

# The Meade Report(1978) and the taxing question of wealth

Martin Chick

University of Edinburgh

# History and Policy

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

# Inequality

Thomas Piketty, *Capital in the Twenty-First Century*

Annual Wealth Tax - Mansion Tax

Inequality also of political concern in the 1970s

Sandford, Willis, Ironside, *An Accessions Tax (IFS, 1973)*

Labour Party manifesto calls for a Wealth Tax(1974)

Green Paper on Wealth Tax 1974, Select Committee  
1975

Tawney, wealth and access

# Meade Committee

- Established 1975 by IFS
- Members included Mervyn King, John Kay
- Meade – Nobel economist
- Concerns with inflation (Sandilands) distortions, social dividend
- Sen, Hare, Mirrlees, Rawls
- Incentives: income tax. Meade favoured a top rate of 70% rather than 83% plus 15%.
- Rachel Lomax, Treasury MTTTS 75% top, 32% average

# Meade

- ‘Our Report is a joint effort, but I take this opportunity of expressing a personal view. Our economy has become too stagnant; restoration of standards of living and many desirable increases in economic welfare depend upon higher productivity.’
- ‘At the same time a modern humane society demands that effective action should be taken to prevent poverty and to remove ‘unacceptable inequalities of opportunity, wealth and privilege.’
- ‘Inherited wealth is widely considered – and we share the view- to be a proper subject for heavier taxation on grounds both of fairness and of economic incentives.’
- Meade: *Efficiency, Equality and the Ownership of Property*(1964); *The Intelligent Radical’s Guide to Economic Policy*(1975); *The Just Economy*(1976)

# Wealth

- ‘Capital produces an income which, unlike earning capacity, does not decline with age and is not gained at the expense of leisure.’
- ‘Wealth in itself confers independence, security and influence.’
- ‘A tax on wealth, as contrasted with a tax on income from wealth, will increase the incentives of the owners of wealth to seek the most productive uses of their capital so as to yield the highest possible rate of return.’

# Ownership or transfer?

- “Whereas an annual wealth tax(AWT) will fall on wealth which results from a man’s own effort, enterprise and saving just as much as on inherited wealth, taxes on capital transfers may be chosen so as to fall on the inheritance of wealth without falling on the accumulation of wealth”.

# Donor or donee?

High rates of taxation on the holding of wealth will impede the accumulation of large fortunes; high rates of taxation on the transfer of wealth will impede the inheritance of large fortunes.

But capital taxes may ....also have the effect of giving an incentive to owners of wealth to disperse their fortunes more widely by gift or bequest to those with smaller fortunes.

# PAWAT-A combined Progressive Annual Wealth and Accessions Tax

- As with an ordinary accessions tax, for every taxpayer there would be recorded a cumulative total of all the gifts and inheritances (subject to exemption of small gifts) received up to date. As with an ordinary accession tax, a donee would pay tax on any fresh gift received at a progressive rate which depended upon the total cumulative amount of gifts already received. But the rate of tax would now depend not only upon the cumulative amount of gifts already received but also upon his/her age, the tax rate being higher the younger the donee.

# PAWAT

- The donee on receipt of a gift pays a lump sum tax, and thereby franks that inherited wealth for future annual taxes. (up to age 85)
- If handing on within franked period, the tax overpayment is refunded
- Payments are calculated using present value discounted calculations

# Houses: Composition of estates at death 2007-8 (Mirrlees)

Size of estate (£ million)	Number of estates	Residential buildings	Cash	Securities	Other <sup>a</sup>
Below 0.2	162,954	61%	32%	5%	2%
0.2-0.3	54,795	63%	26%	5%	6%
0.3-0.5	32,786	56%	25%	11%	8%
0.5-1.0	14,615	44%	23%	20%	13%
1.0-2.0	4,045	35%	17%	30%	19%
Above 2.0	1,443	25%	12%	35%	29%
All	270,639	52%	24%	14%	10%

# Housing: Tenure and taxation

- 1. Owner-occupied (50% in 1975)
- No tax on imputed income and owner able to deduct interest which is paid on debt incurred on purchase of house.
- 2. Rented and owned by private landlords (16.5%)
- Subject to rent controls. Price with vacant possession much higher than with tenants.
- Landlord pays tax on net rent received, but controlled rents reduce total tax take.
- Tenants reluctant to move.
- 3. Rented and owned by local authorities.(33.5%)
- Subsidised and rents at best reflecting average, pooled borrowing and maintenance. New building raises rents.
- Waiting lists: excess demand but at controlled prices.
- Excess demand heightens rigidities as inter-house movement slowed.

# MIRAS and Schedule A

- Schedule A tax on imputed income (on rental value but at 1935/6 valuations) from owner-occupation was abolished in 1963 (Yielded £50m in 1962)
- Mid-70s push to reduce subsidies to council houses
- Peter Shore pushes for sale of some stock, with higher rate MIRAS traded against council rents rise.

# Treasury views 1

- Douglas Wass- Treasury view of eliminate subsidies to council houses (£206 incl. rent rebate of £42 per property), abolish rent control, tax imputed income of owner occupiers (i.e. treat as a marginal application of income)(use insurance valuations?)
- Tax relief to owners-occupiers (or option mortgage subsidy) £89 per dwelling
- Benefits of improved mobility of labour, more efficiency use of priced housing stock, more savings for industry

# Treasury views 2(MIRAS)

- Input from William Pile re. 'alienated' income
- And administrative problems of restricting MIRAS
- Douglas Wass- reduces incentive to young executive
- Ian Byatt- why not concede on MIRAS and treat housing partly as a consumer durable to win taxation of imputed income?

# Mirrlees

- Progressive(lifetime), neutral, system
- Opportunity cost of capital (rate –of-return allowance -RRA), reduce capital gain ‘lock-in’.
- Tax transfers of wealth, especially to the next generation
- Tax annual consumption of housing services

# Administrative reception

- Inland Revenue, 79 page report, complaining of practical difficulties
- Unprepared to support PAWAT, preferring Green Paper on Wealth Tax
- IR:-“The Report is disappointing: its original proposals are not practicable, and its practicable proposals are not original.....The Report ...entirely irrelevant and useless”.
- Treasury critical of IR: “why did the Revenue not influence the course and the approach at an early stage?”

# Political Reception 1

- Meade Committee tracked by Conservative Party Taxation committee (David Howell)
- November 1977 'disastrous meeting' between Meade and Howe. Meade complained to Howe of 'unmitigated hostility shown by the majority of your group'. Howe called Meade a 'socialist'
- Conservatives v. concerned with taxation of capital
- Keith Joseph: redistribution was 'morally indefensible, misconceived in theory and repellent in practice'. (at odds with Hayek)

# Political Reception 2

- Joh Kay, *Fiscal Studies* 1980 noted of 1979 General Election in which 'tax was a major issue', that the Meade Report 'was barely mentioned'.
- Laffer Curve, Trickle Down,
- Eltis and Bacon, *Britain's Economic Problem: Too Few Producers*
- PAWAT quietly forgotten; top income tax rate 83% in 1979, 40% by 1988
- MIRAS abolished April 2000

# And now?

- Tax By Design: The Mirrlees Review published on 13<sup>th</sup> September 2011
- A changed popular literature, Piketty
- R. Frank, *-The Winner-Take-All Society: Why The Few At The Top Get So Much More Than The Rest of Us* (2010),
- D. Willetts, *The Pinch: How the Baby Boomers Took Their Children's Future: And Why They Should Give It Back* (2011)
- R Wilkinson and K Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*(2009)