

A Wealth Tax Abandoned: The role of the UK Treasury 1974-6

Howard Glennerster

Contents

Wealth and the policy process	1
Taxing wealth.....	2
1974-9: A post-War break point	3
The origins of the idea of an annual wealth tax for the UK.....	4
A favourable initial response	7
Doubts begin	9
Treasury worries come to a head.	10
The Treasury's internal rethink.....	11
Lessons.....	13
References.....	17

CASE/147
June 2011

Centre for Analysis of Social Exclusion
London School of Economics
Houghton Street
London WC2A 2AE
CASE enquiries – tel: 020 7955 6679

Centre for Analysis of Social Exclusion

The Centre for the Analysis of Social Exclusion (CASE) is a multi-disciplinary research centre based at the London School of Economics and Political Science (LSE), within the Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD). Our focus is on exploration of different dimensions of social disadvantage, particularly from longitudinal and neighbourhood perspectives, and examination of the impact of public policy.

In addition to our discussion paper series (CASEpapers), we produce occasional summaries of our research in CASEbriefs, and reports from various conferences and activities in CASereports. All these publications are available to download free from our website. Limited printed copies are available on request.

For further information on the work of the Centre, please contact the Centre Manager, Jane Dickson, on:

Telephone: UK+20 7955 6679
Fax: UK+20 7955 6951
Email: j.dickson@lse.ac.uk
Web site: <http://sticerd.lse.ac.uk/case>

© Howard Glennerster

All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

Editorial Note and Acknowledgements

The author would like to thank the National Archives for access to the Treasury and Inland Revenue files, Kings College Cambridge for access to Nicholas Kaldor's papers, the LSE Library for access to Hugh Dalton's papers and the Nuffield Foundation for support.

Abstract

The distribution of wealth is widening in many countries and with it the importance of inherited wealth. In 1974 a Labour Government came to power in the United Kingdom committed to introducing an annual wealth tax. It left office without doing so. Using the official archives of the time and those of a key advisor this paper traces both the origins of the policy and its fate in Whitehall. It explores two related questions. What does this experience tell us about the role of the civil service in the policy process in the UK and what lessons might be learned by those wishing to tackle the issue of widening wealth disparities today?

Keywords: wealth tax, policy process, UK Treasury

JEL numbers: H27

Wealth and the policy process

Two distinct but linked concerns provoked this paper. One was the revived interest in the distribution of wealth as a policy issue internationally and the second the fact that over thirty years ago a United Kingdom government came to office promising to redistribute wealth by introducing an annual tax on major holders of wealth. It gave up the attempt. The National Archives that cover this period are now open for study offering an opportunity to examine why this happened.

The renewed interest in wealth and its distribution has been sparked by new evidence. A growing concentration of wealth has been reported in several advanced economies after many decades of equalisation. The relative importance of inherited wealth, compared to wealth amassed over a lifetime, has also begun to grow recently in countries for which we have good long term data (Roine and Waldestrom 2009). In France, which has uniquely good information on individual wealth over time, there was a striking decline in the concentration of wealth and in the importance of inheritance from 1914 to 1945. That trend ended in the 1980s and since then has reversed sharply (Piketty 2011). With lower economic and demographic growth Piketty predicts that:

‘inheritance will eventually matter a lot pretty much everywhere - as it did in ancient societies. Past wealth will tend to dominate new wealth, and successors will tend to dominate labor earners’. (2011: 42)

Wealth is spread far more unequally than income (OECD 2008; National Equality Panel 2010). Yet, taxes on annual net wealth have been systematically abandoned in most OECD countries in the past two decades (OECD 2010). In 2010 the Coalition Government in the United Kingdom repealed the previous government’s meagre but innovative attempt to redistribute wealth in favour of poor families – the Child Trust Fund. This scheme had been part of what advocates saw as a new social policy strategy – asset based welfare or giving the poor greater access to capital (Paxton and White 2006). A major independent review of the United Kingdom tax system has recently suggested that government should consider taxing wealth more effectively on efficiency as well as equity grounds (Mirrlees Review 2011).

Beyond these ‘advanced economy’ debates a wider question has been posed. If rights to life and liberty are being denied because of extreme poverty in some parts of the world may that not justify a levy on the wealth enjoyed by the people of rich nations if that can help relieve such destitution (Pogge 2007)?

The last time a government was elected in the United Kingdom with a promise to introduce an annual tax on wealth it failed to keep that promise. This experience prompts several questions. Why was such a promise made? Why did the government abandon the idea? Why did the Labour Government of 1974-6 fail to adopt a different and possibly more practical means of redistributing wealth that was then on offer? What might future policy makers learn from this experience?

These questions lead onto a second and wider reflection on the policy process. Texts on the subject (Levin 1997; Hall 1993; Kingdon 1984; 2003; Bochel and Bochel 2003) and individual case studies (Hall, Land, Parker and Webb 1975; Dunleavy 1981; Butler 1992) tend to focus on achieved change. What interest groups, power brokers, historical contingencies, past policy decisions or key research findings contributed to a new policy or institutional creation? Rarely do scholars ask – what prevented change from happening? There *is* a tradition of writing about ‘non policy making’ (Lukes 1974; Bachrach and Baratz 1970; Crenson 1971; Newby 1978) which discusses why some issues fail to get onto political agendas. There are studies of policies that fail after being legislated. The poll tax is one example (Butler, Adonis and Travers 1994). But governments *do*, from time to time, gear themselves for action and then retreat. This is less studied but may be just as revealing of the policy process. What can the retreat on wealth tax policy between 1974 and 1976 contribute to that discussion?

Taxing wealth

In the early part of the twentieth century modest annual taxes on wealth were introduced in Scandinavia and then in other European countries. India followed in 1957. France had taxed transfers of wealth and regulated inheritance ever since 1791 but in 1981 introduced an additional graduated annual ‘solidarity tax’. In the past two decades, however, annual taxes on wealth have been largely abandoned across Europe. Austria, Denmark and Germany abandoned them in 1997, Finland, Iceland and Luxembourg in 2006, Sweden in 2007 and Spain in 2008.

The precipitating reasons have differed. The tax was declared unconstitutional in Germany because of lack of clarity about the rationale underpinning its valuations of wealth. In Spain the government recently reduced taxes on property to compensate for the impact of the banking crisis. The French tax is under review and may be abolished because of its unpopularity and complexity. Wealth taxes survive in Switzerland, the Netherlands and Norway. In the United States the Estates Tax (‘death tax’) was being phased out and was to attract only a zero rate in 2000 (Graetz and Shapiro 2005). It was restored and levied at a rather lower rate under President Obama. Everywhere, however, the growing international mobility of capital has worried governments and constrained wealth tax policies.

In his study of contemporary British history Harrison (2010) takes the failure of the Labour Government to pass its promised wealth tax in 1974-6 as an early example of the fight back by the landowning and middle classes against growing trade union power and the drive for social equality. This counter attack continued through the 1980s under Mrs Thatcher's premiership. But the landowning class' success in defeating the wealth tax, he argues, began a revival of landed wealth. A close reading of the government archives suggests a rather more nuanced interpretation of these events in which the role of the Treasury and weaknesses in Labour's policy design play a part.

1974-9: A post-War break point

It is true that this period saw a significant change in the political and economic climate. In 1976 the Labour Government had to call on the International Monetary Fund to rescue it from a major run on the pound. An unsustainable level of inflation was linked to public expenditure growth unmatched by likely revenue. The steady expansion of social spending that had taken place since the Second World War was checked. Trade union power reached its peak in 1974. Over half of the employed population were members of trade unions. By 2010 the comparable figure was just over a quarter and only 15 per cent in the private sector. Unions were powerful not just within particular industries but had the capacity to shape economic policy. Provoking a recession to check wage inflation was still seen as an unacceptable strategy, so negotiation and compromise with the trade union movement were deemed a necessary strategy by both major parties. The National Union of Miners engaged in a battle against the government's wages policy that resulted in a three day working week and electoral defeat for the Conservative Government in February 1974. Inflation was to rise by more than 20 per cent and wages by more than a quarter during 1974-5.

To win trade union agreement to some kind of wage restraint the Labour Party agreed, before the election, to introduce a range of measures that would 'fundamentally redistribute income and wealth'. Social policy legislation was to include increases in pensions, a new child benefit, reductions in public housing rents and a new annual tax on wealth. It is clear from the accounts of some those involved at the time that the trade unions had the upper hand in determining the content of this 'social contract' (Barnett 1982; Donoughue 2006). The Permanent Secretary to the Treasury at the time has argued that the whole shape of Labour's economic policy during that period was set in the deal done with the TUC in 1973/4 (Wass 2008). It is some measure of the balance of power at the time that Barbara Castle, the Secretary of State for health and pension policy was unable to announce her plans to the Parliamentary Labour Party in early 1974 – attending a TUC-Labour Party Liaison Committee had to take precedence (Castle 1980).

When the crisis came to a head in late 1976 the IMF required major cuts in public spending in order to give its support. Cuts were agreed to after an initial defeat in Parliament caused by a rebellion of Labour back bench members. The new Prime Minister Callaghan and the Chancellor Healey drove through a modified package of cuts after a two day debate in Cabinet recorded in Tony Benn's diaries (Benn 1989: 661-88). In the longer term the Treasury was able to impose a new 'cash limits' regime controlling future spending plans (Thain and Wright 1995) and a post-Keynesian framework for economic policy.

The experience of these years decided Mrs Thatcher and Sir Keith Joseph, her ideological mentor, that Conservatism had to change fundamentally (Thatcher 1995; Joseph 1976). Trade union power must be challenged and defeated. Creeping state expansion had to be reversed. In short, the politics of the post war period changed for good (Marquand 2008; Harrison 2010). It is against this background that the debate about taxing wealth took place in 1974. It was a debate that had a long history.

The origins of the idea of an annual wealth tax for the UK

The practice of taxing the transfer of estates at death in the UK began, in a coherent way, in 1894. Though initially modest the top tax rate rose significantly over time. In 1894 the very largest estates attracted a tax of 7.5 per cent. By 1930 that had risen to nearly 40 per cent. After the Second World War it rose to 65 per cent. In 1949 Sir Stafford Cripps the Labour Chancellor raised the top rate to 75 per cent. However, the tax collected relatively little revenue as people found increasingly ingenious ways to avoid it, notably by giving assets away before death. In the mid-1960s revenue from death duties only amounted to 0.6 per cent of total personal wealth. (Atkinson 1972). Failure to tax wealth more effectively began to exercise some in the Labour Party after it went into opposition in 1951. A coherent alternative tax strategy began to emerge only slowly, however. The key figure was Nicholas Kaldor, then Reader in Economics at Cambridge University. He was concerned about the then high marginal rates of income tax and their impact on work incentives. But he was also concerned about the inequity of a system that took no account of an individual's assets in assessing capacity to pay tax. In his papers for the Fabian Tax Group in 1951/2 he recommended imposing an annual wealth tax as a replacement for 'surtax' – the additional tax on high earners (Kings College Cambridge: Kaldor papers: NK/1-17).

It was in early 1951 that the Labour Government set up a Royal Commission to review tax policy. (The terms of reference were amended in 1952 by the new Conservative Government permitting it to recommend reductions in the overall total of revenue raised from profits, wages and salaries.) As part of its remit it

discussed whether there were alternative forms of tax that would be less damaging to work effort than high rates of income tax. The Commission produced three reports in 1953, 1954 and 1955. Nicholas Kaldor was a member. During this period he developed his ideas for an expenditure tax to replace income tax across the board. All sources of spending power should be taxed equivalently he argued - the capacity to cash assets, rising capital worth and gifts. He failed to persuade his fellow commissioners on this or on his proposal for a capital gains tax. (Cmd 7494 1955). A Memorandum of Dissent making the case for an expenditure tax was written by Kaldor and also signed by George Woodcock (later General Secretary of the TUC) and H.L. Bullock. Kaldor (1955) then published a book setting out the case for an expenditure tax at some length.

For a tax to be fair, Kaldor argued, it must take account of peoples' capacity to pay. If someone had a fortune in the bank their capacity to pay income tax was much greater than someone who had no reserves. Similarly a capital gain realised in any tax period increased that person's capacity to pay. Kaldor's preferred tax was one levied on all kinds of receipts – wages and salaries, proceeds from the sales of assets, capital gains, bequests, gifts and repayment of loans *minus* long term investments and net saving over the year. He also acknowledged that there was a case for taxing both wealth *and* expenditure since:

‘capital and income constitute two distinct though mutually incomparable sources of spending power’ ... ‘a separate tax on each provides jointly a better yardstick of taxable capacity than either form of taxation by itself.’ ... ‘some countries, notably Sweden, do provide for an annual progressive tax on capital’ (Kaldor 1955: 33).

Kaldor's book became a basis for academic discussion of tax policy in the next few years (Due 1960). His basic argument and its constituent tax elements were to form the main basis of Labour's tax policy until 1979 (Whiting 2000, chapter 3). However convinced insiders on the party's economic policy committee might have been the party was never sufficiently convinced to make taxing wealth a major plank of policy. Part of the reason may lie in the internal debate the party was having about the very nature of socialism. How far should socialism be associated with public ownership of the means of production or was it about deeper goals such as achieving more equality, spreading opportunities and a higher quality of life to all sections of the community? Anthony Crosland's classic attack on traditional Marxist thought within the Labour Party (Crosland 1956) was to have profound consequences for the Labour Party's programme on which it was elected in 1964 (Ellison 1994). It is usually remembered for its shift of emphasis from a concern with nationalisation to one that gave much more emphasis to social policy. What is often forgotten is that Crosland's famous volume, *The Future of Socialism*, contained two whole chapters on the redistribution of wealth. He

advocated a ‘concerted attack on the mal-distribution of wealth’ and a six point programme that included all of Kaldor’s ideas and others, like a land tax. However, for the more Marxist left it was still the ownership of capital and the power it brought that was the key to a changed society. Taxation of wealth holdings and other means to pay for social welfare were not the answer (Brown 1971).

In the run up to the 1964 election the Labour Party Tax Working Party produced an internal report, this time with a long paper by Kaldor setting out the case for an annual tax on wealth.

‘We are in favour of an annual Wealth Tax [on the grounds explained by Prof Kaldor in RD 677] namely that it is not only income but wealth which represents spending power and that an equitable tax system should take account of both’. (NK 1-17: LP RD 742, April 1964)

The committee’s first priority recommendation, however, was to tax capital gains. That was included in the 1964 election manifesto and was implemented in 1965. It was not until the special circumstances that obtained in 1974 that the party was persuaded to include in its manifesto a pledge to tax wealth on an annual basis as part of its deal with the TUC where support for tax was strong. Its absence in previous election pledges or prior major public discussion, however, meant that there was little preparation for what was a significant move – a point to which we return.

The Labour Party Manifesto said:

‘Redistribute income and wealth. We shall introduce an annual Wealth Tax on the rich; bring in a new tax on major transfers of personal wealth; heavily tax speculation in property – including a new tax on property companies’. (Labour Party Manifesto 1974)

But just as the Labour Party had become converted to the principle of an annual tax on wealth the idea was attracting critics not just from the City and traditional Conservative opinion but also from those who were sympathetic to some kind of redistribution of wealth (Sandford 1971; Atkinson 1972).

The most comprehensive account of wealth distribution at the time was that by Atkinson (1972). He agreed with Kaldor that there were both efficiency and equity grounds for taxing wealth but he concluded, like Sandford, that the administrative costs and difficulty of measuring individuals’ wealth annually for tax purposes made it impractical. It would be better to tax those who *received* transfers of wealth.

‘The life time capital receipts tax would be the most effective way in which wealth-transfer taxation could contribute towards bringing about greater equality in inherited wealth. Most importantly it would provide a clear incentive for donors to spread their wealth widely.’
(1972: 184)

Perhaps because new ideas take time to take root, perhaps because it would have been difficult to change the trade unions’ established policy stance so late in the day, perhaps because the authors were young newcomers, like Atkinson, or outside the Labour policy community like Sandford, the Labour Party did not take up this idea. It did press ahead with a Capital Transfer Tax which taxed the giver, the tax rate increasing with the level of gifts over a lifetime. Simultaneously the government machine began work on how to tax individuals’ total wealth on an annual basis as the Labour Manifesto had promised.

A favourable initial response

The Inland Revenue had been alert to the possibility that Labour might want to introduce a wealth tax as early as 1963 when its first recorded notes on the topic discussed what administration and staffing might be needed to implement it (The National Archives: Public Record Office, Kew. IR40/18573). This work was taken further in preparation for what was thought to be the likely return of a Labour Government in 1970. The Revenue returned to the issue briefly in 1972. But then in early 1974, with the Labour Party’s clear commitment to such a tax, a major brief was written, drawing on the earlier work. It was to await an incoming Labour Chancellor. It was on Denis Healey’s desk by early March 1974.

The brief discussed what wealth should be included, the thresholds at which the tax could begin to be levied and possible dangers like avoidance and capital flight. But the overall content of the memo was very positive. It concluded that such a tax was feasible and that the government should move quickly to implement it so as to limit capital flight and avoidance. The number of civil servants it would involve and how many regional offices were all included. A timetable was suggested – a Green Paper by July 1974, a decision by November and inclusion in the Finance Act 1975.

The brief did question the suggestion the Labour Party had made in opposition that the top rate of tax could be as high as 5% a year. In combination with other taxes the paper pointed out, this would involve a very high marginal rate of tax compared to an individual’s income in any one year. It was well above wealth tax levels then in operation in other European countries. But the paper concluded:

‘The main purpose of this minute has been to let the Chancellor know that although there will of course be many problems to be resolved we see no reason why a wealth tax should not be introduced reasonably quickly’ (TNA: PRO. IR40/18573).

Healey was delighted and congratulated the Revenue. The paper, however, included what turned out to be a critical suggestion.

‘The Chancellor may also wish to consider the possibility of having the structure of the tax (as opposed to the desirability of introducing it) examined by a Select Committee [of the House of Commons] as for example on Corporation Tax in 1971 and on Tax Credit in 1972’.

This was a reasonable idea in some ways, opening the policy to wider scrutiny of the technical issues, but it was also politically naïve. The forum chosen was bound to provoke objections to the very principle from the Conservative members and gave them the capacity to delay matters whatever the technical issues. The Chancellor did not respond to the select committee suggestion but did take up the idea of a Green Paper and accepted the provisional time table. The Revenue set to work to prepare a Green Paper for publication in June/July 1974, though in the end it was delayed until August (Cmnd 5704, 1974). The likely timing for legislation was inclusion in the 1975 Finance Act with the first valuations of wealth to take place at the end of that year. The first wealth tax returns would be filed after April 1976 [TNA: PRO. IR 40/18573] .

It is interesting that this paper did refer to the criticisms that Prof Sandford and colleagues (1973) at the new Institute for Fiscal Studies (IFS) had made of the Labour Party’s proposals the previous autumn. Like Atkinson they had argued that a tax on *receipts* of major gifts would be preferable.

The Revenue’s response to this idea is instructive. The Revenue agreed that ‘changes on these lines would go a long way to remove major concentrations of wealth’. But they argued that it would produce much less *revenue*. People would give away their wealth in small packets to family or to charities. This might redistribute wealth, the paper conceded, but it would not raise the government much money. Perhaps this view is not surprising. Raising revenue was after all the Revenue’s job! But given that the major thrust of the Labour Manifesto had been to reduce wealth *inequality* that objective was surprisingly lightly dismissed. In their defence the Revenue could reasonably argue that the Manifesto had been quite clear. The government was to implement an annual wealth tax not an ‘accessions tax’, as the tax on receipts came to be called. It was also pressing ahead with the Capital Transfer, or gifts tax, that would tax *transfers* made over a lifetime not received by the giver but made by the donor.

There was little Treasury input at this time. They clearly thought of the issue as a technical Revenue responsibility. In short, the early civil service reaction was workmanlike and favourable to getting on with the job. The Government needed more revenue and this was one way the elected representatives had decided to gather it.

Doubts begin

From this point on, April 1974, however, the Treasury began to become more and more sceptical. Civil servants began to look more carefully at the practical problems and the wider economic impact. Opposition from external interests began to emerge. Representations were made to the Treasury by the National Farmers' Union, various bodies representing the owners of country houses, small businesses, the City, and the Bank of England. These mostly received polite brush offs and reassurance. But opposition to both the Capital Transfer Tax and the Wealth Tax from the owners of country houses and the museums and the art world did prompt a rethink of the treatment of such property as 'national treasures'. A successful campaign was launched that attracted a million signatures in defence of the English country house (Mandler 1997; see also House of Lords debate *Hansard*, 26th June 1974).

It was other matters that really worried the Treasury. The weakness of the economy, rising inflation and the threat to sterling increasingly engaged civil servants until it dominated almost everything they considered (Wass 2008). An internal note dated 20th May 1974 was entitled 'Wealth Tax – possible exodus of UK capital' (TNA: PRO T328/1017.). Harold Lever, Harold Wilson's advisor on financial matters, wrote to the Prime Minister on 7th June putting the Wealth Tax in the context of other things the government were trying to do.

"We are now running a serious risk of a crisis of confidence in the business world - inflation, price controls, a fall in real assets....," all coming together.

'The Green Paper on a wealth tax will make a crucial impact on confidence- it will be almost a touch stone of our attitude towards enterprise and wealth'(TNA: PRO T 328/1018).

In a later note he says:

'This Green Paper is political dynamite....as we are breaking what for us is very new ground we will have less trouble if we give Parliament an opportunity of looking at our proposals in detail before legislation..... Any resultant delay in legislation is I believe tolerable if it leads to a more acceptable and workable scheme'.

Kaldor, however, thought a Select Committee at best would be ‘pointless.’ Worse, it would result in the loss of political momentum (TNA: PRO T328/1019).

Treasury worries come to a head.

Treasury concern grew. A note on 1st July to the Permanent Secretary expressed concern at the weight that a whole range of measures might have on ‘confidence’. They included the nationalisation of shipbuilding, and aerospace, a ‘large stake’ in the top 100 firms, large public spending commitments as well as the wealth tax.

The possibility of a negative income tax, long term pension reform, benefits to single parents and a ‘family endowment’ scheme were ‘cumulatively very expensive’. There was also community ownership of development land on the agenda. ‘If confidence is still in a jittery state the sheer volume of announcements in the next few weeks could have a depressing effect’ (TNA: PRO T328/1020)

So at a meeting on 10 July 1974 of the Chancellor, all the other Treasury ministers and senior officials it was agreed that everyone was broadly content with the Green Paper. But there was “a problem of timing”. It was agreed to put off publication until mid-August before the Chancellor’s holiday and after the House of Commons economic debate. Crucially there was “general support for asking for a Select Committee to look at the WT” (TNA:T PRO 328/1021).

The draft was to go to the Cabinet sub-committee on Economic Strategy at the end of July. The aim was to publish the White Paper on the Capital Transfer (Gift) Tax and the Wealth Tax Green Paper on the same day – 8 Aug.

The Green Paper went to the Cabinet Ministerial Committee on Economic Strategy on 29 July (TNA: PRO T328/ 1022). At this meeting, which for the first time involved non-Treasury ministers in the discussion, there was disappointment that there would not be legislation before 1976. The Select Committee route might be undesirable other ministers suggested. It would be better to have a White Paper and get the views of the House in debate not delay with a Select Committee. But this view did not prevail.

This was to be the high tide of optimism about implementing the tax. From then on the government lost the initiative and the argument. The Treasury had won a crucial delay. Kaldor’s fears about the Select Committee were fully justified. The Conservative members opposed, obstructed and delayed. They mounted a formidable attack on the very idea. Academics who thought this was not the way to tax wealth and the range of lobbies who opposed it in principle dominated discussion and the presentation of evidence. The Committee’s expert advisor Prof

Willis was one of the IFS authors who had been critical of an annual tax (Sandford, Willis and Ironside 1973). Certainly the advocates of such a tax never put together a convincing riposte to the barrage of criticism the hearings provoked (HC 696 I and II 1974/5).

The Treasury's internal rethink

The committee process had brought all the Treasury's doubts to a head. It had forced those affected to marshal their arguments. It had provided a platform for the critics and tested the strength of the government's case especially on the form the tax was to take. The critics who favoured a different way to tax wealth were able to expand on their view and get a much wider audience. It had also forced the Treasury to confront the detail in preparing briefs for the committee and to answer the critics' case.

The old worry that such a tax would provoke a capital flight, and be a danger to the core activities of the City, had been reinforced. It had done so at a time of growing pressure on the pound. One paper, after reviewing the likely impact of the tax, concluded that a wealth tax:

- ‘1. Will lead people to seek non-resident status, result in a considerable outflow of funds in the form of dividends and interest.
2. Since it will apply to all wealth held world-wide foreign employees in foreign companies resident here would be subject to tax. This would result in a big movement of banks, insurance and shipping business moving out of the UK.
3. Assets held here would be affected. This would reduce the level of business in UK’ (TNA: PRO T328/1249).

There was a meeting of those civil servants most involved with the Permanent Secretary. There were no politicians or outside advisers present (TNA: PRO T328/1252). The minutes were marked ‘secret’. They concluded that the tax would produce little revenue, be extremely difficult to administer and risk serious damage to the economy and run into serious opposition. It was agreed that the Chancellor should be approached. In its advice the Treasury said:

‘We would of course seek to minimise these difficulties...but...the present prospect is another rough ride for ministers with criticism outweighing support’ (TNA; PRO T328/1252).

The Chancellor agreed he would speak to the Prime Minister. On the 2nd July 1975 a briefing note was written for the Chancellor who was to see the Prime Minister and propose that the legislation for a wealth tax be postponed until 1977 (TNA: PRO T328/1253). The Chancellor saw Wilson the Prime Minister on the 26th July (TNA: PRO T328/1254) and a postponement was agreed.

Over the next year little advance was made on the details. The battle over cuts in public spending and the IMF loan took over the Treasury's concerns. A new Prime Minister Callaghan was in office. He had steered the cuts through a divided Cabinet. There *was* some worry about the likely impact a decision to abandon the tax would have on the unions. One civil servant wrote to his superior to question how the TUC might react. By implication the question was – how are we going to get them to agree to contain wage rises if we have not kept to our side of the bargain? His superior sent the memo back with a hand written note on it:

‘Let us cross this bridge when we come to it. We have won a battle for “efficiency” not the war’. (memo from R. Fox with this penned response from Alan Lord TNA: PRO T336/108)

In the event it was concern about the markets' reaction to a white paper that trumped concern about the TUC.

‘Our economic and financial management is now under more critical international scrutiny. There is a risk that the issue of a White Paper foreshadowing a WT would look irrelevant and unnecessarily provocative’ (A note to the Chancellor 10 June 1976 TNA: PRO T366/108).

On 21st June the Chancellor wrote to the Prime Minister saying they should not publish a white paper at all – effectively abandoning the whole idea. Harold Lever wrote to the Prime Minister PM (24th June) strongly supporting that view. The matter was put to the ‘EY Cabinet Committee’ for decision. It concurred (TNA: PRO T366/108).

A written answer appeared in Hansard 29 Nov 1976 announcing that the government would ‘not introduce a wealth tax in the life of this parliament’ (Parliamentary Debates (Commons), Written Answers, 29 November 1976.).

The Treasury tax group wrote a long retrospective brief on what had gone wrong (TNA: PRO T366/108). It began with a discussion of the key confusion or conflict of objectives that had dogged the project from the outset, as they saw it. There were two different and confused objectives the paper concluded:

- To achieve equity between taxpayers with and without wealth – the unequal capacity to pay argument.
- To achieve equity in wealth holdings – the redistribution of wealth. They quoted Healey’s introduction to the Green Paper that suggested this was the key goal. But the scale of taxation needed to do this had never been faced up to by politicians the note argued.
- Moreover, that goal was already being achieved by what seemed to be the natural process of economic change and the existing taxes on wealth. This would be especially true after the introduction of the Capital Transfer Tax.

This last conclusion drew on previous Treasury work that had estimated that the share of wealth owned by the top one per cent had fallen substantially over the century and would continue to fall even without a wealth tax. The first observation has been confirmed by later research (Feinstein 1996). The latter prediction has not.

Lessons

Two different sets of questions arise. The first concerns the substance of the policy in question. Was the attempt to tax wealth on an annual basis simply the wrong way to approach the problem of moderating unequal wealth? Was a better way on offer and ignored? If so why? What should those concerned with the growing concentration of wealth learn from this experience?

A second set of questions concerns the process of social policy making. Have we given sufficient attention to the role of the civil service in the policy process? Did the Treasury merely perform the constitutional task expected of it? Did it save the country from a foolish policy? Was it an example of ‘policy success’ as one reviewer of this paper put it? Or does this glimpse into the inner workings of government suggest that the barriers to radical change are higher than many in the social policy community are prepared to recognise?

It is appropriate to begin with the narrower policy question first – was the tax a mistake?

Denis Healey’s own reflective conclusion was that it was a mistake.

‘Another lesson was that you should never commit yourself in Opposition to new taxes unless you have a very good idea how they will operate in practice. We had committed ourselves to a Wealth Tax: but in five years I found it impossible to draft one which would

yield enough revenue to be worth the administrative cost and political hassle.’ (Healey 1989: 404)

It seems clear that the Labour Party never considered in any detail the administrative costs and practical complications involved in assessing individuals’ wealth on a regular basis. It was enough to say, as Labour Party Research Department papers did, that other countries levied such taxes so it must be possible. The several thousand civil servants needed, depending on the valuation level at which the tax began, the numerous regional offices required and the process of regular valuation that might fall on individuals came as a surprise to the politicians and, indeed, to the Treasury when it got to think about the question properly.

European taxes had been introduced when the main form of wealth was in the form of property. The taxes were very low. The attempt to introduce a much more onerous one ran into difficulty in Norway. But only a few years after the Treasury had concluded such an annual tax was administratively unworkable a rather similar ‘Solidarity Tax’ was introduced in France under President Mitterand. Administrative obstacles depend, in no small measure, on political traditions and notions of ‘acceptability’.

The administrative issues had, however, been discussed and to some extent quantified by Atkinson (1972) and Sandford (1971). Their alternative was to tax recipients and to do so as an extension of the income tax system. Why did this not feature in the Labour Party’s discussion? The most likely answer is that these ideas were relatively new and those advancing them were removed from, or new to, the Labour policy fraternity. The Institute for Fiscal Studies to which some of the critics belonged was a recent creation and carried nothing like its later authority. The Labour Party had been discussing a wealth tax for many years, from 1959, in fact. It was part of the party policy intellectual furniture even if not widely discussed in public. Taking on new policy ideas from relative outsiders at all quickly was not something to which the party policy making apparatus was well adapted.

When the idea of an accessions tax was discussed by the civil service the Inland Revenue dismissed it because they thought it would encourage the spreading of gifts and hence produce little revenue. The government did successfully press ahead with a Capital Transfer Tax (a gifts tax) levied on large gifts collected from the giver. It was later repealed by the next Conservative Government.

The idea of taxing the recipients of significant transfers of wealth has been advanced again as part of the Mirrlees Review of the UK tax system. (Mirrlees

Review 2011; Boadway, Chamberlain and Emmerson 2010). One lesson to be drawn from the 1974 experience is that the administrative detail in taxation matters a lot. The idea still lacks detailed study. The second lesson is that tax changes that are likely to affect major sections of the population and the wider economy have to be widely debated before, rather than after, any party reaches power. The attempt to introduce a wealth tax in 1974 was not preceded by any such process. It had been discussed in party committees and academic papers for more than a decade. The public case had never been argued through. It fell at the 'there is a widely perceived problem' phase of policy making (Kingdon 1984). As the Treasury pointed out the distribution of wealth had been quietly becoming more equal over most of the century. Beyond the moderate left and those on the TUC it was not seen as a pressing social issue. Thus, even if a more effective, less costly, means of taxation had been under discussion, the accessions tax, it, too, might have fallen at the same hurdle.

If any new move to tax wealth is to be successful it will only be so if the public, many of whom are now holders of modest wealth, are convinced that its unequal distribution is 'a problem'.

This leads on to a more fundamental question. How far is any radical change in the pattern of economic rewards feasible in a modern mobile interdependent economy? The archives show how much this exercised the Treasury in 1974 long before capital, human and financial, was as mobile as it is today. The Treasury concerns went far beyond technical worries about the costs of collection.

Most analysis of the Treasury's part in social policy has been concerned with its role as guardian of the public purse and micro economic issues such as the impact of social security or education and training on labour market efficiency (Heclo and Wildavsky 1974; Deakin and Parry 2000). Harris (1977) described the Treasury's part in containing Beveridge's ambitions. Lowe (1989; 1997) showed how its attempts to contain social spending were frustrated in the 1950s and how it responded. This study gives a glimpse of the Treasury's deeper concern – defending a mixed economy from the perceived destructive effects of major changes to the distribution of income and wealth. These may have, or be perceived to have, an impact on the overall efficiency and stability of the economy. Its role as 'guardian of the economic order', which we see itself consciously adopting between 1974 and 1979, has been left to civil servants like Sir Douglass Wass (2008) to describe. Here we see it played out in detail over tax policy.

It is possible, of course, to interpret these actions in quite a different way. The Treasury, Marxist historians would argue, is the quintessential defender of the economic order in a state apparatus that defends the status quo. As Ralph Miliband put it:

‘the dominant economic interests in capitalist society can normally count on the active good will and support of those in whose hands state power lies.’ (Miliband 1969: 145).

However interpreted the political limits to fundamental change in the distribution of wealth and income are perhaps more powerful than many social policy reformers are ready to accept. The debates of the 1950s and 1960s do suggest that there is an efficiency case to be advanced for taxing wealth in some way. Wealth and income are interchangeable and high taxes on income undesirable. The argument has been extended by the Mirrlees Review (2011). But any tax on wealth would challenge established interests, not least many home owners, be argued to weaken incentives to save, to found small businesses or cause capital flight. There will be administrative complications. Unless these fears are effectively answered a repeat of the 1974-6 saga is all too likely.

References

- Atkinson, A.B. (1972) *Unequal Shares: Wealth in Britain*. Harmondsworth: Penguin
- Bachrach, P. and Baratz, M.S. (1970) *Power and Poverty: Theory and Practice*. Oxford: Oxford University Press
- Barnett, J. (1982) *Inside the Treasury*. London: Deutsch
- Benn, T. (1989) *Against the Tide: Diaries 1973-7*. London: Hutchinson
- Boadway, R. Chamberlain, E. and Emmerson, C. (2010) 'Taxation of Wealth and Wealth Transfers'. Paper prepared for the Mirrlees Review www.ifs.org.uk/mirrlees also in *Dimensions of Tax Design: The Mirrlees Review*, edited by Institute for Fiscal Studies, Oxford: Oxford University Press
- Bochel, C. and Bochel, H. (2003) *The UK Policy Process*. London: Palgrave
- Brown, M.B. (1971) 'The Welfare State in Britain', *The Socialist Register*. London: Merlin
- Butler, D., Adonis, A. and Travers T. (1994) *Failure in British Government: The Politics of the Poll Tax*. Oxford: Oxford University Press
- Butler, J. (1992) *Patients, Policies and Politics*. Milton Keynes: Open University Press
- Castle, B. (1980) *The Castle Diaries 1974-6*. London: Weidenfeld and Nicolson
- Crenson, M.A. (1971) *The Politics of Air Pollution*. Baltimore: John Hopkins
- Cmd 5704 (1974) *Wealth Tax*. London: HMSO
- Cmd 7494 (1955) *Final Report of the Royal Commission on Taxation*. London: HMSO
- Crosland, C.A.R. (1956) *The Future of Socialism*. London: Cape
- Deakin, N. and Parry, R. (2000) *The Treasury and Social Policy: The Contest for Control of Welfare Strategy*. London: Macmillan
- Donoghue, B. (2006) *Downing Street Diary: With Harold Wilson in No 10*. London: Pimlico
- Due, J.F. (1960) 'Net Worth Taxation', *Public Finance*, 40: 310-21
- Dunleavy, P. (1981) *The Politics of Mass Housing 1945-75: A Study of Corporate Power and Professional Influence in the Welfare State*. Oxford: Oxford University Press
- Ellison, N. (1994) *Egalitarian thought and labour politics*. London: Routledge

- Feinstein, C. (1996) 'The Equalising of Wealth in Britain Since the Second World War', *Oxford Review of Economic Policy*, 12 (1): 96-105
- Graetz, M.J. and Shapiro, I. (2005) *Death by a Thousand Cuts: The Fight over Taxing Inherited Wealth*. Princeton: Princeton University Press
- Hall, P. (1993) 'Policy paradigms, social learning and the state: The case of economic policy making in Britain', *Comparative Politics*, 25(3): 319-42
- Hall, P., Land, H., Parker, R. and Webb A. (1975) *Change Choice and Conflict in Social Policy*. London: Heinemann
- Harris, J. (1977) *William Beveridge: A Biography*. Oxford: Oxford University Press
- Harrison, B. (2010) *Finding a Role: The United Kingdom 1970-1990*. Oxford: Oxford University Press
- HC 696 I and II (1974/5) *House of Commons Select Committee on a Wealth Tax Report and Proceedings*. London: House of Commons
- Healey, D. (1989) *The Time of My Life*. Harmondsworth: Penguin
- Heclo, H. and Wildavsky, A. (1974) *The Private Government of Public Money*. London: Macmillan
- Joseph, K. (1976) *Stranded on the Middle Ground: Reflections on circumstances and policies*. London: Centre for Policy Studies
- Kaldor, N. (1955) *An Expenditure Tax*. London: Allen and Unwin
- Kingdon, J. (1984) *Agendas, Alternatives and Public Policies*. London and New York: Longman (Second edition 2003)
- Labour Party (1974) *Let us work together – Labour's way out of the Crisis*. London: The Labour Party
- Levin, P. (1997) *Making Social Policy: The mechanisms of government and politics and how to investigate them*. Buckingham: Open University Press
- Lowe, R. (1989) 'Resignation at the Treasury: the Social Services Committee and the failure to reform the Welfare State 1955-7' *Journal of Social Policy* 18:4,505-26
- Lowe, R. (1997) 'Milestone or Millstone: The 1959-61 Plowden Committee and its Impact on British Welfare Policy', *Historical Journal*, 40(2): 463-91.
- Lukes, S. (1974) *Power, a Radical View*. London: Macmillan (second edition 2005)
- Mandler, P. (1997) *The Fall and Rise of the Stately Home*. London and New Haven: Yale University Press

- Marquand, D. (2008) *Britain Since 1918: The Strange Career of British Democracy*. London: Weidenfeld and Nicolson
- Miliband, R. (1969) *The State in Capitalist Society*. London: Weidenfeld and Nicolson
- Mirrlees Review (2011) *Tax by Design: The Mirrlees Review*. Oxford: Oxford University Press
- National Equality Panel (2010) *An Anatomy of Economic Inequality in the UK*. London: LSE, CASereport 60
- Newby, H. (1978) *Property, Paternalism and Power*. London: Hutchinson
- OECD (2008) *Growing Unequal Income Distribution and Poverty in OECD Countries*. Paris: OECD
- OECD (2010) *Revenue Statistics*. Paris: OECD
- Paxton, W. and White, S. (2006) *The Citizen's Stake: Exploring the future of universal asset policies*. Bristol: The Policy Press
- Piketty, T. (2011) 'On the Long-Run Evolution of Inheritance: France 1820-2050', *Quarterly Journal of Economics*, 126(3) (forthcoming)
- Pogge, T. (2007) *Freedom from Poverty as a Human Right: Who owes what to the very poor?* Oxford: UNESCO and the Oxford University Press
- Roine, J. and Waldestrom, D.(2009) 'Wealth Concentration over the Path of Development: Sweden 1873-2006', *Scandinavian Journal of Economics*, 111(1): 151-87
- Sandford, C. (1971) *Taxing Personal Wealth; An analysis of capital taxation in the UK, present structure and future possibilities*. London: Allen and Unwin
- Sandford, C., Willis, J. R. M. and Ironside D. J. (1973) *An Accessions Tax: A study of the desirability and feasibility of replacing the United Kingdom Estate Duty by a cumulative tax on gifts and inheritances*. London: Institute for Fiscal Studies
- Thain, C. and Wright, M. (1995) *The Treasury and Whitehall: The Planning and Control of Public Expenditure 1976-1993*. Oxford: Oxford University Press
- Thatcher, M. (1995) *The Path to Power*. London: Harper Collins
- Wass, D. (2008) *Decline to Fall: The Making of British Macro-economic Policy and the 1976 IMF Crisis*. Oxford: Oxford University Press
- Whiting R. C. (2000) *The Labour Party and Taxation*. Cambridge: Cambridge University Press