

LABOUR AND INCOME REDISTRIBUTION

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I

THE history of social reform in Britain has rarely been discussed except in terms that are highly flattering to the sound common sense, tolerance and political maturity of the British people. Like the British Constitution, which down the years is supposed to have enlarged its democratic character by an uninterrupted process of political reforms, so the improvement in social legislation is believed to have continued steadily and without serious hindrance over the past century. Since those early decades of the nineteenth century when Lord Shaftesbury is still thought to have taken up almost single-handed the cause of factory legislation,' the sturdy growth of social conscience within the body politic has resulted in an ever-widening area of welfare services and remedial legislation, culminating in the Welfare State of the post-1945 years. Even the Tories lay claim, as indeed they have a right to do, for much of the social legislation of the past. For G. M. Trevelyan—still the most widely read of all popular historians—social progress in the second half of the nineteenth century was "advancing like a silent tide making in by a hundred creeks and inlets," and as for the twentieth century: "The progress actually made in the first forty years. . . particularly in education and in social services, has perhaps been as much as can be expected of limited human wisdom."¹ In all the writing on these matters there is usually some emphasis on the fair play common to Englishmen of all creeds, and, even more important, of all classes, which has triumphed over sectional demands or narrow party interests; and the general implication, widely accepted at the present time, is that a social evil has only to be exposed to be remedied. There is the further assumption that this growth of social conscience, while not perhaps limited entirely to the British people, is yet more strongly marked among us than elsewhere: and the associated belief that the structure of social services erected in Britain during the twentieth century, and more particularly in the years after 1945, is more advanced than among other mature industrial societies.

Destruction of illusions, for illusions they are, is never easy and it is not the purpose of this essay to consider the historical analysis of social change in any comprehensive manner, but only in certain of its aspects. There are innumerable strands of social thought which have contributed towards the climate of opinion in twentieth-century Britain; and there

are many different pressure groups and a variety of political parties and political organizations which have been responsible, collectively, for the development of social policy. The emergence of the Labour Party is, of course, of crucial importance, and it is certainly the Labour movement in Britain which has been mainly responsible for the definition of social need in much more comprehensive terms than those which obtain in the United States or in most countries of Western Europe. Nor can one ignore the rôle of the single-minded individual in the achievement of particular reforms or the part which has been played by those who have recognized that wastefulness, of all kinds, ought not to be tolerated. But there are other aspects of social change that are often overlooked. One of these may be summarized in the words of Walter Bagehot who, in the second edition of his *British Constitution*, was concerned to explain to his contemporaries the full implications of the extension of the vote to the urban working men in 1867. Bagehot was convinced that demagogic competition for working-class votes by the traditional parties would be disastrous; but what he was even more afraid of was the emergence of an independent working-class party which, in a country as overwhelmingly proletarian as Britain, would produce a very dangerous situation for the propertied classes. To avoid this frightening possibility, he wrote, the "higher classes . . . must avoid, not only evil but every appearance of evil; while they still have the power they must remove, not only every actual grievance, but, where it is possible, every seeming grievance too; they must willingly concede every claim which they can safely concede, in order that they may not have to concede unwillingly some claim which would impair the safety of the country."³

British society is not, however, organized for change, and certainly not for radical change. While it is true, over the past century or so, that social or political reform has in the end mostly been conceded by the propertied classes—because outright opposition maintained indefinitely would force the working class into positions of radical independence—there are always formidable structural obstacles to be surmounted, not least in the Houses of Parliament, before reform can be accepted. Change in Britain has always been change by instalments: partly because the barriers to radical measures are so difficult to move; partly because the old structure can be preserved more easily in its essentials if change is retail rather than wholesale; and partly because, as a general proposition, to quote the words of the young Robert Cecil in the early 1860s, "delay is life,"⁴ and change by bits and pieces can be more easily absorbed into the traditional social or political way of life it is intended to reform: and being thus absorbed, its influence can be correspondingly reduced.

It is not, of course, only material "interests" that are opposed to change and reform in Britain. The intellectual discouragements to new ways of thinking and doing are equally stubborn. In the nineteenth

century the immensely strong conviction that reliance upon individual effort was the only way to economic and social improvement was a rock upon which were wrecked countless essays in social amelioration. Reformers in Britain have always had great difficulty in escaping from contemporary modes of thought, and orthodox middle-class ideas have continued to exercise a powerful influence upon the Labour movement up to the present day. The dominant Fabian political tradition is a mixture of anti-capitalist ideas and traditional concepts: there has never been a root and branch critique of bourgeois ideas that a vigorous and flexible marxist tradition would provide; and the leading ideas of bourgeois society have continued in the twentieth century, as in the years after 1850, to determine an important part of the political and social thinking of the British Labour movement. The vaunted empiricism of the movement, while representing some important strengths, has rested upon an intellectual foundation some part of which has been supplied by anti-socialist thinkers. Of all this there are many examples: Philip Snowden's absurd and tragic economic orthodoxy in the 1920s is one; the acceptance by too many socialists of the theory and practice of the 11-plus technique of school selection is another; and the remainder of this essay will illustrate a third.

II

On the morrow of the electoral victory of the Labour Party in the summer of 1945, nineteenth-century ideas of individualism were widely regarded as outdated as well as socially immoral. The lessons of the grim years of unemployment and wasted resources between the wars had bitten deeply into the minds and hearts of many of the British people, and the anti-fascist war had further strengthened their radicalism. There was at this time a greater consensus of opinion regarding the allocation of resources in the interests of social justice and equality than at any previous time in the twentieth century, or, for that matter, since; but the change in the climate of opinion came remarkably quickly. Among the middle classes this was both understandable and to be expected. Except for a minority, the liberalism of the middle classes in Britain has always been founded upon a comfortable material existence, and the continuation of war-time restrictions soon undermined any temporary conversion to high-minded ideals that they might have experienced. In the difficult years after 1945 many of the contributions to the good life of the years before 1940 seemed to be as far away as ever. Domestic servants were now so difficult to come by: food and petrol were severely rationed; foreign travel allowances were still sharply restricted. But what really convinced the middle classes that a Labour Britain was not for them was the rising crescendo of comment and propaganda that the only beneficiaries of the Government's legislative programme were the working people. It has never been difficult to

bring out the anti-trade union prejudices of the British middle classes, because these are built-in to their traditional ways of thinking; and the continued reiteration of the wildest and most absurd stories of the power of "our new masters" found an easy and indeed vigorous response.¹

At the centre of much of the political discussion of the post-war years was the steadily increasing conviction that egalitarianism was being pushed remorselessly forward at the expense of the middle ranks of society. It was a theme that the daily and weekly press constantly fed to its readers, and in this important matter there was no journal more influential than the *Economist*. Always regarded in its long history as a responsible organ, the *Economist* from the early days of the Labour Government had been campaigning on behalf of the down-trodden middle classes. Its editorial staff clearly believed the middle strata to be badly bleeding, and their efforts were both continuous and prodigious on behalf of middle-class health. Appealing to the sober sections of society the *Economist* naturally was concerned to use only straight facts to illustrate the campaign it was deploying, and such was the paper's reputation that it occurred to very few to doubt the statistics that the *Economist* spread so widely in its pages. The debate turned upon the interpretation of the data relating to the distribution of the national income between the main social groups in society. This was not a question which had excited much interest in the years before 1939 and National Income studies were still at an early stage of their development even in the immediate post-war years. The official statistics on income distribution have recently (1962) been subject to devastating criticism by Professor Titmuss,² and the main outline of his critique is summarized in a later section of this essay. But the data used by the *Economist* in 1947-48 were a good deal more crude than those which Titmuss has been criticizing and the sequence of events in the *Economist's* campaign is worth briefly noting. As mentioned already, the *Economist* had been dilating on the economic disabilities of the middle class for some time before it swung vigorously against the Labour Government in the second half of 1947. On 15 November 1947 it published a number of statistical tables which set out the material that was then available on the movement of wages, salaries and profits. The commentary to these statistical data made it plain that all that could be given were global totals and that much of the deduction from the figures must be conjectural. The wages index, for example, was deflated by the annual index of changes in the price level of consumption goods, a procedure which, said the *Economist*, "is to come perilously close to circular reasoning." For salaries there was no index of earnings available and the only series that could be used was the total figure for salaries calculated each year in the National Income White Papers—a series that has many disadvantages, not least among them being the heterogeneous groups included under salary earners (policemen and

nurses among them). For Interest and Profits the *Economist* said that the statistical basis for any assessment of trends "is even more uneven than in the other two instances." In short, the *Economist* recognized that little if any weight of interpretation could be put upon these statistics and it offered no conclusions although it invited its readers to make their own "illuminating comparisons." By the time the *Economist* returned to the theme of the downtrodden middle class the qualifications in the article of 15 November were entirely forgotten. On 3 January 1948 the *Economist* published a major article on income distribution in the war and post-war period. Far from the reader being warned of the statistical flimsiness of the basic material the November statements about income redistribution were published as incontrovertible facts: upon which were then erected the hysterical statements which are given below. It will be appreciated that the more popular conservative press of these years went a long way beyond the *Economist* in exaggeration and hyperbole:

"...it is as well to recall what has happened in recent years to the distribution of incomes in this country. The statistical evidence we examined in an article in the *Economist* of 15 November [1947]. The conclusion then reached was that, after making full allowance for changes in prices and in taxation, the real net income of the average wage-earner is between 10 and 35 per cent higher than in 1938. The total amount paid out in wages in 1946, after the deduction of taxes, was 60 per cent higher than before the war, although there were still hundreds of thousands of men and women in the armed forces. The obverse of this great increase in wage incomes has been a slump in other incomes. The same article reached the conclusion that the average salary, in real net purchasing power, has fallen by anything from 20 to 30 per cent, while the real net value of profit incomes has fallen by a quarter; other forms of property income (from gilt-edged securities, or from rents, for example) have suffered even more severely. At least 10 per cent of the national consuming power has been forcefully transferred from the middle classes and the rich to the wage earners. A gradual approach towards greater equality of income is an ideal that appeals to many people even among those classes who would suffer from it. But there has been nothing gradual about this transfer. There has been no attempt to analyze the consequences of such a sudden wrenching of the social mechanism, with all that it implies in the removal of incentives to effort and ambition. There has been no attempt even to discuss the question whether it is right that a war in which all classes contributed what they could, should leave behind it, as an accidental by-product, a social revolution of these dimensions. There has been no attempt to base the changes on the merits of those who have gained or on the demerits of those who have lost; the sentimental assumption has simply been made that anybody who is paid by the week is always noble and right, while anyone who is paid by the month is inevitably an exploiter. To any suggestion that these subjects should be discussed the T.U.C. merely rejoins 'What we have we hold—and as much more as we can get.'

"The object of all economic policy is to raise the standard of living of all

people—of all the people. That ought to go without saying. But does it really follow from the acceptance of this principle that wage-rates can never, by any accident, be too high, that there ~~must~~ never be any but upward moves, that other forms of income must always give ground, regardless of the consequences, before the weekly wage-earner? If this becomes the accepted doctrine of the Labour Party, then of course it puts an end to any hope of deliberate or sensible planning of the national economy so long as the Party is in power. 'Planning' will then become (what it is rapidly becoming) the manipulation of all the other elements in the national income in an attempt to make them fit in with the sacred wage-level. . . ."

Official confirmation of the *Economist's* arguments came with the publication of the Board of Inland Revenue's Ninety-second Report for 1948–49. This surveyed the changes in the distribution of income, both before and after tax, between 1938–39 and 1948–49. The conclusion of the Board's analysis was that there had been "a very considerable redistribution of incomes" in favour of the wage-earning groups; and both the statistics and the general conclusions of this Report furnished the ground for the considerable literature of income distribution which appeared subsequently. In 1950 the *Economist* published a series of articles on Personal Incomes, later republished as a pamphlet, which went somewhat beyond the Inland Revenue and spoke of a "vast re-distribution of incomes" since 1938. The next year, in 1951, appeared the influential study by Bertrand de Jouvenel, *The Ethics of Re-distribution*; and in the same year Dudley Seers, of the Oxford Institute of Statistics, published his widely read *The Levelling of Incomes Since 1938*, whose title indicates its main conclusions. In the middle and later 1950s Harold Lydall, also of the Oxford Institute, and Professor Paish, of the London School of Economics, provided highly detailed analyses of income distribution; and they both emerged with the firm conclusions: (a) that there had been a remarkable re-distribution of income in favour of the wage-earners between 1938 and 1949; and (b) that the tax and other changes which the Conservative Governments had introduced after 1951 had not altered the position in any significant way.⁷ Indeed, Mr. Lydall was arguing in 1959 that there was a permanent bias in the British economy towards a greater equality of incomes although he did not expect the trend towards equality to be quite so marked in the future as he thought it had been in the past.⁸ This extraordinary unanimity of academic and semi-academic opinion was given nice expression by Professor Lionel Robbins. In an article in *Lloyds Bank Review* for October 1955, Professor Robbins wrote that "there is nothing particularly neutral in the operation of the present tax structure. Relentlessly year by year it is pushing us towards collectivism and propertyless uniformity."

We have listed only the more academic items in the very considerable literature and comment of all kinds that came pouring off the presses

from the end of the 1940s and throughout the 1950s.⁸ It all added up to a powerful barrage of hostile criticism of the supposedly levelling tendencies of the Labour Governments of 1945 to 1951; and there is no doubt that it played a major part in the creation of the unfavourable climate of opinion which was so rapidly developing against the Labour Government in the late 1940s. The question which now needs to be asked is: how did the Labour movement set about counteracting this hostile propaganda from the Right, and in particular what was the rôle of the Labour intellectuals?

The short answer to the latter question is not just that the Labour intellectuals did nothing to offset this general propaganda about income levelling but that on the contrary they positively welcomed the evidence that was being presented. This was, after all, what they wanted to believe, for this was precisely what they hoped and expected the social policy of a Labour Government would achieve. They were, of course, conditioned by the naivety of their understanding of power in capitalist society to believe that a Parliamentary majority had only to act like a Parliamentary majority for major economic and social changes to be accomplished. Like so many others, they had forgotten what Tawney reminded the movement of in 1934: "that you can peel an onion leaf by leaf but you can't skin a tiger claw by claw." When the official statistics showed that in 1948-49 no more than eighty-six people in Britain were left with an income of £6,000 a year, the Labour intellectuals saw no reason to doubt the figures but hailed them as proof of the practical results of Labour's rule. (These eighty-six were dubbed by the popular press as the remaining millionaires, and the current joke at the time, among the faithless, was that they all had lunch together every day at the Savoy.) It is not after all surprising that the Labour intellectuals were so delighted with the supposed re-distribution of income that had taken place for had it really happened on the scale that was suggested it was a very welcome development. Moreover, it helped to confirm for many the general impression that this post-war capitalism was going to be very different from the pre-war version. Before 1939 only a minority in the British Labour movement accepted the Marxist belief that capitalism was incapable of transcending its own internal contradictions, but all socialists emphasized the wastefulness of the system and its inability to utilize to the full the massive productive forces it had developed. After 1940, and especially in the years following 1945, the continuation of full employment and the absence of the expected slump (expected, it must be remembered, by many who were not socialists) made it increasingly difficult to accept what came to be regarded as the too *simpliste* theoretical framework of the pre-war years. If post-war capitalism could provide rising living standards through full employment and extended welfare services, and more especially, could begin to make structural alterations in capitalist society through permanent income re-distribution,

then the case for a total transformation of society looked considerably weaker than it did before 1939. Injustice and inequality, it was fully recognized, were by no means eliminated, but with the continued use of the political power of the whole Labour movement there was no reason why the substantial improvements of the immediate past could not continue and be enlarged in the future. This, briefly, was the approach of the Labour theoreticians of the 1950s, and their intellectual landmarks were *New Fabian Essays*, published in 1952, as a summing up of the record of the Labour Governments and as a starting point for the next stage: C. A. R. Crosland's *The Future of Socialism* and John Strachey's *Contemporary Capitalism*, both published in 1956.

The belief that post-war capitalism was different from the pre-war version was much encouraged by the publication in 1951 of the third survey of York by Rowntree and Laver under the title *Poverty and the Welfare State*. The basic findings of the enquiry were that only 3 per cent of the working class in York remained in primary poverty and that most of these were old people. It was assumed that its findings could be reasonably applied to the rest of the country, and the general influence of its broad conclusions simply confirmed for many that Britain had begun to experience, if not a social revolution, then a series of social changes of considerable magnitude.¹⁰ Not many followed Mr. Crosland in his belief, which he set out in *New Fabian Essays*, that we were no longer living in a capitalist society but rather in a half-way stage to socialism, but most middle-class intellectuals committed to the Labour Party were deeply impressed with what had been accomplished in the six years of Labour's rule. Indeed, they were so impressed with the breadth and depth of change that they were increasingly influenced by the conservative view that it was time to cry halt to any further extension of the policies of economic equalization; except that the Labour intellectuals continued to argue for long-term plans for capital taxation and for a common schooling for all. It is impossible to read the Labour journals of the early 1950s without being surprised by the completeness with which the Labour intellectuals and publicists had accepted the arguments that the "savage" taxation of the personal incomes of the middle class and the rich had gone as far as was practicable, or, as some were even arguing, as was morally justifiable. By practicable they meant that further taxation would stifle incentive, enterprise, risk-taking: all the stock phrases which have done such splendid service ever since the first tentative restraints on unbridled capitalism were suggested in the second quarter of the nineteenth century. *Socialist Commentary*, which by 1950 had long forgotten its revolutionary origins" and was now, apart from the house journals of the Fabian Society, the main outlet for Labour theorizing, said in April 1950:

"Because of our concern for justice, quite irrespective of electoral considerations, we cannot be blind to the interests of the middle classes. It was right that, in so far as they were a privileged position, they should be asked to reduce their standards in order that less fortunate classes might be lifted up. . . ."

and the General Secretary of the Fabian Society was writing in 1951 :

" . . . It is indeed a challenge to the Labour Party about the features of what could be called 'the second phase' of Socialism in this country. Mr. Eccles is right in saying that the first phase has largely been concerned with social justice--sharing out equally what we have of a national cake. We have now reached the stage that, if every penny were taken from everyone above £2,000 per annum, the Chancellor would collect only another £62 million. As Dudley Seers has pointed out, the net effect of distributory taxation has been to reduce inequality of income as between the top sixth and the rest from 3 : 1 to 2 : 1. If the process is completed by capital taxation in some form the burden of achievement will be behind us. In these, and in many other ways, it will prove true to say that the worst bastions of capitalism have been stormed, and the questions of the essential features of the next stage will have become more pressing."¹²

It was left to Professor Arthur Lewis, as late as 1955, to sum up the general argument of these years in the general clichés of these years:

"We have pushed progressive taxation so far in this country that we are clearly in the neighbourhood of its limits, not only in the sense that the incomes of the rich, after taxation, are now comparatively small; but also in the sense that we are in danger of destroying the incentive to take risks. . . ."¹³

We may come back finally to Mr. Crosland once again, than whom no one has been more assiduous in extending these illusions of a massive income re-distribution. In his abridged and revised version of *The Future of Socialism* published in 1964, Mr. Crosland still writes that "the distribution of personal income has become significantly more equal; and the change has been almost entirely at the expense of property incomes";¹⁴ and in stating this Mr. Crosland is only repeating what he was saying in New *Fabian Essays* in 1952.

Acceptance of the official statistics on income distribution, and the belief that there was little more that could be done in this direction, naturally led the Labour intellectuals to think again about the ways in which social advance could be taken further. Nationalization, as such, was understood to have created as many problems as it solved, although what might be done with industries which, unlike mining and the railways, were not bankrupt on take-over, was not seriously discussed. All writers, of course, drew attention to the ownership of capital which remained so much more unequal than personal income; but it was difficult for Labour writers, in the atmosphere of the 1950s which they themselves had done so much to create, to be really serious about a

frontal attack on capital ownership. A capital gains tax on the American model was about as radical an item of policy as they could expect. Educational reform naturally offered greater opportunities for radical policies, at least on paper, and some could certainly expect to be carried out with the return of another Labour Government. But mostly the Fabians, in the immediate aftermath of the Labour Governments, fell back upon non-economic ways of pushing forward. For Mr. Crosland, for instance, the central problem was henceforth the right organization of industry, and the pivotal question within this was "the psychology of industrial relations."¹⁵ Mr. Roy Jenkins, in the same *New Fabian Essays*, was concerned about the way in which "A reforming party is always in danger of destroying itself by its own success."¹⁶ In general, it was agreed that the traditional recipes were no longer sufficient but the proposals being put forward in their place were confused and uncertain; and attempts to evolve a coherent and viable radical programme continued for the rest of the 1950s to exhibit similar uncertainty and indecision.

If the intellectuals were devoid of new ideas the rank and file of the Labour movement were in their own way as confused and perplexed. The workers were told about the major social changes of which they had been almost the sole beneficiaries, and they learnt of the massive re-distribution of income which was supposed to have taken place, again to their advantage. Certainly they were fully conscious of the change in the employment situation since 1940 and they well appreciated the value of the new social services, and in particular of the creation of the National Health Service. Almost all workers in employment ate better than in the pre-war days. But these changes were very far from a social revolution and the style of life of the ordinary worker, except that there were now jobs, had not altered. He was spending nearly as long hours in the factory as in the dramatic days of the war; many were living in appalling housing conditions and there was gross overcrowding: all suffered from the shortages of the aftermath of war, and unlike the middle class, the opportunities for partial relief from rationing were much more limited, if they existed at all. Moreover, for many industrial workers a decent family income was only possible if the wife of the family also worked. The more militant activists among them could, of course, go a long way beyond the instinctive reactions of the ordinary workers that the talk of massive social changes was one more example of "them" and "us." From a number of sources it was possible to learn that while Labour publicists made much of the extension of welfare the average working-class family paid out in total taxation more than enough to cover the income from social services of the average family.¹⁷ The failure to change in any substantial way the industrial relations within the newly nationalized industries began to disenchant active trade unionists. And for those who looked about them in the Britain of 1950 the evidence of a massive shift in income distribution was not

exactly overpowering. The differences in the way of life between the middle-class suburbs and the working-class areas of urban England were as obvious as they had been before 1939. However serious the financial or social hæmorrhage the middle classes were suffering from, the fact of bleeding was not immediately apparent. The theatres, restaurants, hotels and all other places of entertainment and middle-class comfort were prospering as never before. To the ordinary Labour worker the situation was puzzling: to many it was demoralizing.

The common-sense scepticism of the working class was abundantly justified. The facts of life did not square with all the talk of massive social changes, and the inflated claims made by Labour publicists only increased the general disbelief. Nor were the practising politicians any more persuasive than the intellectuals and the theoreticians. By 1950 the leadership of the Labour Party were tired and exhausted, and without a shred of inspiration between them. They voted themselves out of office in 1951 to the bewilderment and disillusionment of their ordinary supporters.

III

Documentary proof of the sound instincts of the ordinary Labour voter, and of the errors of the Labour intellectuals has been accumulating in the past few years; even so, there is still much about the ramifications of income and wealth in Britain that remains to be discovered. The most important work in this field is the volume on *Income Distribution and Social Change* which Professor Richard Titmuss published in 1962, and which followed a number of earlier writings, including the Fabian pamphlet *The Irresponsible Society*. In the 1962 volume Titmuss attacks the widely accepted belief of the supposed income-levelling trends in British society, and in the process of making good his case he has knocked some very large holes in the intellectual constructions the Fabians and others have been erecting in the years since 1945.

It is necessary to be precise about what Titmuss is saying in this book on income distribution. He is *not* arguing a case which dogmatically refutes the income-levelling ideas of the statisticians, for he is convinced that the existing factual data available for income analysis are incapable of providing definitive proof, one way or the other. What he is stating in an extremely well-documented argument, is *first*, that the official statistics published by the Board of Inland Revenue are hopelessly incomplete, as well as misleading; and *second*, that all the evidence which can be brought together, and he assembles a great deal, suggests that what has been taking place in the 1950s is not a levelling of incomes, but its opposite. There are other conclusions which follow, although Titmuss himself does *not* make them; that those who have argued income-levelling tendencies from the existing statistics are guilty of political prejudice, or their standards of scholarship are inadequate, or,

at best, they are simple souls who, when confronted with a statistic blessed by an official imprimatur, embrace it eagerly and indiscriminately. A slight case of statistical nymphomania, perhaps.

This volume by Titmuss on the distribution of income could not have been easy to write, and it is certainly not easy to read, for the subject is one of extreme complexity. The author has worked his way through the thick jungle of official and unofficial statistical evasions and untruths, as well as through the fantastic maze of legal devices whose purpose is to conceal the real wealth position of the propertied classes. In his early chapters Titmuss takes up some of the important methodological problems of income study: noting first that the elementary requirement of any national income analysis is to know to a reasonable degree of accuracy the total number of incomes.¹⁸ A good point, it may be thought, yet such is the inadequacy of official statistics that it is impossible to discover how many income units there are in Britain liable to tax. Dudley Seers estimated 23,500,000 incomes for 1938, the date usually taken as the starting point for most studies of income levelling; Lydall used 24,000,000, and Paish, who gave no indication as to how he arrived at his figure, estimated incomes as "probably well under 25,000,000"—a figure which Titmuss described as "highly improbable" since Paish, unlike the others quoted, included incomes below £50.¹⁹ Titmuss' own estimate of potential tax units in 1938 was 25,636,000.²⁰ One does not have to be a specialist in these matters to appreciate that an accurate statement of the total number of incomes, to be set against the total national income, is rather important for the final calculation of income distribution. In particular, accuracy is essential for the extremes of incomes: the 1 to 5 per cent of incomes at the top of the scale and the mass of low incomes at the bottom. An error in either of these can seriously bias the whole shape of income distribution.²¹ Accurate data are not available, among other reasons, because those who have worked on income studies have confined themselves too narrowly to what they believed were financial facts. There is a wide range of social phenomena which materially affect the shape and size of income distribution and the shares going to particular social groups. To quote one example: "The phenomenal rise since 1938 in the amount of marriage," Titmuss writes, "and in the number of early marriages is one of the major factors in producing a statistical illusion of greater income equality. It is, nevertheless, a cause for surprise that the full significance of one of the most remarkable social changes of recent decades has been virtually ignored by all those who have commented on the income distribution statistics."²² It is true that had economists and statisticians asked these sort of questions they would not have been provided with any answers; but it is precisely because the Board of Inland Revenue have not been asked such questions that the Inland Revenue have been able to continue for so long their statistically conservative, not to say misleading, way.

One of the starting points for a realistic analysis of British income statistics is the "almost unique" British system of taxation which allows tax reliefs for payments voluntarily undertaken by the tax payer. Under British tax law "when a man's income is transferred to someone else, the liability to tax on that part is transferred with it."¹⁰ Such payments have to satisfy three conditions: (i) they are made under a deed of covenant which must extend for a period of more than six years; (ii) they are not made in favour of an unmarried infant of the tax payer making the covenant; (iii) they are not made in exchange for goods or services rendered by the recipient. What some of this means in plain terms may be illustrated by a few examples. A tax payer, for instance, can make over part of his income to his mistress and thereby obtain relief on the amount transferred provided the Inland Revenue are satisfied that the income thus transferred is not "for services rendered." Those who receive such transfer payments are themselves liable to tax, but since such transfers are normally from the richer to the less rich the latter can claim repayment of any tax deducted to which their own tax exemptions and reliefs entitle them. Those who make the covenant obtain considerable tax relief while the recipient will usually have large tax reliefs anyway and only the general community loses because its total revenue from taxation is smaller than it otherwise would be. This is part of the tax "erosion" which radical economists have been so vigorously criticizing in recent years.¹¹

A further example illustrates some additional processes at work. Socialists of all persuasions are agreed that the Public Schools are a prime source of economic and social inequality in British society, although the remedy for this situation varies widely. What is not generally appreciated is the extent to which the high cost of Public School education is today being subsidized by the general community, although we cannot be precise about the degree to which this takes place. Again it works through income transfers. Any relative or friend may make an educational covenant in favour of children provided they are not his own. If the covenantor is well-to-do, as he invariably is, otherwise there is no point to the operation, considerable tax relief is obtained on the sum transferred and the father of the children who are the recipients is saved a considerable financial burden in respect of the education of his children. *The Times* on 28 September 1964 ran a special article to remind grandparents of the advantages of the system, and noted that in addition to the reasons of family pride and affection which would induce this kind of generosity on the part of grandparents, "it would scarcely be human not to find some slight pleasure in having 'something for nothing.'¹²

Transfer of income by covenant is only one of the many ways by which individual current income is divided and spread over time and other income units. The growth of superannuation and pension schemes in the last twenty years is another of those striking phenomena

which vitally affects the shape of income distribution at any one point in time and which are also excluded from the calculations of income shares by the Board of Inland Revenue. A better-known addition to income, which once more does not figure in the statistics of income distribution, is benefits in kind. Here, of course, the differences between groups within the middle and upper income groups are considerable, since some have no access to expense accounts. But benefits in kind, which are not wholly limited to the middle and upper strata, since meal vouchers for the ordinary clerical workers or subsidized canteens for manual workers are also included, extend much more widely than to the consumption of food and drink and strip-tease. Business firms are today making increasing provision of new forms of benefits in kind for their higher-paid executives. Housing, the underwriting of bank overdrafts, direct loans, educational trusts and scholarships, non-contributory pensions, tax-free lump sums on retirement, access to shooting and fishing rights are some of the additional benefits now being introduced by the business world, most of which are allowable as legitimate business expenses and none of which find their way into the calculation of income statistics.

Early in the 1950s the Inland Revenue Staff Federation, in a memorandum to the Royal Commission on Taxation, ended their submission by saying that "the avoidance of tax, whether legal or illegal, is reaching the proportions of a social evil." Two years before this statement was published the Board of Inland Revenue, the employer of the members of the Federation, had underlined the trend towards income re-distribution. The catalogue of the ways in which the wealthy have become richer in this post-war era is much more exhaustive than the matters which have been mentioned above. A full discussion would include a reference, to quote the Economist, to the tax on death duties having become "an optional tax"; or to the enrichment of shareholders since 1951 by the appreciation of capital values: "the average rich man more than doubled his capital in the thirteen years to April 1964, without having to exercise his brains. If however he had invested his capital shrewdly. . . he would have trebled it" or to the even more fantastic capital appreciation of land values, and of the profits of the property developers.

The full implications of these facts naturally reach much further than a demand for the drastic revision of the tax laws, important though that is for the future. Professor J. E. Meade is among the most recent commentators to express his shock and concern that in the United Kingdom at the end of the 1950s "no less than 75 per cent of personal property was owned by the wealthiest 5 per cent of the population. Moreover, the rich obtain a higher yield on their property than do the poor. . . . The result is that the concentration of income from property is even more marked than the concentration of property ownership itself, and in 1959 no less than 92 per cent of income from property

went to 5 per cent of the **population**.¹ In the work of Titmuss and others we have a detailed account of the methods by which the propertied groups hold on to what they have, of the ways they steadily improve their income-wealth position, of the important financial advantages that accrue to the managerial classes, and of a general confirmation, even as John Strachey continued to recognize in his last writings, that there is in capitalism "an innate tendency to extreme and ever growing **inequality**."² There is now little that remains of Strachey's naive hope that Labour's political power—at least on past **experience**—could over-ride these trends towards inequality, and there is certainly nothing that remains of Crosland's **simple** faith that we are no longer living in a capitalist society: a statement he repeats, it is worth noting again, in the 1964 edition of *The Future of Socialism*.

We are now in a position to measure the utter wrongheadedness of the Labour intellectuals after 1950 and the damage they inflicted upon the Labour movement by their disastrous analysis of post-war capitalism. By accepting at their face value the ideas of the orthodox—which since they themselves were part of orthodoxy was not very **difficult**—the policies which were advocated were equally disastrous. The Labour revisionists—the name they gave to themselves—popularized with great vigour their old wives' tales of income levelling and the rest, and thereby encouraged the erosion of confidence within the lower ranks of the Labour movement, already confused and uncertain because of the political fumbblings of the Labour leadership. The hopelessly wrong conclusions which the revisionists deduced from post-war economic and social trends led them to argue for further accommodation to capitalist society, in order to allow capitalism to continue its good works. It is true that Crosland, in his later writings, has come to lay more stress upon economic inequality, both in property ownership and **income**,³ but he and his colleagues were invoking a very different emphasis in the early 1950s, and it was these years which provided the intellectual and political arguments for the rest of the decade: no wonder it turned into a lost decade of frustration, retreat and defeat.

NOTES

1. The most detailed history is in C. Driver, *Tory Radical: The Life of Richard Oastler* (Oxford, 1946).
2. *English Social History* (1944), pp. 552 and 586.
3. *The English Constitution* (2nd ed., 1872), p. xxiv.
4. Cecil spoke these words in a debate in the House of Commons: *Hansard*, 3rd Ser., Vol. CLXI (1, 861), Col. 1511.
5. The best literary expression of the fury of the upper classes against the Labour Government are the novels of Angela Thirkell, especially *Private Enterprise* (1947) and *Love Among the Ruins* (1948).
6. *Income Distribution and Social Change* (1962).

7. F. W. Paish, "The Real Incidence of Personal Taxation," *Lloyds Bank Review* (January 1957); H. F. Lydall, "The Long Term Trend in the Size Distribution of Income," *Journal of the Royal Statistical Society*, Vol. 122, Part I (1959).
8. Lydall, *loc. cit.*, pp. 33-5.
9. Among the more popular literature were two books by R. Lewis and A. Maude: *The English Middle Classes (1949)*, and *Professional People (1952)*.
10. *Socialist Commentary*, reviewing at some length this volume by Rowntree and Laver, headed their article "The End of Poverty?"; and commenting on the conclusion that the only real cause of poverty left was old age went on to say: "A further calculation shows, however, that if the new increases in retirement pensions announced in 1951 are taken into account, the greatest remaining cause of poverty will have been nearly eliminated" (December 1951).
11. *Socialist Commentary* began in 1934 as the Journal of the British Section of the Militant Socialist International.
12. Donald Chapman in *Fabian Journal* (October 1951).
13. *Socialist Commentary* (June 1955).
14. P. 31.
15. *New Fabian Essays (1952)*, p. 65.
16. *Ibid.*, p. 90.
17. See for example the *Economist*, 1 April 1950, "The Cost of Welfare," quoting from the E.C.A. *Report, Facts on the British Economy (1950)*.
18. Titmuss, *op. cit.*, ch. 2.
19. P. 42.
20. Appendix B.
21. P. 40.
22. P. 50.
23. See Chapter 5 for a general discussion of this point.
24. See the Reservation, signed by Mr. N. Kaldor and others, to the *Second Report of the Royal Commission on Taxation*, Cmd. 9105 (1954).
25. *The Times*, 28 September 1964.
26. Quoted in Titmuss, *op. cit.*, p. 183.
27. N. Davenport, *The Split Society (1964)*, p. 67.
28. J. E. Meade, *Efficiency, Equality and the Ownership of Property (1964)*, pp. 27-8.
29. *Contemporary Capitalism (1956)*, p. 150.
30. See e.g. *The Conservative Enemy (1962)*, Ch. II.