12 Equality versus efficiency?

The policy objectives of the 1945 Labour government were, perhaps like all governments, complex and potentially contradictory. This chapter is concerned with the place of equality within that set of objectives, and its relation to the efficiency concerns which, as earlier chapters have emphasised, came to be seen as so important. Lessening inequality was certainly a long-standing general aim of Labour policy. The case for equality had been powerfully argued with both practical trenchancy and ethical force in Tawney's *Equality*, first published in 1931. This became a standard reference point for much later Labour discussion, including the key works of Dalton and Durbin.[1] But even those who didn't acknowledge Tawney's work saw inequality as central to the socialist project, and with a similar ethical stress: 'economic inequality is in itself bad. It is bad because it propagates a false scale of values: a false servility on the one hand, and a false compliance on the other. It is impossible to deny that inequality destroys freedom, independence, self-respect and integrity . . . But besides all this inequality is evil because it is unjust.' [2]

A general predisposition to reduce inequality doesn't go very far in making a practical political programme. But Tawney and those who followed him had a clear, if broad, view about how greater equality was to be achieved. Tawney's 'strategy of equality' can be summarised as involving 'social policies to extend collective provision and equalise opportunities in education, health and housing, of taxation policies to strengthen the position of the worker, and of economic policies to bring the power of private capital under public direction'.[3] This quotation brings out some of the complexities of discussing equality. First, inequality is multi-dimensional, and Tawney himself especially empha-

[1] R. H. Tawney, *Equality* (4th edn 1952); Dalton, *Practical Socialism*, pp. 320–2; E. Durbin, *The Politics of Democratic Socialism* (1940), p. 13. For discussion of Tawney's arguments see A. W. Wright, *R. H. Tawney* (Manchester, 1987), ch. 5.

[2] Jay, *The Socialist Case*, p. 3. For parallel views from Gaitskell see Durbin, *New Jerusalems*, pp. 127–8.

[3] Wright, *Tawney*, p. 67; Tawney, *Equality*, pt. IV, 'The Strategy of Equality'.

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sised two dimensions – inequalities in access to health and education provision on the one hand, and inequalities in economic power on the other. In addition, inequality can be measured in a variety of ways – inequality of opportunity and inequality of outcome being only the most obvious examples of the possibilities.[4]

This complexity means that almost any policy area can be discussed in terms of egalitarian criteria, but at the same time none of these criteria is likely to be definitive – a policy which reduces inequality in one direction may be neutral or even inegalitarian in another. One example of these complexities is nationalisation of industry, which many Labour theorists and supporters saw as reducing the economic power of the capitalist class, whilst regarding its impact on the distribution of income as minor, given a policy of full compensation of the previous owners.[5] Another rather different case is the NHS, where the principle of equality on a 'horizontal' or geographic basis was used to argue against local control of hospitals, leading to a centralisation which, both at the time and subsequently, has been seen as a significant undermining of local democracy in the welfare state.[6]

It would be impossible within the scope of one chapter to deal with all these ramifications on the pursuit of greater equality under the Attlee government. Here the focus is rather a narrower one – the pursuit of greater 'vertical' equality of income and wealth by means of increased provision of social services and their financing by taxation. The (alleged) conflict focused upon is that between the pursuit of such egalitarian ends and economic efficiency.

The emphasis on vertical redistribution by social service expenditure and higher taxes was crucial to, though by no means exhausted, Tawney's 'strategy of equality'. He argued that the means of achieving equality were 'no mystery, and the measures embodying it are the most familiar of commonplaces'. The first of these measures was 'the extension of social services and progressive taxation, which mitigate disparities of opportunity and circumstance, by securing that wealth which would otherwise be spent by a minority is applied to purposes of common advantage'.[7]

[4] Le Grand, *Strategy of Equality*, ch. 7.
[5] Dalton, *Practical Socialism*, pp. 176–7.
[6] Klein, *Politics*, pp. 18–19; Webster, *Health Services* (1988). In this period Labour tended to extend the duties of local government generally, but to make it more dependent on central finance. On the latter aspect see D. N. Chester, 'Local Finance', *Lloyds Bank Review* 21 (1951), pp. 33–47.
[7] Tawney, *Equality*, p. 119.

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The focus on 'equality versus efficiency' derives both from the frequency with which that conflict is discussed in a wide range of literature,[8] and also from the specific suggestion that under Labour this conflict was resolved in favour of equality. In his *Audit of War*, as discussed in chapter 4, Barnett argued that the 'New Jerusalem' of welfare provision deprived the industrial economy of resources, and undermined any possibility of an effective 'national industrial strategy' in the late 1940s. The specifics of this argument will not be rehearsed again; rather, the focus will be on the extent to which the 'New Jerusalem' in the sense of welfare provision and progressive taxation did generate greater equality, and whether in turn that programme created inefficiencies.

A strategy of equality?

To talk of equality versus efficiency under the Attlee government is to prejudge a major issue – to what extent did the policy of creating a welfare state (and other policies) involve a clear and explicit attempt to achieve equality?

Certainly some authors have seen in Labour's policy in this period such a 'strategy of equality', which was embodied in the institutions of the welfare state, both those which involved a direct transfer of income and those, like education and health, which provided services in kind.[9] However, this strategy is difficult to find in the 1940s. The centrepiece of the social security system, the National Insurance system, provided for flat-rate benefits from flat-rate contributions, as Beveridge had proposed, which meant a substantial part of the system was financed by a regressive poll-tax, with any progressivity coming only through the employers' and Exchequer contributions. This was in conflict with proposals to make the contributions income-related, which would have brought a much greater degree of redistribution. But it reflected the fact that Labour had developed its own social insurance plan prior to Beveridge which also embodied a flat-rate system.[10]

The NHS was the result of many conflicting aims, but on the government side the predominant one seems to have been to provide a good, minimum standard of health care for everyone. In education a similar summary of objectives seems appropriate. The central aim was to make secondary education available free to all, whilst sustaining the equality

[8] On the broad intellectual background to these arguments, see E. H. Phelps Brown, *Egalitarianism and the Generation of Inequality* (Oxford, 1988).
[9] Le Grand, *Strategy of Equality*, pp. 6–12.
[10] Harris, *Beveridge*, p. 416; Brooke, *Labour's War*, pp. 145–65.

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of *opportunity* allegedly provided by the grammar school system. In the cases of both health and education nothing was done to undermine the private systems, and in particular the public schools remained as one of Tawney's 'massive pillars of indefensible disparities of income and opportunity'.[11]

Overall, to talk about the welfare state as part of a 'strategy of equality' is seriously to misunderstand the approach taken by Labour in the 1940s. This is not to say that Labour did not believe in some general sense in greater equality, but they expected this to come as a by-product of provision created with different primary ends.[12] Central to those ends in the 1940s was a reduction of insecurity. This is one of the key themes of the 1945 general election manifesto, *Let Us Face the Future*. Nowhere in this document is equality mentioned, but a key general aim of Labour policy is said to be to provide 'security for all against a rainy day', and this metaphor recurs in the more specific discussion of the case for social insurance. This emphasis on security is reflected in some analyses of the British welfare state, which see its expansion in the 1940s as driven by a heightened perception of risk and insecurity brought about by the war.[13]

Conditioned by this fear of insecurity, the strategy of Labour – rather than one of equality – might be better summarised as that of the universal minimum – a slogan coined by the Webbs before the First World War (see chapter 1). This focus on 'minimum universalism' in practice had contradictory effects on equality of outcome. On the one hand, in so far as everyone was given access to minimum levels of income, education and health care, the gap between the position of the poor and that of higher income groups was reduced. On the other hand, for those who had previously paid for health and education, and found the standards of the new free services acceptable, major benefits accrued from no longer having to pay, and inequality increased.

What these examples point up again is, of course, the great complexity of both conceptualising and measuring equality even within a particular policy area. This issue will be returned to. But the point to be emphasised

[11] Klein, *Politics*; Tawney, *Equality*, p. 223.

[12] Crosland, whom Le Grand treats as key exponent of the strategy of equality wrote 'social security cannot be held to be the ultimate purpose of the social services. This must surely be the relief of social distress handling and the correction of social need; though naturally measures directed to this end will often also enhance social equality, which in any case remains an important subsidiary objective' (*The Future of Socialism* (1956), p. 148).

[13] Labour Party, *Let Us Face the Future*, pp. 2, 8; R. E. Goodin and J. Dryzek, 'Risk-Sharing and Social Justice: The Motivational Foundations of the Post-War Welfare State' in Goodin and Le Grand (eds.), *Not Only the Poor* (1987), ch. 3. For contemporary emphasis on insecurity see Jay, *The Socialist Case*, pp. 3–6; Durbin, *Politics*, pp. 101–2; J. Griffiths, *Pages from Memory* (1969), pp. 88–9.

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here is that such complexities rarely arose in the contemporary political and administrative debates about the design of the welfare system, because equality was not the prime concern. As Rodney Lowe has pointed out, 'greater equality of outcome was not an initial objective of the welfare state'. Rather, the Labour Party's objective 'was the establishment of a national minimum of subsistence, below which no one would fall, whether through ill health, unemployment, poverty, or old age'.[14]

If Le Grand exaggerates Labour's commitment to a 'strategy of equality' in the 1940s, his argument that the provision of free services like health and education benefits the well-off disproportionately was not one widely accepted by ministers and administrators in the 1940s. The distributive consequences of the welfare state not being a primary concern, they were little investigated, at least by officials. The whole question of the impact of spending in such areas remained largely unexamined. As a high-ranking official expressed it in 1950: 'We have made, so far as I know, no serious enquiries into the economics of health and education. Is increased expenditure in these sectors remunerative or not? I do not know: and the economists' conventional complaints about the burden of social services do not seem to me the answer either.'[15]

But outside ministerial and official circles Labour's policies and their impact on income distribution stimulated a considerable literature. As regards the social services, one analyst of the late 1940s argued, as Le Grand was to do over thirty years later, that:

> A strong case could be made out that the postwar extension of social security benefited mainly the middle classes. Those in the higher income brackets who came to make use of the health service enjoyed the biggest saving when it was introduced; food subsidies are increasingly becoming a social service to the rich as rationing is abandoned; and educational expenditure especially benefits the middle class both because their children have a start in the scramble for scholarships and because much of it is a direct subsidy to higher education.

Such a perception was not limited to academics. For example, James Callaghan MP argued in 1948 that there was little inter-class transfer via the social security system as 'most working class benefits are paid for by the working class'.[16]

Neither of these authors, however, provided quantitative evidence on this issue. As already noted, such analysis was not provided by govern-

[14] Lowe, *Welfare State*, p. 292 (see also pp. 11–12); Brooke, *Labour's War*, pp. 147–8.
[15] PRO T230/328, D. Bensusan-Butt to R. Hall, 'The Presentation of Economic Policies', 15 Nov. 1950.
[16] D. Seers, *The Levelling of Incomes since 1938* (Oxford, 1951), p. 4; J. Callaghan, 'The Approach to Social Equality' in D. Munro (ed.), *Socialism: The British Way* (1948), pp. 139–40.

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ment and its officials. One reason for this was perhaps not just naivety or lack of resources, but an implicit understanding that the assumption of the redistributive consequences of the expansion of social welfare provision was necessary both generally to sustain working-class support for the government, and more explicitly to sustain the relationship with the trade unions, in a period when the 'social wage' played a key role in the government's relationship with the unions.[17]

In trying to restrain wage inflation in this period Labour ministers would directly emphasise the benefits accruing to the workers from welfare expenditure, and the superiority of this social wage to increases in money wages. For example, in 1947 Bevin told a delegation of trade unionists that the current food subsidies were equal to 12s 6d ($72\frac{1}{2}$p) per head of population, and that 'It took us a very long time to win that after a very long strike at the end of the last war'.[18] In fact, as the quote from Seers above suggests, food subsidies were not just a subsidy to wages, but significantly aided salary earners and all who consumed food. Whilst the lower income groups spent *proportionately* more on food, the better-off spent *absolutely* more, so it would be difficult to pronounce on the overall distributive effects of the subsidies, as would be true of other social services. The *Economist*, keen to analyse the scale of redistribution, published an index in 1950 purporting to show that the cost of living of those on £500 p.a. had risen by 10 per cent more than those on a working-class income between 1938 and 1949, but as they themselves conceded, these were 'very rough estimates'.[19]

The argument so far has stressed that in constructing the 'welfare state', Labour in the 1940s was not primarily concerned with equality (however measured), that it usually hoped and assumed that the results would be egalitarian but did not seriously examine this assumption, even though some commentators questioned it. The central point is to focus on the historical context of the creation of the welfare state, and to correct common notions about a 'strategy of equality'. The aim has not been to disparage Labour's 'universal minimum' approach, however much it might be accurate to note its conservative implications in some areas, notably education.[20]

[17] N. Whiteside, 'Aiming at Consensus: Social Welfare and Industrial Relations 1939–79' in C. Wrigley (ed.), *A History of British Industrial Relations*, forthcoming.
[18] PRO T171/394, Budget Papers, Meeting of Ministers with TUC, 17 Nov. 1947.
[19] *Economist*, 158, 21 Jan. 1951, pp. 121–2.
[20] For example, Morgan, *Labour in Power*, p. 177 castigates the Attlee government in this area: 'education was an area where the Labour Government failed to provide any new ideas or inspiration', and the support of grammar schools 'enshrined inequality'. For a persuasive case for seeing the commitment to grammar schools as compatible with Labour's general ideology at this time, see M. Francis, 'A Socialist Policy for Edu-

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The strategy of a universal minimum meant above all that the aim of the welfare state was to defeat poverty. The evidence suggests that this strategy met with considerable success, though not perhaps with quite as much as was commonly believed at the time. The classic piece of evidence, which received a lot of attention when it was published, was Rowntree and Lavers' Survey of York in 1950, following up Rowntree's famous poverty studies of 1898 and 1936. In this book Rowntree and Lavers directly compared the level of poverty of 1936 and 1950, and suggested that, whereas in the earlier year 31.1 per cent of the working class and 17.7 per cent of the total population lived in poverty, by 1950 the comparable figures were 2.77 and 1.66 per cent.[21] Not surprisingly, these figures were used in the 1951 general election as a vindication of Labour's policies.

However, Townsend shortly after, and Atkinson much later, suggested that these figures were unduly optimistic.[22] Because of problems in the sampling techniques used, the quality of the data obtained, the use of the 'household' rather than the 'family' as the unit of assessment, and the fact that York was not typical of the rest of Britain because of the relative absence of low-paid jobs, Rowntree's estimates need some upward adjustment. Using the National Assistance Standard, Atkinson suggests that Rowntree's figure for the proportion of families in poverty might be put at 5.8 per cent rather than 1.66, which would bring it closer into line with other post-war estimates. This was still, on any calculation, a substantial improvement on the 1930s, though, as Rowntree himself pointed out, a substantial part of it was not due to welfare spending but to full employment and higher wages. According to the survey, where unemployment was the cause of poverty in 28.6 per cent of all cases in 1936, and low wages in 32.8 per cent, by 1950 the comparable figures were zero and 1 per cent. Poverty had become overwhelmingly a problem of sickness and especially old age. Rowntree and Lavers made a separate calculation that if welfare legislation had remained unaltered between 1936 and 1950, the fall in the level of poverty in poor working-class households would have been from 31.1 per cent to 22.2 per cent rather than the actual figure of 2.8 per cent.[23] None of these figures suggest that the 1940s welfare state was ineffective in raising minimum standards, though they do caution against contem-

cation?': Labour and the Secondary School 1945–51', *History of Education* 24 (1995), pp. 319–35.

[21] S. B. Rowntree and G. Lavers, *Poverty and the Welfare State* (1951), pp. 30–1.

[22] P. Townsend, 'Poverty: Ten Years after Beveridge', *Planning* 19 (1952), pp. 21–40; A. B. Atkinson, 'Poverty in York: A Re-Analysis of Rowntree's 1950 Survey' in Atkinson, *Poverty and Social Security* (1989); Lowe, *Welfare State*, pp. 139–41.

[23] Rowntree and Lavers, *Poverty*, chs. 3, 4.

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Table 12.1 *Public expenditure, 1949/50*

Main components	£m.
Defence	740.7
Interest on national debt	470.6
Foreign and imperial	63.9
Home departments	51.6
Trade, industry and transport	150.6
'Welfare' (including Exchequer contribution to National Insurance)	1,203.4
Of which:	
Transfer payments	(420.8)
Food subsidies	410.0
Total	3,375.3

Source: Annual Abstract of Statistics, vol. 89, 1952.

porary euphoria, and bring out the key role of the change in the labour market in underpinning those standards.

The impact of taxation

The effects of the Labour government's policies on equality in Britain cannot just be viewed in relation to spending on the social services. These services were financed by taxation, and that taxation had, at least potentially, major redistributive effects. In addition, the scale and character of taxation is usually seen as an important determinant of efficiency and growth. This section will therefore look at both the 'equality' and 'efficiency' aspects of taxation in this period.

A prior consideration is the overall pattern of expenditure, in particular how much was spent on social welfare. Table 12.1 gives a broad picture of public expenditure for 1949/50, though the serious problems of definition in this area should be noted. For example, how far food subsidies should be treated as 'welfare' and how far as part of macroeconomic (anti-inflationary) policy is contentious, an important issue because of both the large amounts spent under this heading in the late 1940s and the big dispute that arose over it at the time (a point returned to below).

As can be seen from table 12.1, social welfare expenditure according to the broadest definition made up somewhat less than half of total government expenditure.[24] In addition it should be noted that taxation was greater than expenditure in 1949/50 (as it was in the two preceding

[24] In his 1951 budget speech the Chancellor stressed that 'nearly half' of government spending was on defence and debt interest, three-eighths on food subsidies and social services.

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budgetary years) so that the tax system was financing a significant amount of public sector saving, calculated at £757m. for 1949/50 by Cairncross.[25]

If we include financing the surplus, central taxation under Labour was equivalent to 35–38 per cent of national income if National Insurance contributions are also included. Prior to the Korean War the trend in this figure was (gradually) downwards, from 37.7 per cent in 1946 to 34.9 per cent in 1951.[26] The starting point for Labour in raising this money was, of course, the tax structure bequeathed by the wartime policy of expanding the income tax down the income scale to embrace a significant proportion of manual workers, whilst increasing indirect taxes on a large number of consumption items, but with some exceptions aimed at stabilising the cost of living as far as possible. The wartime budgets had therefore been used not only to balance the overall economy, notably from Kingsley Wood's 'first Keynesian budget' of 1941,[27] but as far as possible to make the much higher tax impositions socially acceptable. Keynes' wartime call for a 'social policy budget' may not have got very far,[28] but there was a new recognition in wartime of the distributive impact of taxation. However, the scale of the redistribution of income via tax was not closely assessed, and in the post-war period serious discussion of this issue was largely confined to outside academics, rather than the Treasury or Inland Revenue.[29]

Table 12.2 gives some idea of the pattern of taxation in the late 1940s. Just more than half of total taxation was from direct taxation, with the great bulk of that coming from income tax. On the indirect side, perhaps the most striking feature is the weight of taxation on alcohol and tobacco, the latter encouraged by the desire to save dollar imports.

Changes in the pattern of taxation under Attlee were quite small, falling expenditure on the military as demobilisation proceeded (and until reversed by the Korean War) being largely offset by rises in spending on civil programmes, coupled to the desire to raise revenue to hold domestic demand in check. Tax reductions were largely focused on raising the income tax threshold and reducing the rates in the lower bands. The standard rate was reduced from 10s to 9s in 1945, before being raised to 9s 6d in 1951 to help finance Korean War expenditure. This fall in direct tax revenue was partly offset by rises in indirect taxation, especially in the two budgets of 1947 and that of 1948.[30]

The focus of tax cuts on the threshold for paying income tax seems

[25] Cairncross, *Years of Recovery*, p. 420.
[26] Dow, *Management*, p. 188.
[27] Sayers, *Financial Policy*.
[28] PRO T171/360, J. M. Keynes, 'Notes on the Budget', 3 Nov. 1941.
[29] Lowe, *Welfare State*, p. 283.
[30] Dow, *Management*, pp. 198–200.

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Table 12.2 *Tax receipts, 1948/9*

(£m.)

Direct		
Income tax	1,410	
Surtax	90	
Profits tax	200	
Total	1,700	
Capital		
Death duties	160	
Special contribution	105	
Total	265	1,965
Indirect		
Stamp duties	55	
Alcohol	440	
Tobacco	580	
Entertainment	50	
Purchase tax	275	
Oil	55	
Other	90[1]	
		1,545
Other receipts		135
Total tax liabilities		3,645

[1] Original has 145 here, in error.

Source: PRO T171/397, R. Hall, 'Budgetary Prospects and Policies, 1948–1952', 17 July 1948.

to have been largely stimulated by incentive arguments. In his 1945 budget, for example, Dalton argued that, in relation to its impact on low incomes, 'there is plenty of evidence that it has reduced incentive and discouraged effort, and thus diminished production'. The effect of the 1945 budget was to take perhaps 2 million people out of tax entirely, and to reduce the tax on a man earning £5 a week (a good manual wage in 1945) from 19s 3d (97p) to 11s 5d (56p).[31] A similar theme is common in budget discussions in the late 1940s, and with the action that followed, large numbers of low-paid workers were eliminated from the income tax system. By 1949 a married man with two children would have had to reach 103 per cent of average earnings before paying any income tax, and 187 per cent before paying at the standard rate. Whilst income tax was no longer the middle-class tax it had been before 1939, it remained the case that indirect taxes were the main tax burden for the

[31] PRO T171/37, 'Draft Budget Speech', 22 Oct. 1945; T171/386, 'Draft Budget Speech', 6 April 1946.

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bulk of the working class, plus of course the highly regressive employees' flat-rate National Insurance contributions, which amounted to about 1.9 per cent of national income in 1951.[32]

The adjustments to income tax thresholds and bands reflected a broader concern with incentives amongst the working class which informed a lot of policy discussion in the late 1940s. There were proposals, for example, for exempting all overtime from income tax, or at least doing so for coal miners, whose output was deemed so important for the whole economic situation.[33] Ministers rejected this particular proposal, though most continued to be convinced that significant disincentives existed. Evidence on this aspect of the tax system is imperfect, though surveys done at the time suggest that *indirect* tax was often more disliked by the working class (perhaps not surprisingly, given the discussion above) and that the impact of income tax on workers' effort was probably exaggerated in ministers' minds.

For example, in an official survey in late 1947, only 2 per cent of respondents cited income tax as a personal economic problem, the majority citing rationing and food shortages, high prices and queuing as the major issues. In February 1948 a more explicit question was asked: 'Which of these taxes do you dislike most personally?' and the answer was 36 per cent purchase tax, 30 per cent income tax and 17 per cent tobacco tax. Hostility to income tax increased with income, whilst 'the tobacco tax is the most unpopular in the middle group which includes the majority of manual workers'. The Survey of July 1949 asked: 'Which tax do you dislike most, personally?' and the replies were income tax 27 per cent, purchase tax 24 per cent, tobacco 23 per cent. (It is noticeable that apparently no one cited the highly regressive National Insurance contribution when asked about taxation.)[34]

This focus on incentives did not mean that Labour Chancellors ignored the impact of the tax system on equality. In his budget of 1945 Dalton declared the need to maintain a high level of surtax in pursuit of equality, and his 1946 budget speech argued for tax as part of the strategy in which 'this Government, and the Parliamentary majority behind it, intend to press steadily forward towards the goal of greater social equality, for which, through six long years of war, our soldiers fought and died'.[35]

[32] PRO T171/394 Inland Revenue, 'Note on Income Tax and Incentive', 6 Dec. 1947; Lowe, *Welfare State*, p. 285; Dow, *Management*, p. 188.
[33] P. M. Williams (ed.), *The Diary of Hugh Gaitskell 1945–56* (1983), p. 39.
[34] PRO RG23/92, 23/94, 23/103, 23/107, Survey of Knowledge and Opinion about the Economic Situation, Dec. 1947, Feb. 1948, Nov. 1948, July 1949.
[35] PRO T171/371, 'Draft Budget Speech', 22 Oct. 1945; T171/386, *Budget 1946*, Draft of BBC Speech, 9 April 1946. See also Dalton, *High Tide*, pp. 26–7, 113–14.

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This rhetoric notably shifted in the later 1940s. Cripps' budget speech of 1949, after establishing the unavoidable nature of continued high taxation to pay for the current level of defence and social service expenditure, went on to argue that there was little future scope for further income redistribution, and that attention should concentrate on increasing total wealth. In fact, Cripps' speech embodied two contradictory views about redistribution which were increasingly heard in Labour circles in this period. On the one hand, he argued that redistribution resulted 'to a large extent from the provision of these extended social services for the less well to do at the expense of the well to do'. On the other hand, he suggested that with the total tax burden 'now more than 40 per cent', the recipients of social services were largely paid for by the same group.[36] This confusing message about redistribution was to become quite widely prevalent in the late 1940s and early 1950s, and will be returned to below.

One example of the limits of redistribution via the tax system was the issue of capital taxation. Dalton, the Chancellor in 1945–7, had long been an advocate of capital taxation, and indeed was widely cited for his advocacy of a reformed version of the Rignano system of inheritance tax.[37] Dalton's advocacy reflected both a socialist belief in the need to redistribute wealth and an economist's belief that capital taxation represented a way of raising revenue with minimum disincentive effects. There was much debate in Treasury circles on this issue, culminating in the preparation of the 1948 budget. At that time the main form of capital taxation was the death duties, which Dalton had made substantially more progressive in the budget of 1947. In 1948 the argument focused on the issue of a capital levy. It had been much debated, though never implemented, after the First World War, as a means of trying to pay off the national debt. This approach had been rejected in 1945, partly because low interest rates made the idea of the burden of the debt less compelling. Opposition to the levy was reiterated by the Inland Revenue in late 1947, coupled to questioning of the administrative feasibility and the scale of the net revenue likely to be raised by such an impost.[38]

This traditional Inland Revenue posture was backed up by the head of the Economic Section, Robert Hall, who foresaw an 'all round shock

[36] PRO T171/399, 'Draft Budget Speech', 1 April 1949; see also Cronin, *Politics of State*, p. 173.

[37] The Rignano system, broadly speaking, imposed a higher tax on an inheritance as it passed from generation to generation (Dalton, *The Inequality of Incomes* (1920), ch. 9; see also Jay, *The Socialist Case*, pp. 226–31).

[38] Dalton, *High Tide*, pp. 115–17; PRO T171/395, *Budget 1948* vol. 2. Inland Revenue, 'Note on Capital Levy', 30 Dec. 1947. On the long-run debate on such a levy, see R. C. Whiting, 'The Boundaries of Taxation' in S. J. D. Green and R. C. Whiting (eds.), *The Boundaries of the State in Modern Britain* (Cambridge, forthcoming).

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to business confidence' from such a measure.[39] This was the general tenor of official advice, and it was successful – up to a point. In the event Cripps imposed a 'Special Contribution', which was effectively a capital tax, but which avoided some of the administrative difficulties of such taxes by being levied on surtax payers. The reason for Cripps' insistence on going ahead with this measure seems to have been a combination of the belief that other sources of revenue, especially from direct tax, were reaching their limit and that wealth should be taxed as part of the process of holding demand in check.[40] However, in going against the advice of most officials, Cripps responded to their criticism by pointing out that the Special Contribution was once and for all, and reduced the originally proposed top rate of the tax from 15s to 10s.[41]

This sensitivity to issues of 'confidence' may be seen as part of the move in budgetary rhetoric and policy away from the egalitarian aims and achievements of the fiscal system and towards a greater regard for the interests of higher income groups. Perhaps Cripps was particularly susceptible to such pressures because of the priority he gave to economic modernisation, which he hoped could be achieved in alliance with business as well as trade unions. Hence his advisers aimed well when they told him: 'During the last 6 months you have done what no other man in the country could have done, and that is to secure the general support of industry and commerce for a Labour government. This is a priceless asset, and one without which there is no hope of our surmounting our economic problems.'[42]

Certainly, some of the officials by this time were explicitly saying that efficiency was being sacrificed to equality by the fiscal system. For example, in 1950 Hall argued that 'the real trouble comes in the effect of taxation on enterprise and the supply of capital'. There was, he argued, a clear need to reduce the higher tax rates 'if we could only get over the political difficulties of doing anything at all for the capitalist'. His solution was to press for a royal commission to try and persuade the public of what, for him, was an obvious truth.[43] This view of incentives was widely stated at this time by politicians and industrialists, and the latter of course determined the level of 'confidence' in the government. Typical of the

[39] Inland Revenue, 'A Capital Levy and Deflation', Dec. 1947.

[40] This macroeconomic aspect of capital taxation had been examined in a widely cited article by J. R. Hicks ('The Empty Economy', *Lloyds Bank Review* 5 (1947), pp. 1–13), who concentrated on the anti-inflationary rather than the revenue-raising aspect of such a tax.

[41] PRO T171/395, E. Plowden to Cripps, 31 March 1948.

[42] Ibid.

[43] PRO T171/427, Hall to Plowden, 18 May 1950. This was eventually done, in the form of the Royal Commission on the Taxation of Income and Profits, which reported in 1953/4.

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views expressed by industrialists was the argument that Britain had 'heavier taxation than that imposed upon industry in any other country in the world' and to couple this directly with Britain's low productivity, so touching directly on the government's most sensitive spot.[44]

In addressing the issue of taxation of the well-off, Labour was faced with what might be called a classic social democratic dilemma. On the one hand, faced with the need to finance higher levels of public spending on a 'fair' basis, stiff taxes on high incomes were unavoidable; on the other hand, the government wanted to encourage savings and investment. The government tried in part to square this circle by combining fiscal incentives for investment with taxation that discriminated against distributed and in favour of retained profits. Thus, alongside the investment allowances introduced in 1945 and doubled in 1949, Labour imposed differential taxes on distributed and undistributed profits. At one level this latter measure met the political need to contain the growth of non-wage incomes, especially at a time when the government put so much emphasis on limiting wage inflation. On the other hand, its distributive effects were of course offset by the fact that retained profits lead to capital gains, which in Britain remained lightly taxed, so the egalitarian effect of such measures was largely illusory.[45]

The effect of high taxation on savings and investment in this period, as always, presents a complex picture. Investment is in some respects more straightforward. Investment rose sharply in post-war Britain, and indeed continually threatened the economy's capacity to cope with either the consequences for aggregate demand or the balance of payments. The restraint on investment was the availability not of finance but of physical resources, most notably steel.[46] Hence it cannot be argued that the company sector had any difficulty in obtaining investment finance either through ploughed-back profits or borrowing at low interest rates. Company savings seem to have been buoyant in the face of the tax pressure on distributed profits (table 12.3). As Cairncross remarks: 'these figures suggest that what has been taken by the Exchequer in higher taxation of profits has been at the expense of the shareholder rather than of the consumer on the one side or the self-financing of industrial expansion on the other'.[47]

[44] S. P. Chambers, 'Taxation and the Supply of Capital for Industry', *Lloyds Bank Review* 11 (1949), pp. 1–20; this view was strongly contested by G. Walker, 'Some Economic Aspects of the Taxation of Companies', *Manchester School* 22 (1954), pp. 1–36.

[45] Seers, *Levelling*, pp. 34–5.

[46] Tomlinson, 'Mr. Attlee's Supply-Side Socialism', pp. 1–22.

[47] A. Cairncross, 'Saving and Investment since the War', *Westminster Bank Review* (Feb. 1955), pp. 4–8; see also A. R. Ilersic, *Government Finance and Fiscal Policy in Postwar Britain* (1955), pp. 114, 122–3.

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Table 12.3 *Income and outgoings as a percentage of turnover, 1936–8 and 1948–9*

	Annual average	
	1936–8	1948–9
Gross income	11.84	11.14
Taxation	1.34	3.56
Dividends	6.68	3.14
Undistributed profits and depreciation	3.83	4.41

Source: D. Walker, 'Some Economic Aspects of Taxation of Companies', *Manchester School* 22 (1954), p. 18.

Given that Britain was a large capital exporter through most of the Attlee period, it must be the case that savings exceeded domestic investment by a substantial margin. In that sense savings were not a problem, and the tax levels of the period would appear to have had little effect. But this would be somewhat misleading, in that a significant part of total savings after 1947 were from the budget surplus. For 1948–50 this source of savings was around 30 per cent of all gross domestic investment.[48] Household saving, as opposed to corporate saving, was low in the early post-war years, and this is where the level of taxation had some impact, though it would seem likely that it was also affected by understandable desire of people to rebuild their stocks and improve their consumption after the privations of war. On the other hand, the greater propensity to buy houses and purchase life insurance partly offset this desire.[49] Some fall in saving would be the inevitable result of any egalitarian shift in the distribution of income, however caused, because the propensity to save tends to rise with income levels.

How much equality?

How much redistribution was achieved by the combination of Labour's spending and taxation policies? This was a subject on which there was little official investigation in the early post-war period, but that did not prevent strong statements on the issue being made by politicians, often of a contradictory nature. Labour increasingly wanted to satisfy different political ends – it wanted to tell its working-class supporters that they were getting a good deal because of the redistribution brought about by

[48] Data from Cairncross, *Years of Recovery*, pp. 421, 456.
[49] Ilersic, *Finance*, pp. 82–4.

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Table 12.4 *Distribution of original income, 1938 and 1947*

(Gini coefficients[1])

	1938	1947
Distributed private income	0.43	0.35
Distributed and undistributed profits	0.44	0.42
All private incomes	0.42	0.39

[1] A Gini coefficient is a measure of inequality, such that if all units received equal income its value would be zero, and if one unit received all income, its value would be one.
Source: D. Seers, *The Levelling of Incomes since 1938* (Oxford, 1951), p. 38.

its policies. On the other hand, by the late 1940s it wanted to argue that this process had inherent limits, that too much redistribution would kill the golden goose. Thirdly, it became concerned that redistribution was alienating potential middle-class support.[50]

The change in the distribution of income between the 1930s and the late 1940s was not solely the effect of government spending and taxation. The tight labour market of the war and post-war years, coupled perhaps to price and rent controls, produced some shift in original, pre-tax money incomes (table 12.4), and this shift undoubtedly began in the war years rather than being initiated under Attlee.

As the figures in table 12.4 suggest, the exclusion of undistributed profits makes the shift appear much greater than would otherwise be the case. A further stage of analysis would be just to take into account taxation, and if this is done a greater shift in distribution is apparent, basically towards wages and salaries at the expense of property incomes but also of wage earners gaining relative to those on salaries (table 12.5).[51]

Plainly the figures in table 12.5, whilst instructive, leave out a large part of the story because they ignore the role of government expenditure, which is the most difficult and controversial part of the redistribution issue. One major study of this issue argued, like Cripps in 1948, that the expanded spending on social services after the war had been entirely paid for by increased taxation of the working class, especially taxes on alcohol and tobacco. In this view redistribution was largely horizontal: 'Those who do not smoke or drink, but who live in a govern-

[50] PRO T171/400, 'Taxation of the Middle Classes', 12 Jan. 1950.
[51] For scepticism on the extent of this redistribution, see J. A. Brittain, 'Some Neglected Features of Britain's Income Levelling', *American Economic Review* 50 (1960), pp. 593–603.

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Table 12.5 *Shares of post-tax income, 1938 and 1949*

(%)

	1938	1949
Undistributed corporate profits	4.6	5.5
Distributed corporate profits and mixed income	30.3	21.6
Total property and mixed income	34.9	27.1
Wages	35.5	42.0
Salaries	22.2	20.7
Forces pay	1.6	2.4
Total work incomes	59.3	65.1
Social income	5.7	7.8
Total	100.0	100.0

Source: Seers, *Levelling*, p. 52.

ment-owned house, wear utility clothing, use utility furniture, and have a large family enjoy the maximum of benefits and pay the minimum of taxes. This advantageous position is related more to their consumption habits than their income.'[52]

Whilst this analysis pointed to some important aspects of post-war redistribution, its conclusions on the absence of vertical redistribution appear exaggerated. The problem is that Weaver allocates all expenditure on the social services to the working class whilst all other expenditure is deemed to accrue to other income groups. This is plainly not satisfactory, as the middle classes also benefited from 'universal' welfare provision.[53] The most systematic attempt to go beyond this crude method was made by Carter.[54] He divided public expenditure into three types – transfer payments, divisible services such as housing, education and health, and indivisible (law and order, military, debt interest, etc.). He then attempted to apportion each of these to income groups, for the last category making three different calculations based on assumption of benefit accordance with (i) equal division per capita, (ii) division proportional to private income level, (iii) division according to taxes paid. As would be expected, these give progressively declining levels of benefit to the lowest income groups.

[52] F. Weaver, 'Taxation and Redistribution in the UK', *Review of Economics and Statistics* 32 (1950), p. 213.

[53] A. T. Peacock and P. R. Browning, 'The Social Services in Great Britain and the Redistribution of Income' in Peacock (ed.), *Income Distribution and Social Policy* (1954), pp. 156–9.

[54] A. M. Carter, *The Redistribution of Income in Postwar Britain* (New Haven, 1955), chs. 5, 6.

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Whichever of the latter assumptions is used, clear gains are made by those with incomes below the taxable £500 income per annum in 1948/9, and losses above that figure. The middle assumption would have those on £135 per annum or less having their incomes raised by 57 per cent, those on £135–250 by 29 per cent, and those with £250–500 by 13 per cent.

The major question mark over Carter's study is probably the allocation of expenditure in areas such as health and education. On health, for example, he adjusts for the fact that registration with the NHS was more or less universal in the lowest income groups, and then fell broadly as income rose. But beyond that he links expenditure solely to age, thus not dealing with the issue of the differential level of expenditure on the better-off, as analysed by Le Grand. Similarly, he does not allow for the greater benefits accruing to the higher income groups *among* those participating in the state sector.[55] Possibly, because of these latter points, Carter exaggerates the vertical income redistribution brought about by Labour's policies. Nevertheless, it seems likely that his broad conclusion, that those policies did have a significant impact on those earning less than £500 per annum, is correct, and provides the best guide to the overall egalitarian impact of Labour's policies.

Equality versus efficiency?

What relationship did members of the Attlee government see between equality and efficiency? Two lines of thought are evident. On the one hand there was the view that efficiency required social solidarity, a solidarity only to be secured by a 'feeling' of equality. The alternative view was that too much equality threatened the goal of increased efficiency. The first of these arguments is a well-known theme of Crosland's *Future of Socialism*, but it can be found in earlier writings, such as those by Callaghan, who urged the need for people in Britain to 'feel unity and kinship' and considered that the existence of this feeling depended on an erosion of class distinctions.[56] This kind of approach may be seen as parallel to all the emphasis on 'human relations' in discussions of productivity in this period, where the key to productivity was seen to be the feelings of workers about how they were treated and how they were involved in factory life.[57]

[55] Ibid., pp. 221–4; Le Grand, *Strategy of Equality*, chs. 3, 4.
[56] B. Hindess, *Freedom, Equality and the Market* (1987), p. 18; Callaghan, 'Approach', p. 128.
[57] Tiratsoo and Tomlinson, *Industrial Efficiency*, ch. 5.

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However realistic such an emphasis on *perceptions* of equality might be, the danger is that perceptions may easily be manipulated, and arguably this was done in this period to some extent, with the imposition of restrictions on distributed profits, whilst the resulting capital gains were ignored. But more generally it can be argued that this argument at least tries to question the equality *versus* efficiency assumption that so often dominates public discussion.

This idea of a conflict between equality and efficiency is one generally accepted, of course, by economists. In the late 1940s it was they especially who urged on the Attlee government the idea that current measures of redistribution threatened efficiency. As noted above, this became a consistent argument made by Robert Hall, the government's chief economic adviser. The argument seems to have had some influence, because the idea that the 'limits' of redistribution had been reached emerges as quite a common theme of Labour discussion by the late 1940s.[58]

Yet, as we have seen, contemporary evidence on this issue was extremely limited. Its public acceptance by many Labour figures reflected a combination of strong advice from many officials, anxiety about 'confidence' plus perhaps a general drift towards 'consolidation' rather than much in the way of hard evidence. It also fitted with a 'productionist'/growth orientation – if people's income could not rise by means of further redistribution, then growth was the only solution. Indeed, one could perhaps go further and say that, having determined to set higher productivity as a policy goal, Labour leaders then found it congenial to link this with the argument that redistribution no longer provided a viable route to higher incomes.

The view that redistribution had reached its limits was largely confined to the discussion of income. Almost every Labour figure agreed that more should, in principle at least, be done to redistribute wealth. The evidence certainly suggests that the inequality in that distribution had not been shifted very much by Labour's period in office. Even the figures in table 12.6 may exaggerate the amount of redistribution, because they measure only individual wealth-holding, and so ignore the process (encouraged by the increase in death duties) whereby the very

[58] Callaghan, 'Approach', p. 145; R. Jenkins, 'Equality' in R. H. S. Crossman (ed.), *New Fabian Essays* (1952), pp. 75–6; PRO T171/399, 'Draft Budget speech' 1 April 1949. It seems to have been accepted even by figures on the left of the party. For example, in 1950 Michael Foot accepted that 'We had probably gone as far as we could in obtaining equality of income through governmental action, but we couldn't be satisfied whilst the existing gross disparity of wealth was maintained' (Labour Party Archives, Dorking Conference, May 1950). For a contrary view, see the Fabian Society evidence to the Royal Commission on the Taxation of Income and Wealth, *Evidence*, vol. 2, Document no. 140, 1952.

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Table 12.6 *Proportions of wealth-holding sections of the population, 1936 and 1951–6*

	1936	1951–6
Top 1 per cent of holders	56	42
Top 5 per cent	81	67.5
Top 10 per cent	88	79
Top 20 per cent	94	89

Source: H. F. Lydall and D. G. Tipping, 'The Distribution of Personal Wealth in Britain', *Bulletin of Oxford University Institute of Statistics* 23 (1961), p. 83.

wealthy spread their assets amongst their families. There is also good evidence that most of this pattern of wealth-holding was just as much the result of inheritance in the 1950s as it had been before 1939.[59]

The case for doing something about this distribution was strongly urged throughout the late 1940s, but apart from the increase in death duties little was attempted. This gap between widely perceived inequities in wealth distribution and designing policy instruments to change that distribution was not peculiar to the 1940s. The evidence suggests how hard it is to find effective means of redistributing wealth when so many avenues of evasion and avoidance can be deployed, more easily for wealth than for income.[60] On the other hand, it is perhaps particularly striking that a government such as Attlee's, with such a strong 'productionist' rhetoric, was not able to find the political energy to address the distribution of wealth more seriously, as this would seem to have raised many fewer issues of 'efficiency versus equality' than other forms of taxation.

In its summary of Labour's record just prior to the 1950 general election the *Economist* said:

> The pursuit of equality is the most firmly rooted of all the policies of the Labour Party. There can be little doubt that the wage-earning class has been better off under the Labour Government than ever before – certainly in relative terms and probably in absolute terms as well. The great redistribution of incomes, however, was a product of the war; Labour had taken it over and pursued it rather than initiated it.[61]

[59] C. Harbury, 'Inheritance and the Distribution of Personal Wealth in Britain', *Economic Journal* 72 (1962), pp. 845–68. On wealth distribution more generally, see Phelps Brown, *Egalitarianism*, ch. 14.

[60] Whiting, 'Boundaries'.

[61] *Economist*, 158, 4 Feb. 1950, p. 244. This article was typical of a 1950s literature which based itelf on comparisons of pre- and post-war income distribution whose statistical foundations were masterfully undermined by R. Titmuss, *Income Distribution and Social Change* (1962), esp. pp. 195–9.

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All three of these conclusions, characteristically for the *Economist*, were glib rather than wholly accurate. First, Labour did pursue 'equality' in this period, but it also pursued other policies which often conflicted with this goal – even including, paradoxically enough, the policy of the universal minimum, which for many Labour people was the instrument of equality. Second, whilst there were certainly large working-class gains under Labour, these were pre-eminently in the area of collective rather than individual consumption, and significant benefits from that type of consumption accrued to all classes. Finally, whilst it was undoubtedly true that the full employment, social service expansion and increased taxation of the war had a major impact, Labour did build on this and not just preserve it. For example, when Tawney noted in 1951 that 'the two most massive pillars of indefensible disparities of income and opportunity consist, as before the war, of inherited wealth and the education system', he nevertheless went on to note that with regard to the former: 'The state, which from 1930 to 1938 took 20 per cent from an estate of £100,000 and 50 per cent from one of £1,000,000, now takes 50 per cent from the first and 80 per cent from the second.'[62] And, as noted above, capital taxation was regarded by many as one of the weakest aspects of Labour's redistributive policies – yet the change noted by Tawney was almost wholly a post-war phenomenon. Coupled to the raising of the income tax threshold and the high tax on distributed profits, parts at least of the tax system had become much more progressive than they had been in the war.

It is important not to exaggerate the coherence and single-mindedness of Labour's 'strategy of equality', and to bring out the severe limits of both the conceptualisation and evidence on the issues invoked in the 1940s. Nevertheless, to a significant degree Labour did shift the income distribution in an egalitarian direction in this period, and without evidently paying a very high price in terms of efficiency.

[62] Tawney, *Equality*, p. 223.

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