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Reforming the structure of direct taxation: the political and administrative response to the Meade Report (1978)

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History suggests that what is not ‘politically possible’ can change quite radically and quite rapidly over the years; and nothing can become politically possible unless it is first proposed and discussed by some body of persons.’ (The Structure and Reform of Direct Taxation (The Meade Report), p. 5)

Abstract

This article uses the archives of government departments, political parties and individual politicians and economists to examine the political and administrative reception of the Meade Report published in 1978. It analyses the differing responses to those sections of the report recommending the promotion of incentives to work and save, compared with those recommendations for a lifetime expenditure tax and the taxation of the transfer and inheritance of wealth. It locates the Conservative Thatcher governments’ opposition to the proposals for the taxation of wealth in the wider political-economic context of the time. These differences between now and then are also reflected in the differing weight given to considerations of taxable capacity and optimal tax theory in the Meade Report and Mirrlees Review respectively. Concerned that the Mirrlees Review does not suffer the cherry-picking fate of the Meade Report or, worse, of simple benign neglect by government, the article draws attention to the factors affecting the political reception of such reports, but ends, paradoxically, by suggesting that given the current political concern with the taxation of wealth, the Meade Report may have at least as much to offer on this issue as does the Mirrlees Review.

JEL Classification: A11; B25; B31; H20; N34;

The publication of Tax By Design: The Mirrlees Review on 13th September 2011 was the first major review of the system of direct taxation since the publication of the Meade Report on The Structure and Reform of Direct Taxation on 26th January 1978.¹ Both reviews were published at a time of economic change, the Meade Report as inflation began to mutate into stagflation, and the Mirrlees Review as the domestic economy remained in intensive care following the crash of September 2008. The Meade committee was established by the Institute for Fiscal Studies in 1975 in frustration at ministerial rejection of calls from the Sandilands Committee and others for a Royal Commission on the whole of the taxation system.² The Sandilands Committee had worked on the problem of inflation accounting and there was a widespread view that years of ad hoc modifications to taxes had resulted in a

¹ TNA T364/149 (1978c)
² TNA T364/149 (1977b), paras. 23, 24, 29, 32.
system whose anomalies and inconsistencies were intensified by inflation.\(^3\) To inconsistencies could be added a concern that the existing tax system was providing insufficient incentives to work and to make lifetime savings. As such, these concerns spanned different time perspectives. The concerns with incentives to work were of the present; those with consumption-smoothing through lifetime saving were projected into the future. Similarly, viewed over a longer period, an interest in rewarding effort and increasing opportunity raised the question of how accumulated wealth should be treated and what, if any, distinction should be made between wealth that was inherited or earned by the individual. Philosophically drawn to taxing what an individual took out of an economy (expenditure) rather than what the individual put in (income), and preferring to view issues of income and expenditure over the lifetime of the individual, a major recommendation of the Meade Report was for the adoption of a lifetime expenditure tax. A transition period of around 10 years was envisaged for this shift away from income-based taxation. The shift to an expenditure tax was to be accompanied by capital taxes, which included proposals for a progressive accession tax based on the cumulative value of inherited wealth and the likely duration of its possession by the donee. Tax, partly as a proxy for public expenditure, was a central issue of political debate in the 1979 general election which resulted in Margaret Thatcher becoming Prime Minister. Yet as one of the Meade Committee members, John Kay, remarked in *Fiscal Studies* in July 1980, in that general election in which ‘tax was a major issue’, the Meade Report ‘was barely mentioned’.\(^4\) This was not benign neglect, since the unacknowledged introduction of some of the Report’s recommendations was trumpeted by the Thatcher governments; equally, others were aggressively rejected. The purpose of this article is to analyse the political and administrative (Treasury, Inland Revenue) reception of the Meade Report and to shed light on why some but not all of its recommendations were implemented by the government. The research uses the archives of the Labour Party, the Conservative Party, the Inland Revenue, Treasury, and of Margaret Thatcher and James Meade. While focussing on the reception of the Meade Report, the article also ruminates from this historical perspective on factors which may affect the reception of the Mirrlees Review. In particular, the article emphasises the importance of the political context and climate into which reviews are published, arguing that both the Meade and Mirrlees reviews suffered from being published at a time when an albeit inchoate public mood regarding the distribution of wealth was changing. Paradoxically, the ideas of Meade on the treatment of wealth may be more in step with current public opinion than those of Mirrlees.

Inconsistencies

Although the Meade Report made major recommendations for a ‘new Beveridge’ social dividend scheme and for a flow-of-funds corporation tax, this article will confine its attention to the proposals for an expenditure tax and for capital taxes. While the proposals for corporation tax were allied with moves towards an expenditure base of taxation, the proposal for a special dividend scheme was so fundamental, as well as contentious within the Meade Committee itself, as to merit an article to itself. In concentrating on the proposals for expenditure and capital taxation, the article is organised around the three themes of inconsistencies, incentives and wealth. Beginning with inconsistencies, these fundamentally arose from the interaction of income and expenditure taxes within the existing ostensibly income-based system. The discriminatory tax treatment of savings was one

\(^3\) IFS (1978)p. 3.  
obvious example. Contributions to pensions, life insurance policies, investments in capital assets with 100% capital allowances were tax-exempt but not contributions to building society savings accounts. Income from building societies was then taxed again (double taxation). Capital gains when taxed were done so at rates lower than the higher income tax rates, and with the abolition of Schedule A in 1963 homeowners could keep all of the capital gain on their principal property while also not paying any tax on the imputed income from its occupation. In an economy seeking to encourage saving, the interaction of exemptions and taxes could produce varying net returns on the same investments.

Differing interactions of income, corporation and capital gains taxes could result in an asset yielding a 10% real rate of return producing a post-tax rate of return to the saver ranging from 20% to 59%.

In noting such inconsistencies, the Meade Committee, had it known, would have found itself in line with thinking in the Conservative party. Throughout its lifetime, the work of the Meade Committee was tracked by the Conservative Party Taxation committee chaired by David Howell and that committee was concerned with many of the same inconsistencies. When subsequently in government from May 1979, the Thatcher government introduced reforms so as to allow most life-cycle savings to qualify for expenditure tax treatment. In 1987 the Personal Equity Plan was introduced and in 1991 its successor the Tax-Exempt Special Savings Account (TESSA). In 1988, personal pensions were introduced which enjoyed the same tax relief on contributions, fund income and withdrawals as employer-based occupational pensions.

Incentives

As on inconsistencies, so too on incentives, there was often common ground between the Meade Report and the Conservative party and later Thatcher governments. Formally, the Meade Report addressed the ‘income effect’ and the ‘substitution effect’ of a tax burden, income effects being viewed as the most effective way of meeting the inevitable costs of given tax burdens, but ‘substitution effects’ being an indication of economic inefficiencies and wastes, even if they did no more than offset the influence of the ‘income effects’. On its publication in 1978 the Meade Report was ahead of Conservative party thinking on the substitution effect of marginal rates of taxation, and in a letter to Geoffrey Howe, Mrs Thatcher’s first Chancellor of the Exchequer from 1979, Meade emphasised the report’s concern to see a reduction in the marginal rate of income tax at both ends of the income tax range from their “present absurd levels”. At the top end the Meade Report favoured a top rate of income tax of 70% rather than the existing 98%, a rate which it could attain as an investment income surcharge of 15% was added to the existing top marginal rate of 83%. Not only at the taxable margin, but also in its discussion of incentives in general, the Meade Report was ahead of the Conservative party. Meade’s hope of “an upsurge of private initiative and enterprise” in 1977 might be contrasted with the timidity of the

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5 TNA T366/205 (1977b), para 7
7 TNA T366/205 (1977)d, paras. 12, 14
8 THCR 2/6/1/36 (1977)
THCR 2/6/1/27 (1975)
9 Adams, Browne and Heady (2010)
Banks and Diamond (2010)
10 Adams, Browne and Heady (2010)
Banks and Diamond (2010)
11 IFS (1978), p. 8
12 Meade 6/2 (1977a)
13 THCR 2/6/1/35 (1975)
Conservative Taxation committee in December 1975. The Conservatives were nervous of making general use of the vocabulary of “incentives”, this “standby of past Conservative Governments”, since “we are aware that it is difficult to make a cast-iron academic case for it” and that “it would be difficult for any future Conservative Chancellor, however much a man of steel, to argue, say for massive cuts on social services and wage restraint while at the same time awarding a ‘payrise’ to many executives just to make them work harder.”

At the time of the Meade Committee’s deliberations, the issues of incentives and fairness which underpinned the political economy of taxation were the focus of a lively academic discussion. In 1971, John Rawls’s book A Theory of Justice and James Mirrlees articles on optimal taxation were published. The results of Mirrlees’ work on the elasticity of work effort in relation to the marginal rate of taxation surprised even himself: ‘I had expected the rigorous analysis of income taxation in the utilitarian manner to provide an argument for high tax rates’. Appropriately given the contributions which both Rawls and Mirrlees made to the fundamental reassessment of utilitarianism, both Mirrlees and Rawls later contributed to Utilitarianism and Beyond edited by the economist Amartya Sen and the philosopher Bernard Williams.

The debate on marginal incentives, basic contractual rights and the implications for the structure of taxation was closely followed from early on by the Treasury. In August 1975 the Treasury’s Rachel Lomax wrote a paper surveying the work on tax structures and theories of redistribution of Mirrlees, Feldstein, Atkinson, Fair and Rawls, although, quoting Abba Lerner, sometimes she found the ‘mathematical virtuosity’ of the papers made them ‘more competent than comprehensible’. However the main points concerning the individual’s work/leisure choice were clearly taken, and Lomax thought that even Rawls’s mini-max approach implied ‘marginal tax rates well below 100% (in the region of 30-45%) on the assumption of ‘plausible’ (constant) non zero labour supply elasticities’. The Treasury also kept abreast of progress in the Meade Committee. The Treasury’s Douglas Todd had followed the committee’s work almost from its inception. Todd, who had previously been senior economic adviser at the Monopolies Commission, had met Donald Ironside, Deputy Chairman of the Meade Committee, in Bath in the autumn of 1976, Ironside had told Meade of Todd’s interest, and Meade had subsequently sent him ‘fragments’ of ‘preliminary drafts’ of the Report. In developing a medium-term tax strategy, the Treasury made use of the work of the Meade Committee as well as its own internal research such as that undertaken by Lomax, its commissioned research from Professor C. Brown at Stirling University on income and substitution effects of tax changes, and an IFS project led by W. Reddaway on the incentive effect of marginal tax rates on high income earners. These varied sources all fed into the Treasury’s five-year Medium

14 Meade 6/2 (1977a)
15 THCR 2/6/1/35 (1975)
16 Rawls (1971)
17 Mirrlees (1971)
Diamond and Mirrlees (1971 a and b)
18 Atkinson(1977a)
19 Mirrlees (1982)
19 Atkinson (1977a); Atkinson and Stiglitz, (1972); Diamond and Mirrlees, (March 1971) (June 1971); Fair (1971); Feldstein (March 1972) (April 1972) (November 1973); Mirrlees (1971); Rawls (1974)
20 TNA T171/1442 (1975)
21 TNA T366/205 (1976a), Letter, Meade to Todd, 4th October 1976
Ironside was a Visiting Fellow at the University of Bath where C.T. Sandford was Professor of Political Economy.
Todd (1971)
22 TNA T366/380 (1978b)
Term Tax Strategy which by 1978 was prioritising ‘improving incentives’ and proposing that the top rate of taxation be reduced from 83 per cent to 75 per cent and the basic rate of income tax to 32%. Any such income tax reductions would be financed by an increase in VAT over the medium term.

**Wealth**

Within the Treasury and the Conservative Party, the Meade Report’s interest in improving incentives at either end of the income scale found receptive audiences. James Meade’s personal commitment to reinvigorating the economy was made perfectly clear, being starkly stated in a personal prefatory note to the Report:

“Our Report is a joint effort, but I take this opportunity of expressing a personal view. Our economy has become too stagnant; restoration of standards of living and many desirable increases in economic welfare depend upon higher productivity.’

However, Meade’s next sentence was:

‘At the same time a modern humane society demands that effective action should be taken to prevent poverty and to remove ‘unacceptable inequalities of opportunity, wealth and privilege.’

The Report’s proposals for prevention of poverty are not the concern of this paper. It was the proposals to remove ‘unacceptable inequalities of opportunity, wealth and privilege’ which were to reveal major differences of thinking between the Meade Committee and the Conservative party and subsequent Thatcher governments. For James Meade, the concern to redistribute wealth and property, and to weaken concentrations of power so as to encourage a more open and socially mobile society, was a constant throughout his writings. His books, *Efficiency, Equality and the Ownership of Property* (1964) with its chapter on ‘A property-owning democracy’, *The Intelligent Radical’s Guide to Economic Policy* (1975), and *The Just Economy* (1976) attest to this persistent concern with securing a just distribution of opportunity and wealth. Like R.H. Tawney, Meade distinguished between wealth and income and he shared Tawney’s view that what was ‘repulsive’ was not income inequality but that “some classes should be excluded from the heritage of civilization which others enjoy’. Wealth allowed ‘access’, it produced ‘an income which, unlike earning capacity, does not decline with age and is not gained at the expense of leisure’ and the possession of wealth conferred independence, security and influence. Meade had no wish to diminish incentives to earn income which accumulated as wealth. Rather, his main concern was to tax the use of wealth rather than the possession of wealth itself, and to distinguish between those cases where wealth had been earned by the individual and those where it had been inherited.

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23 Meade 6/2 (1977a)  
26 Meade (1964), chapter 5.  
27 Meade (1976).  
One year before the establishment of the Meade Committee (Meade himself began work in July 1975 and the Committee started officially in October 1975), longstanding calls for a Wealth Tax had resulted in its inclusion in the Labour Party election manifesto for the February 1974 general election. However, although a Green Paper on a Wealth Tax was published in August 1974 and a Select Committee reported on the topic in August 1975, the inability of the Select Committee to agree on a majority report (it published five draft reports) led the Chancellor of the Exchequer, Denis Healey, on 18th December 1975 to announce that he was postponing the introduction of a wealth tax. By this time the Inland Revenue in 1972 had prepared a Green Paper on the related issue of inheritance tax and on 24th September 1973 an IFS-sponsored book, An Accessions Tax by Sandford, Willis and Ironside had argued for a cumulative tax on transfers of property by gift *inter vivos* or on death, graduated according to the taxable accessions of the recipients from all sources. Thus, when the Meade Committee began its meetings, ideas for a Wealth Tax had run into the parliamentary sand, while ideas for an accession tax were bubbling away at the IFS. The Meade Committee’s approach to the taxation of wealth was two-fold. The first approach involved a move towards a progressive expenditure tax which by exempting savings and investment from taxation might encourage lifetime consumption-smoothing, economic growth and development, but which would also charge those who lived at a high level of consumption, whether from a high income or by the dissipation of capital wealth. Variations on this theme involved a two-tier expenditure tax with a surcharge on levels of expenditure above the basic rate band. Such an approach had its most notable previous published exposition in 1955 in Kaldor’s *An Expenditure Tax*. Indeed, in thanking Meade for sending him a copy of the Meade Committee report, Kaldor “found it very gratifying that you advocate an Expenditure Tax on much the same lines as I did when I wrote my book 23 years ago!”

The second strand of the Meade Committee’s approach to the taxation of wealth concerned the treatment of transfers and inheritance during or after the donor’s life. Whereas an Annual Wealth Tax could fall on wealth resulting from an individual’s own effort and saving, taxes on capital transfers could be checked so as to fall on the inheritance and receipt, rather than on the accumulation, of wealth. The Meade Committee’s ideas crystallised around PAWAT (Progressive Annual Wealth Accessions Tax), which taxed both the transfer of wealth and the likely duration of its possession. Tax was levied on the donee (as the beneficiary) rather than the donor at a progressive rate depending not only on the cumulative amount of gifts already received, but also on the age of the donee. Assuming that the donee would live to be 85, a lump-sum advance payment would be charged, this being proportionately refunded if the wealth was not enjoyed until the age of 85.

In the wake of the parliamentary death of efforts to introduce an Annual Wealth Tax, on 15th and 16th February 1977 Meade sent draft copies of Chapter XII (eventually chapters 15 and 16 of the final report) on Capital Transfer Taxes to the Chancellor of the Exchequer Denis Healey and to Douglas Jay, a long-time campaigner for the taxation of wealth, respectively. While Meade admitted to Jay that the chapter on capital transfer taxes with its “form of a lump-sum advance of a progressive annual wealth tax” might “sound at first rather gimmicky”, nevertheless he thought that it could “both politically and economically serve the main ends of an annual wealth tax without many of the difficulties of the latter”. While Healey appreciated that the proposal for an accessions tax was “an

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30 TNA IR40/18139 (1973)
Sandford, Willis and Ironside (1973).
31 Meade 6/11 (1977)
32 Meade 6/10 (1977b)
ingenious way of marrying a tax on the transfer of wealth with a tax on holding wealth in an attempt to encourage redistribution without sapping initiative”, he reminded Meade that the government had dropped plans for a wealth tax in the current Parliament because “our social objectives have at present to take second place to our wider economic and industrial priorities”. 33

Meade also took his ideas to Conservative politicians, notably to a meeting organised by Geoffrey Howe on 22nd November 1977. This proved to be a ‘disastrous meeting’ with Meade struggling to present ‘an orderly summary of our conclusions’ and battling against a hostile “misconception” that “we were proposing massive and sudden changes in the tax structure”. 34 Meade subsequently wrote to Howe expressing his “surprise at the unmitigated hostility shown by the majority of your group”. 35 While Howe acknowledged that “the meeting started off from the difficulty that none of us had seen your document and only two or three the first draft – and that some months ago”, his main defence was that “unmitigated hostility” was “not the real spirit of our reaction” but rather a “political abhorrence, born of many Finance Bill Standing Committees, of anything which involved complex replacement of familiar fiscal machinery when simplification and adaptation, of course, on a basis of principle, would do as well”. 36 By way of an olive branch to Meade, Howe commended to him chapter 3 of the Conservative Party’s recently published pamphlet The Right Approach to the Economy, as well as Howe’s own recent talk to the Addington Society which was reprinted in that year’s British Tax Review. 37 Yet such niceties could not conceal the fundamental difference of view between the Meade Report and the Conservative Party over the taxation of wealth. In correspondence with Margaret Thatcher and Keith Joseph, Howe referred to Meade as a ‘socialist’ 38 and while Meade might prefer the appellation of ‘liberal-socialist’ he would probably not have dissented from Crosland’s view in 1956 that “the largest inequalities stem not from the redistribution of earned incomes, but from the ownership of inherited capital”. 39 Tellingly, in his correspondence with Meade, Howe was careful to distinguish between the Meade Report’s interest in a lifetime expenditure tax and the Conservatives’ interest in a “switch to indirect taxation which is not, of course, the same as a switch to an expenditure tax”. 40

**Implementation**

While the Conservative government was willing to introduce tax relief on lifetime savings, essentially on an expenditure tax basis, it was resolutely opposed to making a similar adjustment in its approach to revenue-raising. The new Thatcher government did initiate a sharp shift from direct to indirect taxation, but this was on expenditure on a current, not a lifetime, basis. Emboldened by her Chancellor, Geoffrey Howe, in 1979 Margaret Thatcher approved a sharp shift between direct and indirect taxation as VAT rose from 8% to 15% while the basic rate of income tax was cut from 33% to 30% in the government’s first Budget in June 1979. Further cuts were to follow as the basic rate of income tax was cut to 29% in 1986, 27% in 1987, and 25% in 1988. Cuts were also made

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Daunton (2002), p.213
33 Meade 6/10 (1977c)
34 Meade 6/2 (1977c)
35 Meade 6/2 (1977a)
36 Meade 6/2 (1977b)
37 Howe (1977a)
38 Meade (1964)
40 Meade 6/2 (1977b)
to higher tax rates, from 83% to 60% in June 1979 and from 60% to 40% in 1988. While between 1978-9 and 2007-8 reliance on indirect taxes only increased a little from 23% to 25%, of the source of revenue the proportion of VAT rose substantially from 9% to 16% of total tax revenue. Excises on alcohol and tobacco each fell from around 4% to about 1.5% of the total. In revenue-raising, there was a strong shift towards the rise of VAT, which doubled its share of tax revenue between 1979 and 2009.

In taxing expenditure but in rejecting calls for a move to a lifetime expenditure tax, the Thatcher governments could build on the long-standing opposition of the Inland Revenue. While the Meade Report’s approach to incentives found receptive audiences in the Treasury and the Conservative Party, talk of an expenditure tax drew vehement opposition from the Inland Revenue. This was not a knee-jerk response. The Inland Revenue produced a 79-page internal review of the proposal for an expenditure tax, drawing unflattering comparisons with the short and unsuccessful attempt to introduce an expenditure tax in Sri Lanka (then Ceylon) and India and invoking criticisms previously made of Kaldor’s _An Expenditure Tax_ by such economists as Vickrey and Prest. Yet, the Inland Revenue’s central objection to the Meade Report was not in fact to its economic arguments for an expenditure tax, although it did not find those arguments ‘wholly compelling’, but rather to the ‘great practical difficulties’, to some of which we see no satisfactory answer of introducing and administering an expenditure tax. The Revenue emphasised the benefits of operating a comprehensive cumulative PAYE system in which the majority of taxpayers did not submit annual returns, identifying as a ‘major stumbling block’ with a universal expenditure tax the “need to get an annual return from everyone”. The Revenue’s stance was to defend the existing system, and even to defend pre-existing proposals for reform. Noting the inconsistencies identified by the Meade committee, the Revenue argued at one and the same time that these could be addressed within the existing system and that such inconsistencies reflected “deliberate policy decisions in response to the different and often conflicting political and economic pressures of the last generation or so”. If the taxation of wealth was to change the Revenue was not prepared to support PAWAT but instead preferred that the Labour government proposals for a Wealth Tax be revived since it would be less work to return to a tax broadly along the same lines of the Green Paper.

What was striking about the Inland Revenue’s opposition to the Meade Report was not that it should oppose its administrative implications, but the venom of its opposition within the government administration. The Revenue was damming in its judgement on the Meade Committee’s work: “The Report is disappointing: its original proposals are not practicable, and its practicable proposals are not original”. This stance drew strong objections from the Treasury which criticised the Revenue’s condemnation of “the Report as entirely irrelevant and useless” observing that while it was always “easy to do a hatchet job on a theoretical analysis of this kind”, there was a wide recognition that the tax system was “urgently in need of reform”. They also questioned why, if the Report was “as way out and as irrelevant as the Revenue seems to imply”, the Revenue had not sought to “to influence

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41 Besley et al. (2010), p. 276.
42 Meade 10/17 (1978a), para. 7.
Meade 10/17 (1980b)
Kaldor, N (1955)
44 TNA T364/149 (1977b), para. 21.
45 TNA T366/205 (1977c), paras. 3, 6.
46 TNA T364/149 (1977b), paras. 23, 24, 29, 32.
the course and approach of the exercise at an early stage” since the Meade Committee had done “their best to keep us fully informed of the lines on which they were working, and officials participated in their decisions from time to time”.47

If within the machinery of government, the opposition of the Inland Revenue to central features of the Meade Report was based on administrative, rather than economic, considerations, then, in similar fashion, the objections of the Conservative party and government to sections of the Meade Report were political rather than economic. Fundamentally the Conservative Party was committed to reducing the taxation of wealth and its transfer. While the Conservative Taxation Committee may have been cautious in the mid-1970s in using the vocabulary of incentives, it was forthright in its determination to end the ‘political’ taxation of the rich, particularly through capital transfer tax.48 This formed a fault line between the Meade Committee and the incoming Conservative government. In part, it reflected a wider political re-evaluation of the role of government, the scope of public expenditure and the pursuit of ‘normative’ aims such as the redistribution of income and wealth. For Keith Joseph in 1979, not only was redistribution ‘unwise’, but it was also ‘morally indefensible, misconceived in theory and repellent in practice’.49 Part of the argument over the taxation of wealth concerned the issues of entitlement and the efficiency of market outcomes. Meade’s preference, like Rawls and Hayek, was to emphasise the role of luck and the 'self-reinforcing influences which help to sustain the good fortune of the fortunate and the bad fortune of the unfortunate'. 50 Aside from luck, if talent caused an individual to prosper the political philosophical question arose of the extent to which an individual ‘owned’ the beneficial proceeds of his/her talents. Here again there was common ground between Meade, Hayek and Rawls. Hayek thought that “the inborn as well as the acquired gifts of a person clearly have a value to his fellows which does not depend on any credit due to him for possessing them”.51 For Rawls, his Difference Principle represented, in effect, an agreement to regard the distribution of natural talents as a common asset.52 If the principle was the redress of undeserved inequalities, then it was consistent to argue for a redistribution of resources to mitigate the intergenerational transfer of relative advantage. Although Hayek objected to Rawls’s use of the term ‘social justice’, he welcomed his argument that rather than a particular system or distribution being designated as ‘just’, it was the principles of justice which defined “the crucial constraints which institutions and joint activities must satisfy if persons engaging in them are to have no complaints against them”.53

In the political context of the late 1970s and 1980s, the Meade Report’s PAWAT proposal looked increasingly out of step with Conservative philosophy and policy. While the Thatcher governments acted to offer tax-relief on life-cycle savings and to continue the erosion of Mortgage Interest Tax Relief (finally abolished in April 2000)54, the disparity between these tax reforms concerning expenditure and the protection of house-owners from capital gains tax on their principal residence, was consistent with the generally different treatment of the stock of wealth and the flow of expenditure. By the time of the government’s decision in March 1988 to reduce the top rate of income tax from 60% to

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47 TNA T364/149 (1977a), para. 5.
48 THCR 2/6/1/36 (1977)
THCR 2/6/1/35 (1975)
Atkinson (1997b)
51 Hayek (1960), p. 81.
53 Hayek (1976), p. 100.
40%, the Conservative government had moved a long way from the concern of the Conservative Taxation Committee in 1975 about “awarding a ‘payrise’ to many executives just to make them work harder”. The change in the highest marginal income tax rate was greater than that which the Meade Committee (70%) and the Treasury (65% at most) in 1979 had thought likely to have any necessary effect on work/leisure incentives. Whatever the justification which might be made in terms of optimal tax models, this pushing back of the perceived redistribution function of income taxation not only drew criticism from the political philosopher Gerry Cohen as offending the principle of ‘justificatory community’, a concocted notion which required the relevant agents to justify their behaviour to the community, but it also marked a public departure from notions of taxation on the basis of ability to pay.

Conclusion

Like the curate’s egg, the Thatcher governments viewed the Meade Report as good in parts. As with the egg, this overlooked the system-based nature of the Report’s proposed reforms. It also ignored the longer lifetime perspective for taxation adopted by the Meade Report. This opposition to adopting the longer-term time perspective of the Meade Report stemmed from the opposition to the temporal features of the proposed capital taxes. Allied to the Inland Revenue’s opposition to lifetime expenditure taxes, political emphasis could be placed on the shorter-term attractions of cuts in the rate of income taxation. Where top rates were reduced and the aspirant redistributive function of income tax curtailed, some support could be drawn from academic work on optimal taxation, which also diminished the importance of the question of taxable capacity. Important as a background to the political acceptability and appeal of such an approach to taxation was middling opinion which seemed receptive to the newspaper excerpts from popular economics books such as Britain’s Economic Problem: Too Few Producers, listened to talk of ‘trickle down’ from rich to poor and, in some political circles, discussed the Laffer Curve which observed a negative correlation between rates of marginal tax and marginal revenue. The popular economics concerns at the time of the Meade Report’s publication and the 1979 general election were with improving incentives, reducing public expenditure and allowing a greater share of earnings to be kept.

In similar fashion to the Meade Report, the Mirrlees Review was published at a time of widespread dissatisfaction with the working of the economic system. However, the targets of that dissatisfaction had changed. Now while there was a renewed popular interest in political economy, the book titles (and their sub-titles especially) reflected different concerns. The Winner-Take-All Society: Why The Few At The Top get So Much More Than The Rest of Us (2010), The Pinch: How the Baby Boomers Took Their Children’s Future: And Why They Should Give It Back, and The Spirit Level: Why More Equal Societies Almost Always Do Better (2009) all reflected a disquiet and dissatisfaction with the distribution of income, wealth and opportunity across society and between generations. Talk was heard again of wealth taxes, although such taxes found little favour with either Meade or Mirrlees.

55 THCR 2/6/1/35 (1975)
58 TNA T364/149 (1978d)
59 Bacon and Eltis (1976)
TNA T366/380 (1978a)
TNA T366/381 (1979a)
60 Frank and Cook (2010)
Willets (2010)
Wilkinson and Pickett (2009)
Inheritance Tax retained an ability to irk far in excess of its contribution to revenue, in part because it was perceived amenable to avoidance by the very wealthy but not by those made wealthy by the capital gain on their house, which as a home was comparatively illiquid. 61 While both Meade and Mirrlees expressed dissatisfaction with Inheritance Tax, it is unlikely that there will be a popular groundswell in favour of an increase in its rate and incidence. In many ways what has re-emerged in the popular debate, as well as in the discussion of the papers feeding into the Mirrlees Review, is the question of what should constitute the household tax base.

Meade’s approach to determining the household tax base focussed on taxable capacity rather than the optimal tax theory developed by Mirrlees. 62 Meade was well aware of Mirrlees work on optimal tax theory. Meade’s partner in the development of national income accounting, Richard Stone, was officially Mirrlees’s Ph.D supervisor at Cambridge and Meade had copies of the examiners’ reports, by Kenneth J. Arrow and R. M Goodwin, on Mirrlees’s thesis on optimal accumulation under uncertainty.63 Meade wrote and distributed summary notes and comments on a paper on optimal taxation given by Mirrlees at an IFS Conference on Tax and Incentives on 23rd January 1976.64 While Meade was very aware of the elusive nature of taxable capacity he was also concerned about the use of marginal utilities, arguing in 1976 that ‘even if it were possible (which it is not) to devise utility tests which were not confused with tests of attitudes towards risks and instabilities of consumption levels, it would not be possible in the real world to carry out such a systematic analysis of individual utilities’.65 Meade’s preference for taxable capacity over optimal taxation and indeed the Meade Report’s concern with the lifetime taxation of the use of wealth is arguably better in tune with public opinion now than it was in 1978. In thinking of lifetime rather than annual taxation and in discussing intergenerational transfers of wealth and opportunity, it now shares a perspective and vocabulary with those concerned with action to reduce the rate of climate warming. In the 1980s, the Thatcher governments implemented many of the Meade Report’s recommendations but conspicuously rejected those for the progressive lifetime taxation of wealth. Times have changed and taxation of wealth is now back on the lips of politicians. If the implementation of the Meade Report remains unfinished business, who better than the IFS to take up the cause.

References


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63 Mirrlees, (1971)
64 Meade10/9
65 Meade 9/19


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