

## II

# *Fair Shares for All*

THE first aim of socialists, prized above all others, is equality of income. Equality is desired for its own sake, in terms of moral justice, and it is desired also because the surplus of production should be used not to provide luxuries for a few but to abolish poverty, with its evil consequences of ill health, squalor, ignorance, ugliness and the waste of hundreds of millions of human lives. Fortunately, men have ceased, at least in this country, to dispute that it is the duty of the state to even up the distribution of income; the questions left are only how much and how.

Here there are two quite separate issues, relating to income derived from personal effort, and income derived from property.

Very few people believe that there should be complete equality of income irrespective of work done. A society that did not reward hard work more than slothfulness and skill more than incapacity would soon be reduced to dire poverty. There have been many communist experiments in the world's history, but they have never prospered, either in wealth or in numbers, and have not lasted long. The need for differentials is universally accepted; what is argued is that the current range is much too wide. No man is worth £10,000 a year, and, in our present state of poverty, with the great majority of the people earning less than £6 a week, only a few very exceptional men deserve to exceed £2,000 a year.

Income from personal effort is however a secondary issue, for it is income from property that accounts for the great inequality of incomes, both directly, because the income from property is very unequally distributed, and indirectly because part of the inequality of earnings from personal effort is due to the inequality of property incomes. If this source of inequality were abolished very few people would complain of the inequality of incomes from effort that remained. The fundamental

socialist attack is thus an attack upon property, and demands either an egalitarian distribution of property or the abolition of private income from property.

All modern governments are egalitarian and seek to eliminate extremes of income. This can be done in two ways. The first is to redistribute income through taxation, and the second is so to alter the basic factors determining the distribution of income that the distribution of income before taxation becomes more equal. The method most used is the first; all modern governments effect some redistribution of income through taxation. In fact, it is arguable that some of them, especially the U.K. government, have pushed this method as far as it can go, if not indeed too far. The second method, which involves altering the distribution of property ownership and the whole class basis of society, is also used to some extent by modern governments, but only to a small extent, and it is here that the greatest changes are likely in the future.

#### REDISTRIBUTING INCOME

Redistribution proceeds by levying on the incomes of the rich, and using the levies to add to the incomes of the poor.

The now traditional British method is to put a floor to poverty by providing the working classes with a number of free or cheap services, notably medical service, education, social insurance, cheap housing, and, in very recent times, cheap food. The alternative, before 1939, was to pay out to the working class weekly cash benefits equivalent in amount, which they could use as they desired, e.g. by spending more on trips to the seaside if they preferred this to cheap housing. Since 1939 taxation imposed on the working classes has so greatly increased that the alternative is rather simply to reduce *pari passu* working class taxation and the service made available. The argument for the alternative is that it does away with the bother and expense of collecting working class taxation, and at the same time gives the worker greater choice and the right to take his benefits as he pleases. The only valid objection to this is the belief that the government knows better than the working classes do how they should spend their money. Thus the working classes are made to have education whether they

want it or not, and medical services, and social insurance. Here, as in so much else, there is both truth and untruth, and the line is difficult to draw. If the government simultaneously abolished housing subsidies and cut working class taxation by an amount exactly equal to the subsidies the working classes would be no worse off financially; but they would then without any doubt prefer to spend the money in other ways than on housing, and would live in overcrowded and inadequately provided houses, some because they do not know the advantages of better housing, and others because they value these advantages too lightly in comparison with other ways of spending their money. That is the case, and the only case for housing subsidies, and it is put here in its crudest form because the matter is so often discussed in left-wing literature without facing reality.

Working class taxation is now so heavy, its evil effect on incentives is so considerable, and the cost of collecting taxes is so burdensome (the Inland Revenue handles nearly twenty million assessments every year) that we ought not to keep on the budget anything which strictly involves no more than collecting taxes with one hand in order to pay them out to the same people with another. If the budget is to be used for redistribution of income, the way to do this in future is not to increase the payments to the working classes, but to reduce the taxes that they pay. We can do all the redistribution that we want to do simply by adjusting the structure of taxation, and so long as the working classes are paying any taxes at all, we should never defend any government service on the ground that it is a means of redistribution. Thus, for example, the food subsidies cannot be defended on this ground, for if we were simultaneously to abolish these subsidies and to cut working class taxation by an equivalent amount the working classes would as a whole be no worse off, and we should be saving the bother of collecting and paying out, and be having the stimulating advantages of lower taxation on incentives. (The real case for some food subsidisation is bound up with the case for wage and price stabilisation with which we deal in subsequent chapters.) But, of course, when we have said all this, there remains a substantial core of social services to be financed. What socialists have wanted is to establish a society

in which every child shall grow up in pleasant homes and attractive surroundings, and with good educational opportunities; in which every adult shall be provided for in sickness and adversity; and in which the pensioner can take untroubled ease. This provides a vast sphere for government activity, however it may be financed.

The provision of such services is one plank in the floor that is put to incomes. The second plank is the enforcement of minimum wages.

Controlling the general level of wages does not have much effect on the distribution of income, except for that part of the economy that depends on foreign trade. The reason for this is that there appears, in a free and closed economy, to be a pretty steady relation between wages and prices, so that if the general level of wages rises or falls, the general level of prices rises or falls *pari passu*, and the working classes are neither better off nor worse off. We do not know why this is so, but the evidence is pretty clear, over the past century, that this is what happens.

The consequence is that working class conditions can be improved by raising the general level of wages only if at the same time rigid price controls are imposed to prevent prices from rising also. This can be done, to a small extent, with general benefit to the community, in so far as pressure on profit margins stimulates entrepreneurial efficiency, or in so far as workers produce more as wages rise. But neither of these permits this kind of adjustment to be taken very far, and if wages are raised considerably prices cannot be held down without unfortunate consequences that could be avoided if the same objective were reached—as it can be—through redistributive taxation. These consequences are, first, that it is difficult and costly, in terms of administration, to administer general price controls. Secondly, that if wages are raised all round while prices are controlled there will be serious distortion. This is because wages do not enter into the prices of all commodities in the same proportion. When, therefore, wages increase in all industries in the same proportion some industries become very much more unprofitable than others and entrepreneurs are induced to move from the less profitable to the more profitable irrespective of the social value of the industries. And, thirdly,

a general increase in wages relatively to prices is bound to affect employment adversely. This is partly because some firms will go bankrupt and also because it becomes more profitable to use machinery, the price of which has risen less than wages, in place of labour. More employment is provided in the engineering trades but in all other industries workers are dismissed. It is unnecessary to launch the economy upon this distortion in order to alter the distribution of income in favour of the workers. Redistribution through taxation is much easier and more sensible.

These structures apply only to a general increase of wages, and not to the fixing of minimum wages in depressed trades. Outside the skilled trades and the professions there are great pools of labour whose supply price is very low, and much exploitation would occur but for the work that is done by trade boards and other wage fixing machinery. This is a case for raising not the general level but the level of wages in the lowest grades relatively to the level of wages in the highest grades. This also may cause some unemployment, in so far as it does not increase efficiency, but what it does mainly is to improve the bargaining power of the weakest sections of the community at the expense of the stronger and this is very much to be desired.

Next we turn from the floor that is put to low incomes to the ceiling that is put on high incomes. The most important aspect of this is the heavy taxes imposed on the highest incomes, but more recently the rich have also had their consumption controlled by rationing.

There is a certain seductive attraction in securing fair shares for all simply by rationing out commodities, thus rendering differences of money income ineffective. But this attraction is no safer than is the fascination exerted by equal money incomes. If we are all reduced to the same level by general rationing, incentives are destroyed just as rapidly as if we are all reduced to the same level of money incomes.

In addition rationing is inferior to progressive taxation for three reasons. First, it is difficult to enforce administratively without black markets, and the wider the range of commodities included in it the greater is the difficulty and the likelier the breakdown. Secondly, if rationing is confined to essential

commodities, the money which is not permitted to flow towards these commodities flows towards inessential commodities whose production becomes more profitable, and the supply of essential commodities is reduced in favour of inessentials. And, thirdly, rationing interferes with the free choice not only of the rich but also of the poor, who get fuller satisfaction from their incomes if they are allowed to choose their own combination of commodities. Rationing is useful and necessary for dealing with shortages of particular essential commodities in the interval while efforts are made to augment supplies; but as a universal or permanent way of equalisation it is inferior to taxation.

The simplest way to get a greater equality of income is to put heavy taxes on the rich and light taxes or no taxes on the poor. This has been the basis of British fiscal policy for many decades and each generation has tightened the screw. How far we have gone in this direction is not generally recognised or admitted on the left. No doubt we can and should go further, but we have indeed already gone so far that many question whether the limits of this policy have not already been reached.

The problem that high taxation poses is its effect on incentives. In the days when the standard rate of income tax was sixpence in the pound this could be neglected. But when the standard rate is nine shillings in the pound and surtax on higher incomes brings marginal rates up to 19s. 6d. in the pound the effects of high taxation on incentives have to be taken into account. Actually, the major error in this field is not the amount of taxation but the structure of the income tax. A man who pays nine shillings in the pound is not in fact paying 45 per cent of his income to the Inland Revenue; allowances may be reducing the average rate that he pays to something like 20 per cent. What affects incentive, however, is not the average rate but the marginal rate, and the sensible thing to do is so to reconstruct the basis of taxation that the marginal rate is no longer in excess of the average rate. This would make the standard rate of income tax very much below what it is today—probably less than half of what it is today—and permit higher taxation to be levied in the upper ranges with smaller disincentive effects than there are at present. Several schemes have been suggested with this effect. For example allowances might be taken out of the assessment. Every person who earns an income

could be entitled to draw a marriage allowance and an allowance for each child in cash from the post office in extension of the present system of family allowances; a low standard rate of say 2s. 6d. in the pound could then be levied on all income received up to say £500 a year, and beyond this point additional flat rates could be imposed. Such a reform would also greatly reduce the administrative cost and the inconvenience of the present system. If only for the sake of administrative simplification it ought to be adopted; but in addition some such reform must be adopted if further redistribution of income through taxation is to be possible without killing the goose that lays the golden egg.

#### EQUALITY OF OPPORTUNITY

Nevertheless whatever reforms may be made in the system of taxation, the danger to incentives remains a severe limit on the possibility of redistributing income through taxation. It is therefore all the more important to take measures to increase equality of income before taxation.

The distribution of income before taxation is determined by two principal factors, the distribution of property and the distribution of skill.

It is the shortage of skills which explains the differences in remuneration for work. Doctors earn more than miners because in relation to the demand for doctors there is a much greater shortage of doctors than there is of miners. If every child in the community could become a doctor at no cost, doctors would not be as scarce as domestic servants, and would not earn much more. In order, therefore, to even out earnings from work before taxation, what we have to do is to increase equality of opportunity. The key to this is, of course, the educational system. All socialists aim at enabling all children to have whatever education their abilities fit them for without reference to the incomes of their parents, and if this state of affairs can really be achieved, differences between the incomes of different professions will be very greatly reduced. But there are also other hindrances to equality of opportunity inherent in a class society, particularly in commerce and industry where the opportunities of securing the more highly remunerated posts tend to be

reserved for a narrow circle. One of the objectives of a socialistic industrial policy must be to make it possible for all those engaged in industry at any level to have the same opportunities of reaching the top, with no other restraint than their ability and fitness for the job. Equality of opportunity is the key to greater equality of income and to the classless society.

Some part of the inequality of opportunity, and the major part of the inequality of income is due to the unequal distribution of property. Property owners, it is estimated, receive about thirty per cent of the national income in payment for the use of their property, and since about two-thirds of the property in the country is owned by only two per cent of the population this gives at once two per cent of the population some twenty per cent of the national income. There is no solution to this problem other than confiscation. The nationalisation of property is no solution because the property owners are compensated in full and after the transaction is completed they are as wealthy as before nationalisation.

This is not to say that the payment of compensation when property is nationalised is a mistake. On the contrary it is the only feasible solution without bloody revolution. After a bloody revolution it is possible for the state to confiscate all property; but revolutions dissolve the entire fabric of society and are shunned by most political thinkers not because they do not desire confiscation, and not because they do not think that it is a good thing for the heads of some of the mighty to roll in the dust (which we are told on good authority is pleasing to the Almighty), but because when the fabric of society begins to dissolve no one can predict the consequences or control the ultimate result. No revolution in history has ever achieved precisely what it set out to achieve and the results of many revolutions have been exactly the opposite of what was so intended. It is better, as Charles Lamb taught, to roast a pig over a fire than to burn down a house for the purpose.

Confiscation is achieved by levying taxes on property in a more gradual fashion than revolution implies. The most popular of these taxes are those which fall at death and which, therefore, allow the property owner to enjoy the fruits of his property so long as he is alive. Death duties are doubly popular because they affect incentive less than taxes which reduce income during



life time, and also because they strike at the inheritance of wealth which is itself inconsistent with equalitarian principles. An alternative to death duties which is much canvassed but is not much applied is to impose high duties, not on the amount of property passing at death, but on the amount of property inherited. If, for example, a prohibitive tax were put on the inheritance of any amount larger than say five thousand pounds the testator could prevent much of his property from passing into the hands of the tax-gatherer by distributing it in small amounts to a large number of people instead of trying to keep it intact for a small number of people. A wide distribution of property would thus be encouraged, and a much wider distribution of income would automatically follow.

A capital levy is more painful, and also presents more technical difficulties. If it is to be administered fairly it cannot be introduced suddenly because much time has to be spent on making fair assessments. This is the chief reason why it has not yet been adopted in Great Britain; the capital levy is always advocated at the heat of some crisis as if it were a solution for some immediate difficulty, and when it is realised that the machinery for administering it would take a long time to establish, interest in the levy always flags. A recurring capital levy would discourage saving and encourage capital consumption if it were levied on classes whose capital is so small that they have a real choice between consuming it and preserving it. If it were levied only on persons owning more than say £5,000 or £10,000 of capital (the average amount of capital per family is about £5,000) it would have very little effect on incentives or on saving; and if the government agreed to receive payments in kind or in securities, and used the proceeds to pay off the national debt, its disturbing effects on property values would be small.

It is quite clear that we must make much more rapid progress with the redistribution of property in the future than we have done in the past. So long as property is so unequally distributed all social problems are made much more difficult to solve. It is not merely that there are indefensible extremes of riches and poverty, with the ever present threat of revolution promoted either from within or from without. It is also that judgment on all other issues is distorted. We are unable to think straight on

nationalisation because the majority of persons think of it (wrongly) as a means towards equality, instead of considering reasonably the pros and cons of public operation of industry. Workers will not abandon restrictive practices and release their energies for production and the abolition of poverty because they fear that their efforts will merely make the rich richer. The budget is strained and taxation raised to levels dangerous to incentives. And so on. If we lived in a community in which such property as was not owned by the state (and it is not desirable for the state to own all property) was widely distributed among the people, we should attain both a standard of living and a degree of social harmony and happiness that are now beyond conception. Much of the energy which statesmen, clergymen and philosophers devote to preaching to us the virtues of social peace and brotherhood, and the dangers of envy and of industrial and political strife would be much better devoted to drafting and enforcing a law for the confiscation and redistribution of property by means of a capital levy.

#### CONCLUSION

This chapter may be summarised in the following statements.

(1) The case for the provision of free or cheap services by the state rests not on income distribution but on the superior insight of the government, and is limited to those services whose extended use it is particularly desired to encourage.

(2) General wage control is an ineffective means of redistribution of income unless it is accompanied by general price control, and this has undesirable effects; but the enforcement of minimum wages in particular industries is necessary for the protection of depressed groups.

(3) General rationing is difficult to administer and a cumbersome way of achieving equality.

(4) The best way to redistribute income is to impose low taxes on the poor and high taxes on the rich. Reform of the income tax system is necessary in order to pursue this policy more effectively, but in any case it has already been used so fully in the U.K. that greater emphasis must in future rest on altering the distribution of income before taxation.

(5) Inequality of income before taxation is partly due to inequality of opportunity in education and employment, which the state can help to reduce.

(6) It is also due to the unequal distribution of property which can be changed by death duties and capital levies.