures. There had been rumours about a floating rate, but, with no announcement in the budget, it seems that speculation against the pound was ended. Although the need for emergency action was over, and the cycle proceeded on its way, the Treasury and the Bank of England tried in the summer once more to argue that disaster was round the corner and that ROBOT must be adopted. However, this time they did not get very far.

The episode was described by Donald as 'some of the most interesting and exciting periods of my life which I would not have missed for anything'. The Prof resigned in the summer of 1953 (and died rather suddenly in 1957, leaving a large void in Donald's life). He made sure that Donald became a Knight Bachelor in the Coronation Honours at the young age of forty. There is no doubt that both the Prof and Donald were correct in their view that the reserves crisis was temporary, and the alarmist forecasts of the Treasury and the Bank were proved wrong. There was no justification for the attempt to stampede the Cabinet into radical measures without proper consultation. While some historians of the period (e.g. Alec Cairncross, *Years of Recovery,* London, 1985) have taken the view that ROBOT would have been disastrous, both politically and economically, and that much, perhaps most, of the credit for stopping it is due to the Prof (with Donald's advice), others have demurred. Some have held that Eden's opposition was crucial, although he arrived a bit late on the scene. Others have stressed the long-term benefits of convertibility and a floating rate, both of which seem quite normal now (see, in particular, John Fforde, *The Bank of England and Public Policy, 1941–1958*, Oxford, 1992). A former Chancellor, Lord Lawson, has argued that, had ROBOT been adopted, the corporatist and interventionist tenor of policy, with wage and price controls, would have ended much sooner than 1979 (*Times Literary Supplement*, January 2004). But 'there is a time for everything', and the events in the years leading up to it prepared the country for 1979 and the ensuing radical measures. One needs to set out carefully the counterfactual of what would have happened in 1952 had ROBOT been adopted, not forgetting the unilateral blocking of sterling balances, if one is to make the case for it. An unappealing scenario can easily be constructed.

Nuffield College, 1953–61

Donald returned to Nuffield College in 1953 for his last stint as an academic economist, no longer as Reader in International Economics, but as an Official Fellow, which gave him more freedom for research. With Rosemary Hutt's assistance, he produced the first thorough study of Imperial Preference (*Economic Journal*, June 1954), which showed how unimportant it had become despite the fuss made over it on both sides of the Atlantic. This was a typical Donald devastating appeal to laborious facts, which everyone else blithely assumed they knew and were not prepared to take the trouble to check. Most of his time, however, was spent on lectures, and then a massive book, on the world dollar problem. Well-known economists had asserted that the USA would, for many years, worsen the rest of the world's balance of payments by being super-competitive, and as well would cause great instability through fluctuations in demand. Donald's book (*The World Dollar Problem,* London 1957) compels admiration for the quantity of relevant facts so carefully and clearly marshalled. There are 200 pages of appendices, a third of the book, and a wealth of sources cited, both of statistics and economic arguments. The book was perhaps the first to discount the myth, then strongly believed, that productivity in the USA must inevitably grow faster than in the rest of the world. Its underlying methodology was a partial equilibrium analysis of trade in which exports or imports were determined by trend rates of growth of demand and supply together with movements along demand and supply curves due to changes in relative prices. Different commodity groups were considered, and attention was also given to services and capital movements. A 'dollar problem' was defined as a tendency for the rest of the world to move into deficit at 'full employment', which required either unwanted and costly deflationary measures, or devaluations, or trade restrictions. The tendency could be due to 'structural' reasons (shifts in demand or supply curves), or to a faster increase in the general level of prices in the rest of the world. In the book, he took the view that both structural and price level factors would be adverse for the rest of the world. In a 1954 lecture he had been agnostic, and he was so again in 1960, when he published a reappraisal of the problem, but in the book he came down (cautiously) on the gloomy side. While most reviews of the book were very favourable, and the short-term behaviour of the US balance seemed to confirm its pessimism, two critics whom he respected (Roy Harrod and Robert Triffin) expressed doubts about the whole approach and the wisdom of making *any* predictions. The subsequent course of events has borne them out, and it is sad that Donald's one big book, to which he devoted so much effort, and which contains a mass of interesting material, faded into oblivion in a few years.

Donald's chief research assistant for this book was Monica Dowley, who had also worked for him earlier on his study of elasticities in international trade. She remembers how pleasant it was. He never chided one for taking longer than expected, nor badgered one unnecessarily when one was doing one's best. Donald's secretary, throughout his years at Nuffield and later, was Audrey Carruthers, who was one of the few people able to read his handwriting. She produced meticulous typescripts of the book and his journal articles, with their numerous statistical tables, all before the days of word processors. He persuaded her to go with him to London when he went back to work in Whitehall, and she left only when she married Keith Skeats in 1968 and returned to Nuffield. She remembers how appreciative he was of long hours of work in London, and how he always remained calm then, despite being shouted at by George Brown, or being told to see the Prime Minister immediatedly.

Around this time Donald published two articles which exposed his views on exchange rates and inflation, both highly relevant to the problems on which he was to advise future British governments. In 1954 he criticised an article by W. Scammel which favoured floating exchange rates. His main counter-argument was that fixed exchange rates formed a bulwark against inflation, partly because trade union negotiators would then fear that large wage increases might price their members out of their jobs. However, he still wanted governments to adjust the rate in 'fundamental disequilibrium'. In fact, he favoured the adjustable peg system of Bretton Woods and the IMF. The importance he attached to trade union behaviour was also evident in his article on 'Inflation in the United Kingdom' (1959, reprinted in *Studies vol II*). He recognised that increases in unemployment would tend to slow down wage increases, but thought there was an independent element of 'trade union pushfulness' which needed attention, perhaps by some kind of incomes policy. Nevertheless, he saw that that 'bristled with difficulties', and, while 'not entirely unhopeful', feared that the outcome could well be more inflation or less employment and growth than the economy was capable of, or perhaps both. His realism on these matters put some of his academic colleagues to shame.

Donald made numerous visits overseas during these years, including six months in 1959 at the Australian National University, which led to one of his best-known articles on 'The benefits and costs of private investment from abroad: a theoretical approach' (republished in *Studies vol II*). This started with a beautifully simple partial equilibrium static analysis, which was then elaborated by successively dropping assumptions. Although a 'theoretical approach', it was informed throughout by the probable sizes of various effects. It is a model of how to use simple economics to attack a subtle problem, and stimulated work by many others.

Nuffield College obtained full control over its endowment in 1958, with Donald and Ian Little as its first Investment Bursars. They shifted the portfolio heavily into equities at the right moment when the 'cult of the equity' was taking hold. They went considerably better by out-performing the market by a wide margin from 1958 to 1961, when Donald left.

Neddy, 1962–4

By 1961 the UK economy had been growing more slowly than many Continental countries for a decade or more. Dissatisfaction with this had provoked debate about the role of (indicative) planning, which some thought explained, for example, France's success. A related explanation was thought to be the 'stop and go' policies followed in Britain, and in the middle of 1961 there was yet another stop resulting, as usual, from pressure on the gold and dollar reserves. To counter this, the Chancellor, Selwyn Lloyd, raised bank rate from five to seven per cent, and took other deflationary action, but he also proposed a move towards French-style planning. Eventually, a tripartite National Economic Development Council (Neddy) was set up, chaired by the Chancellor, with business and trade union representatives, which started a series of regular meetings in March 1962. It was supported by a National Economic Development Office whose Director-General was Sir Robert Shone and whose first Economics Director was Donald. Just as in the Prof's office in Whitehall, and in the OEEC in Paris, he had both to set up and run an economics staff to undertake a new task. It was a role he relished, and was to undertake again in the DEA and, to a degree, in the CBI.

He played an active part in two important parts of Neddy's work. The first was to promote faster economic growth, both by setting out what this would involve, quantitatively, given a target of four per cent per annum from 1961 to 1966, and also by detailing the supply- and demand-side policies required on such matters as education, training, research and development, labour mobility, regional development, the balance of payments, taxation, the level of demand, and prices and incomes. Two booklets, on the projections of national output etc. and on the policies, were published in 1963 after discussion in the Council, the hope being that, by convincing everyone that faster growth was feasible, and implementing the policies, it could be achieved. However, no mention of the exchange rate was allowed, and instead attention was given in the Council to the second part of Neddy's work, namely, obtaining a consensus on the need for slower growth in *nominal* incomes in order to obtain faster growth in *real* ones. Donald believed that his work on this, and the good relations achieved between the three sides of the Council, prepared the ground for more formal agreements between them after the change of government in 1964.

The DEA, 1964–8

By 1964, Donald had become convinced that devaluation had become a necessary precursor to faster economic growth. The situation was very different from that in 1952, when he had opposed devaluation. Exports were no longer hampered by a big rearmament programme nor threatened by a move to convertibility, imports were no longer restricted by tight controls, and our costs and prices had risen by much more than those of our competitors. But he still believed in the adjustable peg as a bulwark against inflation, and in the need for some form of incomes policy, and he was opposed to letting unemployment rise from its then low level. These beliefs fitted well with many of those held by George Brown, the minister given charge of the new Department of Economic Affairs (DEA) in the incoming Wilson administration. This, and his role in Neddy, made him an obvious choice as Director General.

On the key question of devaluation, Donald attended a meeting consisting otherwise of the Chancellor, Jim Callaghan, George Brown, and two top civil servants, William Armstrong and Eric Roll (both subsequently life peers), on the Saturday evening following the election. It was short, and indeed all the big decisions then were absurdly rushed. They went round the table asking whether anyone thought the pound ought to be devalued, and Donald was the only one to say that it should, giving brief reasons. Callaghan and Brown then saw Wilson and decided not to devalue, thus missing the best opportunity of fastening the blame on the

Conservative Government which had, in 1964, set off a boom which strained the balance of payments.

Little was done to restrain the boom, the government having been elected on a commitment to faster growth. Much of Donald's time was devoted to preparing a National Plan to achieve 3.8 per cent per annum growth from 1964 to 1970, a thankless task once the decision not to devalue was taken. Indeed one might criticise him for continuing with this work which absorbed skilled manpower, including himself, for little result other than to induce scepticism about the value of any planning at all. He could have taken a leaf out of George Brown's book by threatening to resign. There were successive runs on the gold and dollar reserves, which were met mainly by borrowing from abroad and imposing an import surcharge. Rapid growth in public expenditure and low unemployment were maintained. In the summer of 1965 a joint memorandum by Donald and three other leading economic advisers to the government—Neild, Kaldor and Balogh (the last having changed his view on the matter)—to Wilson, Callaghan and Brown seems at last to have convinced Brown of the need to devalue, but not the others.

After a traumatic meeting with the employers' side of Neddy, Brown obtained their approval of the National Plan, and then secured the backing of Neddy in August 1965, and it was published in September. But this was a hollow victory. Donald had to go round trying to convince everyone that the projections in the Plan could be met, although he realised how improbable this was. In July 1966, with yet another foreign exchange crisis, and foreign banks and governments becoming more reluctant to support the pound, severe deflationary measures were taken which extinguished what life remained in the Plan. George Brown threatened resignation several times, and eventually changed places in August 1966 with Michael Stewart at the Foreign Office. Donald found Stewart a model minister, and a marked contrast to Brown. The latter's erratic behaviour, his bullying and rudeness, as well as flashes of brilliance, resulted in many anecdotes recounted in *Don and Mandarin*.

Brown's most notable achievement was in the second main sphere of the DEA's activities, incomes policy. He had the background, experience and force of character to persuade trade union leaders to accept a succession of agreements to restrain wage increases. In this he was effectively supported by Donald, whose experience at Neddy has already been noted, and who formed good personal relations with successive General Secretaries of the TUC (George Woodcock, Vic Feather and Lionel Murray).

In November 1967 the pound was at last devalued, and Callaghan honourably resigned, succeeded by Roy Jenkins, who reversed the climb in public expenditure so as to make room for an improvement in the balance of payments. But the severe measures took time to have effect, and in 1968 there were further heavy losses of reserves and more foreign borrowing.

The Treasury, 1969–73

At the end of 1968 Alec Cairncross resigned from his post as Chief Economic Adviser in the Treasury to become Master of St Peter's Hall in Oxford. Donald had originally hoped for the Treasury post in 1961, when Cairncross succeeded Robert Hall. Now he secured it at Roy Jenkins's request. One of his main concerns at the Treasury was the organisation of the Government Economic Service (GES). He was the first Chief Economic Adviser to be given the title of the Head of the GES, but more than a title was involved. It grew rapidly: staff numbers increased from about 20 in 1964 to about 180 in 1969 and 280 in 1973, and needed better organisation. He appointed Peter Davies, an old hand in the Treasury, to do the job, and with him instituted reforms in selection procedures, career advice, the rationalisation of grades, and the reform of pensions. Donald was immensely popular with his young economists, being no great respecter of rank, and taking the trouble to point out why bad ideas were bad while welcoming good ideas from anyone. He is remembered with great affection.

Apart from that he was much concerned with budgetary policy, but less so with the balance of payments or the exchange rate or incomes policy for several reasons. By the summer of 1969 the current balance of payments had clearly moved into surplus at last. There were crises in August 1969 (when the French franc was devalued) and after August 1971, when Nixon suspended convertibility of the dollar into gold and floating rates became widespread, but it was other Treasury officials who were most involved here. In January 1969 Barbara Castle had issued *In Place of Strife,* setting out proposals to reform collective bargaining, with Wilson's backing, but there was insufficient Cabinet support to push these through. The result was, in effect, a collapse of serious attempts to restrain wages and an acceleration of their rate of increase.

For Donald's first eighteen months, the Chancellor was Roy Jenkins, whom he admired, and who was in sole command of economic policy to a much greater extent than the next Chancellor, Barber. For Roy, as an aid to forming his budget judgement, Donald devised a series of graphic ellipses showing the trade-offs between growth, unemployment and the balance of payments, as well as the uncertainties of the forecasts. These became known as MacDougall's flying saucers. One wonders whether other Chancellors could have coped with these.

The Conservatives won the June 1970 election, and initially eschewed incomes policies and tried to deal with wage-push inflation with an Industrial Relations Act and by referring particular wage demands to tribunals. Donald and Douglas Allen (Permanent Secretary to the Treasury, later Lord Croham) had to present the government's case at a court of inquiry presided over by Lord Wilberforce, to settle a pay demand by electricity workers which had led to power cuts. Despite their best efforts to put the case for wage moderation, the court awarded the electricians a large increase, and Wilberforce repeated the performance a year later for the coal miners.

Donald repeatedly warned Heath (the Prime Minister) and Barber (the Chancellor) that unemployment was likely to increase to a million with current policies, but they seemed unconcerned until November 1971, when a U-turn was begun, with more intervention in industry, more public expenditure, large tax reductions in the 1972 budget, and a target fall in unemployment from the million it had reached in January 1972 to 400,000 a year later—this despite Donald's warnings that such a rapid fall had inflationary dangers. The dangers were increased by the Bank of England's measures (which preceded the U-turn) to strengthen competition in the financial sector, freeing bank advances from quantitative restrictions and greatly increasing the money supply. The rate of increase of retail prices accelerated in 1972, and the government now attempted to negotiate an incomes policy with the TUC, but with little success, one obstacle being the Industrial Relations Act. Starting in November 1972 a ninety-day statutory freeze on pay, prices, rents and dividends was imposed, succeeded by other measures. Meanwhile the earlier expansionary measures led to a very rapid growth of output, which started to bump against the ceiling of capacity in 1973. Domestic pressures on prices were added to rapidly rising import prices, since world commodity prices boomed, and oil prices rocketed at the end of 1973. A state of emergency was declared, as coal miners and electricity power workers seemed intent on making the most of their opportunity. There was a general election in February 1974 which returned a minority Labour Government.

Donald left the Treasury in October 1973, having been asked to stay on a year beyond the normal retiring age of sixty. In retrospect, his stint there did not end happily. His advice seems to have been often ignored, but it was even worse than that. The situation had become as he had feared: it seemed that economic growth, low unemployment and low inflation, which the country had enjoyed for a quarter of a century after the war, were no longer even approximately compatible. Radical measures were required, and were finally taken by the Thatcher government. These involved the shock treatment of heavy unemployment and confrontation with some of the unions. Donald's memories of the 1930s, and his non-confrontational character, meant that he could not have supported them. It was therefore fortunate that his next career move was out of work for the government and into the Confederation of British Industry (CBI).

The CBI, 1973–84

While at the Treasury, Donald had become worried by the decline in profitability of UK industry, and had initiated work on this. The acceleration of inflation bore heavily on profits. There was no proper system of inflation accounting, so that both taxes and price controls, and perhaps even some companies' price-setting procedures, squeezed *real* profits and company liquidity. As the CBI's Chief Economic Adviser, which he had now become, Donald's task was to convince the government and trade union leaders of the seriousness of the situation and to persuade them to remedy it. His efforts began immediately after the first budget of the new Chancellor (Denis Healey) in March 1974 which had increased taxes on company profits as well as tightening price controls. After many meetings Healey was convinced, introduced a stock relief scheme in his autumn budget, and eased price controls, thus saving many businesses from disaster. Healey, in his memoirs, blames the Treasury for a bad forecast of company liquidity.

By May 1975 both pay and prices were increasing at frightening rates. The CBI Council then reversed its rejection of incomes policy of six months earlier and approved a three-year programme aimed at reducing inflation in stages. They were invited by the TUC to a meeting to discuss pay in mid-June. The CBI President was dissuaded by Donald from proposing a five per cent cut in real wages and instead, at the meeting, Donald explained the need for pay to increase much more slowly than prices had done in the previous year, and how this would result in slower price increases, and would benefit *real* wages. The immediate trade union reaction was that they could not possibly agree to wage increases smaller than previous price increases, but after further meetings the proposition was accepted, greatly helped by the Chancellor's warning of what would happen if inflation was *not* brought down. The outcome was a halving of the rate of increase of both pay and prices over the next year. All was not well, however, as the £6 pay formula squeezed differentials, and this squeeze continued in the following year, creating tensions. The large depreciation of the pound in the crisis of 1976 once again led to faster price inflation, and in 1977–8 pay accelerated. The Callaghan Government's attempts to rein it back resulted in strikes and the 'winter of discontent' of 1978–9, and the first Thatcher Government in 1979.

Donald worked hard to educate businessmen on the need for pay increases to come down if high inflation and rising unemployment were to be avoided—and found that they were surprisingly ignorant but keen to learn. Conferences with slide presentations were widely held, and leaflets and booklets distributed. From July 1979 the CBI pay campaigns became annual events which, he believed, gradually bore fruit, with the rate of pay increases decelerating and the country's international competitiveness at last improving. While the harsh economic climate was in good measure responsible, better understanding by business and labour leaders helped.

From 1976 on, with the advent of (Sir) John Methven as Director General and Harold (Lord) Watkinson as President, the CBI adopted a much higher public profile with the publication of major documents and a series of national conferences, in both of which Donald was much involved. In the first major document, *The Road to Recovery*, October 1976, there was the typical Donald economic arithmetic showing how taxes could be cut consistently with a reduction in government borrowing if the growth of output matched the government's own extrapolation of past trends. This was the first of a series of medium term economic projections published by the CBI, not as predictions, but to show what was practically achievable given the right policies.

One important projection, at a time of rapidly rising unemployment, concerned the growth of employment. The service industries were of key importance, and the CBI later set up, with *The Financial Times*, a regular Distributive Trades Trends Survey which complemented the well-established Industrial Trends Survey. Donald's new wife, Margaret, was an expert on the distributive trades, and took a great interest in this. He successfully converted Methven to the belief that services were just as 'productive' as manufacturing.

While achieving a higher public profile, the CBI continued to maintain relations with ministers and officials. Donald, with his great experience, had an important role. He got on well with both Healey and Howe, but found discussions with the latter sometimes frustrating. Donald thought that 'Putting an argument to him was sometimes like poking one's finger into a sponge and then, when you took it out again, finding the sponge exactly the same shape as before.' The incoming Conservative Government had quickly done much of what the CBI had asked for on the abolition of price, dividend and exchange controls. They had also shifted the burden of taxation from income to expenditure by lowering the absurdly high rates of income tax and substituting a higher rate of VAT. The CBI (and Donald) welcomed the former, but not the latter, and also had severe misgivings about monetary and fiscal policies over the next few years, which remained restrictive despite a deepening recession and a growing number of bankruptcies.

Early in 1979 Donald had been asked to prepare a 'child's guide' to the now fashionable monetary policy. He believed that the single-minded pursuit of targets for Sterling M3 and the Public Sector Borrowing Requirement (PSBR) was simplistic, and could depress output, employment and profitability far more than intended. While his paper was not circulated outside CBI headquarters, the arguments in it were repeatedly used in representations to Conservative ministers.

CBI representations generally included demands for cuts in government spending plans and less waste and inefficiency. After the 1981 budget, which Donald called a 'real shocker', and which CBI leaders condemned, they set up a working party to document the case for reducing the cost of public services, which was submitted to the Treasury, and welcomed by ministers, though not by all their officials. Donald's work on this reminded him of his wartime role with the Prof.

Two other topics which concerned Donald in the CBI were the exchange rate and the National Insurance Surcharge (NIS) which Healey had introduced, widely described as a 'tax on jobs'. These were linked inasmuch as both affected international competitiveness. In Donald's judgement, the pound had fallen far too low in the 1976 crisis, but subsequently recovered (partly thanks to North Sea oil) and by late 1977 was getting too high. He organised two inquiries of CBI members to gauge their attitude to a lower exchange rate, in early 1978 and in late 1979, but these showed that only about a half favoured it, despite some further rise. A year later, however, with still further rises, the mood changed strongly in favour of getting the rate down, representations were made to the government, and Donald argued strongly for depreciation in evidence to the House of Commons Treasury and Civil Service Committee in July 1982. The rate did come down, and eventually Donald's other long battle to remove the NIS was also won.

Coming from the Treasury and a long experience of official statistics, Donald was more aware than most of their weaknesses. He consequently paid more attention than was then customary to the CBI's direct information from businesses, and led the way in giving it proper emphasis in analysing the state of the economy. He also gave time to discussions of this with his staff, and successfully recruited a remarkable team to work for him (Roger Bootle, Charles Burton, Bernard Connelly, Giles Keating, Ian MacCafferty, Douglas McWilliams and Bridget Rosewell).

In a working life of nearly fifty years, with nine principal appointments, Donald's ten years with the CBI was easily the longest. It concluded with dinners, lunches and a huge reception, which he thoroughly enjoyed. He was a tremendous man for parties, giving well thought out speeches, amusing as well as interesting. This party was attended by the top brass of the CBI, past and present, by its staff, and by many friends in Whitehall, the City, the TUC, academia and the media.

Final years

Donald continued to be mentally very alert and interested in economic affairs until the end. His first self-imposed task was to write his memoirs (*Don and Mandarin*, John Murray, 1987). Besides describing a career with enough activity for several more ordinary lives, the book displays the expected accuracy and painstaking collection of facts about the events and people involved. Little is made of the many distinctions he gained: his knighthood (1953), CBE (1945), OBE (1942), Fellowship of the British Academy (1966), Honorary Fellowships of Wadham (1964), Nuffield (1967), and Balliol (1992) colleges, Oxford, Honorary Doctorates of Strathclyde (1968), Leeds (1971) and Aston (1979) universities, President of the Royal Economic Society (1972–4).

The economic issue that most concerned him latterly was the question of Britain merging its currency with the euro. He had long been interested in this topic, culminating in the MacDougall Report on *The Role of*

Fiscal Policy in European Integration, to the European Commission (May 1977). This consisted of a general report of some seventy pages, backed by seventeen papers, over 500 pages, by members of the group of seven economists responsible for the report and some others, and representing a tremendous research effort. It analysed the role of fiscal systems in eight existing economic and monetary unions, and in three unitary states. It showed the importance of public finance in reducing inequalities between regions and in cushioning fluctuations in incomes and employment. In the light of this, he was a firm opponent of a common currency for Europe, unless and until it became a federation with federal expenditure of at least $7\frac{1}{2}$ to 10 per cent of GDP. While aware that relative changes in price levels could take the place of changes in exchange rates, he did not believe the former could generally be brought about except at great cost in output and employment. Even after the Thatcher years he remained pessimistic about the possibility of flexibility of wage rates. He therefore played an active part in the campaign to keep the pound.

Soon after joining the CBI, he had become Chairman of the Executive Committee of the National Institute of Economic and Social Research, retiring in 1987. This kept him in touch with work on the current state of the economy, which always interested him, as well as making use of his contacts to obtain much needed funds for the Institute. He maintained contacts with Whitehall, and gave advice to Ed Balls, Chancellor Brown's adviser, on how to develop a stable macroeconomic framework, and on the best model for an independent Bank of England. He would go through some of the fine print of economic statistics and mildly berate sinners in the Central Statistical Office. To the very end he attended the Political Economy Club, and could cut through a diffuse discussion to the heart of the matter.

He had always been a great traveller. This memoir has omitted missions to or conferences in numerous places (e.g. Ethiopia, India, Jamaica, Japan, the UN in New York, and Venezuela). He continued to travel after his retirement, often visiting the West Indies, and going on fishing trips to Scotland or Ireland with Margaret. His sight had never been good, but began to give serious trouble in 1979. In 1980 he had a successful cataract operation, followed by another. In his last years, however, he became nearly blind. With typical practical determination he used modern enlargement devices to enable him to read letters, and listened to talking books. Despite his blindness he flew out to, for example, the West Indies accompanied, after Margaret's death in 1995, by Anne Patrick or one or other of his supportive family. He also spent many weekends in Essex with his step-daughter Anthea and her husband Max Wilkinson, and had a succession of devoted carers.

Further support was given by David Schmitz, the son of one of the refugees from the Nazis that Donald and Chris had taken as lodgers in Leeds so many years before. David had come to Britain to work, his parents having settled in the USA, and had looked Donald up, forming a friendship which lasted for thirty years until Donald's death on 22 March 2004. Because of his failing eyesight, Donald needed help in going through his papers, and this David enjoyed providing. David remarked 'To those of us who had the privilege to know him, he showed a kindness which was always sincere, never intrusive and always accompanied by his sense of fun.'

'Cast thy bread upon the waters: for thou shalt find it after many days.'

M. FG. SCOTT
Fellow of the Academy

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