Income Distribution and Social Change after 50 years[1]

Introduction

It is a great pleasure to have been invited to give this Memorial Lecture for Richard Titmuss, someone whose work I greatly admired and continue to admire. Indeed, the conclusion of this Lecture is that his masterly study of income distribution remains of considerable validity today.

I did not know him well. We met on a few occasions – I remember in particular a conference in Canada. As is well known, he did not like economists. In *The Gift Relationshio,* he quoted the famous phrase from Keynes that he hoped that "one day economists could manage to get themselves thought of as humble, competent people on a level with dentists", and went on to say "this day has not yet dawned" (page 199). But he was very kind and encouraging to me, perhaps because he sensed that I was not just interested in growth theory, public deficits, and inflation. I still have – I keep it in my copy of *Income Distribution and Social Change* – a card from him, dated Christmas Eve 1972, suggesting that we meet. Sadly, he died 3 months later.

The key messages of *Income Distribution and Social Change* I take to be (with supporting quotations):

- The importance of official income distribution statistics: "the critical role now played by this body of facts" (page 18);
- The need to subject them to critical evaluation: "they lead us to ask; to what extent and in what respects do these statistics represent reality?" (page 18);
- The statistics have to be interpreted in the light of social change: "we were led away from the severely statistical approach to a consideration of long-run forces affecting the economic and social structure of British society" (page 189, abbreviated);
- The implications for tax policy as a redistributive instrument: "the value of these statistics has increased immeasurably since the responsibilities of the Chancellor have no longer been confined to … a rigid policy of balancing the Budget. The task of the Chancellor is now far wider" (page 17, referring to the 1944 *White Paper on Employment Policy).*

It is this set of key messages that provide the structure for the Lecture. I begin in Section 1 with the official statistics on income distribution and their development over the past 50 years. There have been major improvements in the quantity and quality of these statistics, even if progress has not been

[1] Richard Titmuss Memorial Lecture, LSE March 2011.

uniform. But we have to ask in Section 2 the same question that Titmuss asked of the Inland Revenue statistics in 1962. How far do they adequately capture reality? How far can our methods of analysis adjust for the shortcomings of the statistics? I then turn in Section 3 to the interpretation in the light of social change, and in the concluding Section 4 to the implications for policy, with an eye of course to the present-day policy issues and the Coalition Government. In treating these topics, I have had to be highly selective. The book is very rich, and its subject matter has in the years since 1962 been developed by many writers. I have decided to concentrate on aspects on which I am currently working myself. In Section 3, I focus on the changing role of wealth and inheritance. In Section 4, I highlight the case for progressive taxation.

One final introductory comment is that I am concentrating in this Lecture on the distribution of economic resources – income and wealth. If you tell me that there are other important dimensions to well-being, then I will completely agree with you. I am fully in favour of a multi-dimensioned approach to the assessment of social justice. But income is an important dimension – and we only have 50 minutes.

1. Income distribution statistics

The point of departure for Titmuss in 1961 was the widespread belief that post-war Britain was a much less unequal country than in the past. Full employment, strong trade unions, progressive taxation and the welfare state had – it was believed - been potent forces for egalitarianism. The opening sentence of *Income Distribution and Social Change* describes how "much has been written in recent years about the strongly egalitarian effects of the social and economic policies pursued by British Governments since the end of the Second World War." This belief was based on the official statistics published on income inequality, and their analysis by economists, such as Frank Paish, Professor here at LSE, who concluded that there had been a "very remarkable redistribution of personal incomes before tax" (F W Paish, 1957). He quotes Harold Lydall, another economist, as saying that there had been an "exceptionally great" rate of change towards equality in Britain since 1938. It was therefore not surprising that a Conservative Minister could claim that "we have a better and fairer distribution of incomes today than we had ten or eleven years ago" (Sir Edward Boyle, 1961).

1.1 Official statistics on income distribution

On what was this based? Figure 1 shows the key sources discussed by Titmuss, and the picture as it looked from 1961 (which is when he finished the book). The central source was provided by the Board of Inland Revenue, and its annual reports. As Titmuss notes, the Board had developed "a concern for the publication of data which analyse and classify the distribution of personal incomes. [A function] which extends the Board's interests beyond its purely administrative duties" (page 25). Before launching into criticism of these data, he pays tribute to the contribution of the official statisticians to the study of the distribution of income – a tribute that I would like to echo. In 45 years studying this subject, I have been greatly helped by the research they have undertaken and their willingness to assist with the supply of data – including for one of the charts presented later.

From the Inland Revenue estimates, and the series based on their information published in the National Income Blue Book, it did indeed appear in 1961 that income inequality had fallen between 1938 and the 1950s – see Figure 1. This is summarised in terms of the Gini coefficient for after-tax incomes among tax units, which fell from 43 per cent to 36 per cent, a 7 percentage point fall. Is this large? To see what it means, suppose that the tax and transfer system is approximately of the form of a uniform tax credit and a constant tax rate on all incomes, that the government spending on goods and services absorbs 20 per cent of total income, and that the initial redistributive tax is 10 percentage points. Then, an increase in the tax rate of 11 percentage points would be needed to reduce the Gini coefficient for disposable income by 7 percentage points. So the reduction certainly seems large, even possibly "extraordinary". We may also note, although Titmuss does not emphasise the finding, that the shares of top wealth-holders had fallen sharply: the share of the top 1 per cent had fallen from a half in the 1920s to a third in the 1950s.

There is no doubt that the statistics at that time were limited and deficient. Titmuss referred to "the crumbs that fall from the conventional tables" (page 191). Since then, we have seen a very marked increase in the availability of income distribution statistics. Figure 2 sets out some of these schematically in a timeline since 1962.

In some cases, progress has been made by exploiting further sources that were already in existence when Titmuss wrote. Notably, there was the Family Expenditure Survey (FES), initiated in 1953, and carried out annually since 1957. As Titmuss was writing, Leonard Nicholson was working in the Central Statistical Office on the first of the official studies of the Redistribution of Income (the ROI series), showing the distributional impact of the government budget. This began a series that has been published annually in *Economic Trends*. (The acknowledgements to Nicholson's article published in 1962 point to another important factor: he says that the calculations "would have been impossible without electronic computers".)

Figure 1

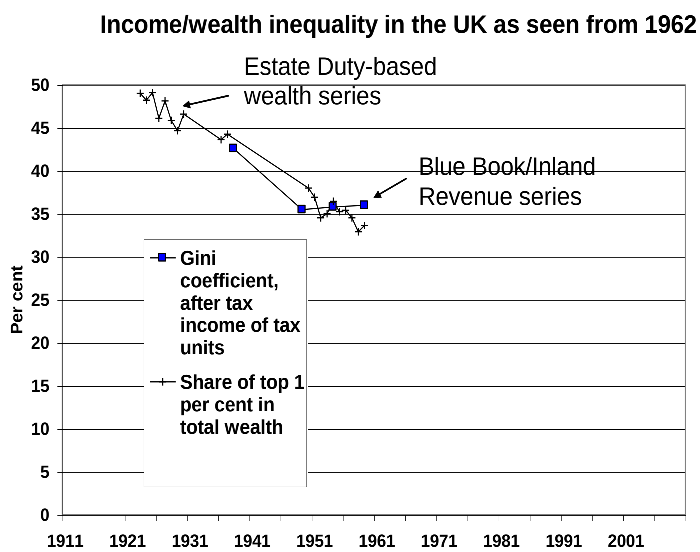

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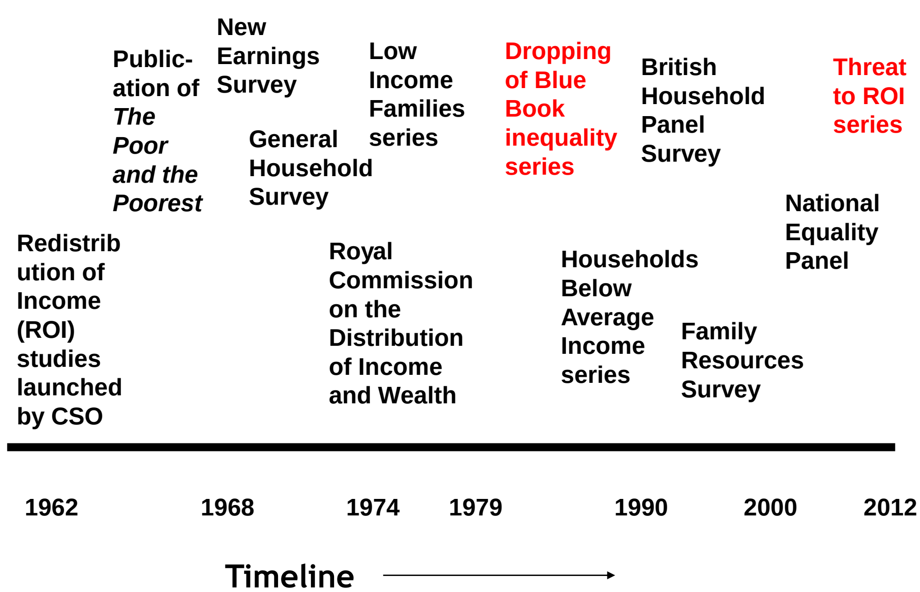
Figure 2 A brief history of UK income statistics



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A second very important use of the FES data was that by Brian Abel-Smith and Peter Townsend in their landmark study *The Poor and the Poorest*, published in 1965. As they say, the Inland Revenue data told us nothing about the poor, and household surveys – first the FES, and later the Family Resources Survey (FRS) – have provided the basis for first unofficial and later official figures on poverty in Britain. Much of the progress has come from new data sources, where there has been a remarkable explosion, in part no doubt aided by the increase in computing power. I have already referred to the FRS, but this was preceded by the General Household Survey and by the New Earnings Survey, now ASHE, an annual survey of employers. It is hard today to imagine how we managed for so long without an annual survey of employers and wages.

But progress was not linear. There were reverses as well as moves forward. The arrival of the Thatcher government led, first to the abolition of the Royal Commission on the Distribution of Income, and then to a dismantling of some of the statistical advances that the Commission had fostered. In particular, the series that Titmuss had criticised – that published for many years in the National Income Blue Book – was abandoned after 1984. Today, too, the statistical sources are under threat – the Redistribution of Income series, in particular, was on the list of candidates for cutting as the Office for National Statistics sought to cope with budget cuts. I am glad to say that the series has been reprieved: it would have been a great loss to give up a series that has run from 1953, and it would be a clear signal that the government is not interested in the distributional impact of its policies.

1.2 Income inequality in the UK 1911-2010

A long run perspective is important in view of what has happened to the distribution of income in the UK over the past 50 years. Figure 3 shows first of all the continuation of the Blue Book series up to 1984, from which we can see the evident change in direction after 1979. A Conservative Minister in the Thatcher Government could not make the same claim as Sir Edward Boyle did in 1961. The Gini coefficient in 1984 was 3½ percentage points higher than in 1975. This increase reversed half of the fall between pre-war and post-war Britain. The rise was mirrored in the new – household-survey-based – estimates from the FES/FRS. It was evident in the figures for earnings dispersion from the NES; here the slide shows the earnings at the top decile relative to those at the median.

The rise in top incomes shows up in the series shown at the bottom of Figure 3, constructed as part of the Top Incomes project started by Thomas Piketty. The series shown relates to a very small group of the population – the share of the top 0.1 per cent – but there is a marked U-shape. The share started above 10 per cent, fell by 1979 to 1¼ per cent, and is now over 6 per cent. In other words, this group have today more than 60 times their proportionate share of total gross income.

To go into a little more detail, it appears – see Figure 4 - that the last 50 years may be seen as constituted by three distinct periods. As they say in football, it was a game of 3 halves. The second two have been much discussed, so I want first to draw attention to the period of the first Wilson Government, a government in which Richard Titmuss participated in the sense that he was Vice-Chair of the newly established Supplementary Benefits Commission. His participation was rather controversial, but in retrospect the record of the Wilson Government looks better and better. Taking the 2 periods of Labour government, 1964 to 1970 and 1974 to 1979, together, it was in fact the one period when inequality fell and, to a very modest degree, poverty was decreased. The only other period of sustained reduction in overall income inequality in the UK was between 1938 and 1949, and we do not want to take that as a model.

The record of the Wilson Government certainly contrasts with the Thatcher decade that followed. All the series rise and poverty doubles. Then there are then the nearly 2 decades of John Major and New Labour. It may seem strange to lump them together, but in fact their distributional history seems rather similar. To summarise in a very broad-brush manner, overall inequality did not change greatly in the UK. The Gini coefficient at the end of the period shown, 2008, was slightly higher, by 1.8 percentage points, than in 1990. This came about because things got better at the bottom, with a fall in poverty of some 4 percentage points, and worse at the top, where top earnings and income continued to race away. The share of the top 1 per cent rose from under 10 per cent to around 15 per cent.

To summarise,

Period	Overall inequality	Poverty	Top income share	Upper decile of earnings
1. Pre-Thatcher	FELL	FELL (slightly)	FELL	FELL
2. Thatcher	ROSE	ROSE	ROSE	ROSE
3. Major/Blair/Brown	LEVEL or SLIGHT INCREASE	FELL	ROSE	ROSE

Figure 3

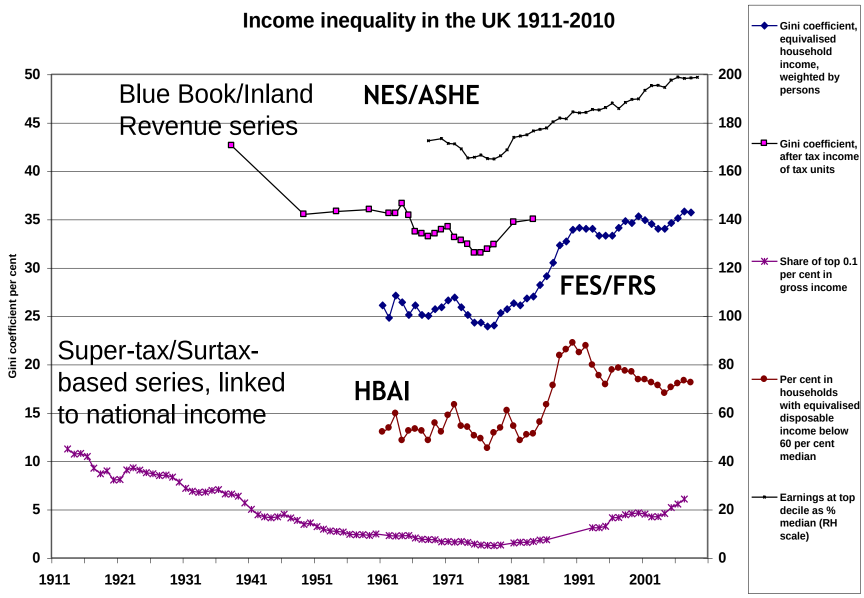

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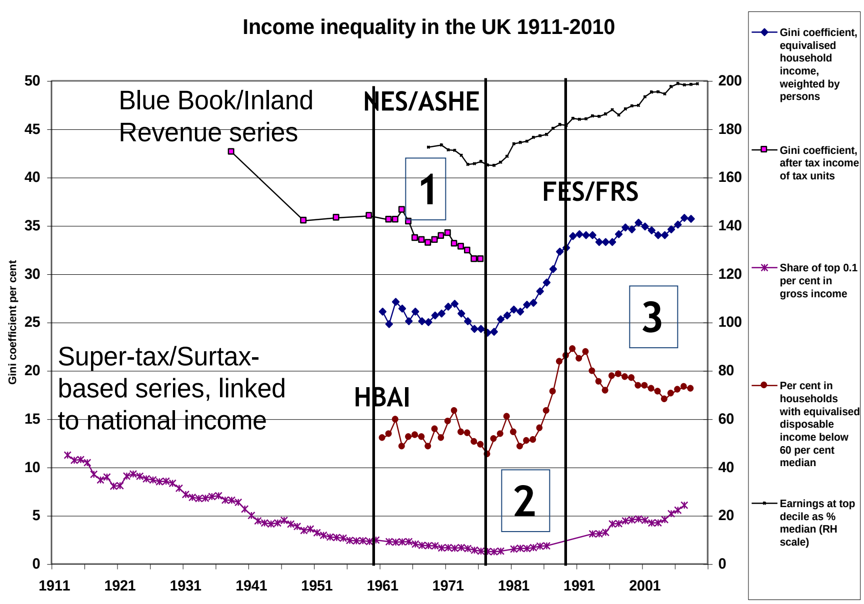
Figure 4 A game of three halves.



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2. Relevance today of the Titmuss critique

Today the empirical picture regarding income inequality in Britain is very different from that with which Titmuss began his book. The general belief then was that inequality had fallen; today, the general belief is that inequality has increased. But does this mean that his critique is irrelevant? Is it possible that we are being misled by the statistical evidence?

The Titmuss cross-examination is well summarised by the key chapter titles:

- The problem of definition: Income and income units
- Social structure and the distribution of incomes;
- The individual and the family;
- Tax, time and kinship in the arrangement of income;
- Statutory income and real income;
- The spreading of income over retirement;
- Benefits in kind.

My overall assessment is that many of the issues raised by Titmuss remain of importance today, and that we need to take them seriously. At the same time, it is possible to overcome a number of the difficulties, and his judgments were too negative. One reviewer commented, referring to his cross-examination, that the author could have left out the hyphen!

There is clearly not time in this lecture to go through all of the headings in depth. I have therefore selected one of the major issues raised by Titmuss: the choice of the unit of analysis. Titmuss draws attention to the ambiguities surrounding the definition of the tax unit at that time, but this is an issue that has rather disappeared from sight. It is striking how we seem to have accepted without question that poverty is now measured – in the Households Below Average Income series – on the basis of the household unit (defined as "one person living alone or a group of people living at the same address having meals prepared together and with common housekeeping arrangements. A household will consist of one or more *benefit units*", HBAI 1979-1992/93, page 111). In the same way, the European Union has last year adopted a very welcome poverty target in its Europe 2020 Agenda of reducing by 20 million the number of people at risk of poverty or social exclusion, measured by three indicators, one of which is financial poverty measured on a household basis. Many aspects of this target have been questioned, but not, as far as I am aware, the use of a household unit.

In the past, in the UK, we have measured poverty in terms, not of the household, but of the narrower nuclear family. The measure took account of the contributions by other members of the household, but they were treated as separate units. Whereas we seem to be content today to measure poverty on the assumption that resources are fully shared between all those living in the household, in the past there had been resistance to such an assumption, a resistance no doubt influenced by the experience of the pre-war household means-test. And to the extent that resources are not equally shared within the household, measured poverty will be higher on a narrow family unit basis than on a household basis. The numbers in poverty would be higher than the HBAI figures.

Concern about the choice of income unit is heightened by the fact that in the field of income taxation we have moved, with the introduction of independent taxation in 1990, from the nuclear family to the individual as the basis for taxation. This affects both the interpretation and the evaluation of the statistics. The interpretation depends on the joint distribution of the incomes of couples and the way in which this joint distribution has changed over time. Does an increase in the proportion of married women with earnings lead to a rise or a fall in measured inequality? In evaluating the rise or fall, how do we want to assess the position of individuals in a marriage or a partnership? Do we want to consider their individual incomes? This would seem justifiable on a rights-based approach: we are interested in the resources on which the individual has first claim. Or do we wish to take account of the sharing of resources, as seems justifiable on a standard of living approach? In this case, do we assume full sharing, as where we consider the total income of the couple? Or do we assume partial sharing?

Positive responses

As I said just now, many of the issues that concerned Titmuss are of concern today, but I would myself adopt a more positive approach. First, I have already referred to the use of new sources and the better exploitation of existing sources. We now have a much richer set of household survey data; the data are typically annual; the data come, in the case of earnings, from employers as well as from workers. An important role has been played by the increased availability of the micro-data to researchers. It is worth remembering that, when I began research on poverty, it was not possible to have access to the micro-data from the Family Expenditure Survey. The data had been released – in the form of access to the paper copies of the survey schedules – to Abel-Smith and Townsend, but, perhaps because of the publicity surrounding *The Poor and the Poorest*, no further access was given in the 1960s. It was the 1970s when access to the - machine-readable - data became possible. In 1978, in fact, the research programme run by Mervyn King, Nick Stern and myself was the first to receive these data from the Survey Archive. I am sure that the ensuing much greater use of the data led to improvements and to the validation of the sources. Indeed, quite a lot of our early research was concerned with the comparison of different sources, such as comparing the earnings data in the FES with those from the New Earnings Survey.

Micro-data have revolutionised this branch of social science research - to such an extent that many students today believe that one can *only* use micro-data. But other data are useable. An important example is provided by the historical income tax data. We do not have tax micro-data any more from 1913, but the tabulations made at the time can be used, as in the series shown in Figure 3. One cannot of course use the income tax administrative data on their own: they have to be combined with outside information about the total population and the total income. This was the approach used by Simon Kuznets in the US in his study of top incomes, and is the basis for the series for the UK shown in the slide. It relates to a very small group of the population, but it covers a long sweep of history, providing perspective to the recent rise: the top income shares are now back at a level similar to that before the Second World War.

With the aid of access to richer data, we can adopt a more constructive approach by not just pointing to deficiencies but seeking to make adjustments and to quantify their likely impact on the outcome variables in which we are interested. Suppose that we consider again the definition of the income unit. There are reasons, as suggested above, why we may wish to measure poverty according to the narrower benefit unit, not the household. We may not believe that resources are fully shared within the household. With access to the micro-data, it is possible to calculate the proportion of the population living in benefit units below 60 per cent of the median and compare the results with the household-based estimates. This is an interesting exercise that was undertaken by Jo Webb in her thesis at Oxford some 10 years ago. She showed that, as we knew from other studies, that the proportion below the poverty line was higher on a benefit unit basis. But she also showed that the proportion of households containing more than 1 benefit unit had declined markedly: from 34 per cent in 1961 to 17 per cent in 1999. As a result, the gap between the two series narrowed. Put differently, the rise in the benefit unit series was less than that in the household-based series, so that by 1991 they were only 2 percentage points apart. In this sense, the choice of definition mattered, and the official series tended to give the impression of a faster increase in poverty.

I have chosen this example because it illustrates the power of a constructive approach to the issue, but also because it has a contemporary resonance. In the US it is argued by Tim Smeeding and others that one of the effects of the recession is that on household composition, with more young people continuing to live at home, more students going to their home university, etc. As the *New York Times* put it, “one way that embattled Americans have gotten by is sharing homes with siblings, parents or even nonrelatives, sometimes resulting in overused couches and frayed nerves but holding down the rise in the national poverty rate”. This last is the point I would like to stress, since it is likely to be relevant in this country as well. The effect is reversing the long-run tendency that I just described. The effect may be temporary, but it means that the household-based poverty measures may be missing the impact of the recession on benefit units; the young people without jobs or benefits.

The richer data also allow a more forensic approach. Here again I am stressing the constructive response. To say that data are measured with error is not news. Social science researchers have long devised techniques to deal with the weaknesses of their data. One such technique is to partial out the errors, either by assuming a fixed effect or, as here, assuming that two series share the same, time-varying pattern of error. In Figure 5, I have shown two UK series: the inequality of household incomes (as examined before) and the dispersion of individual earnings (from employer surveys). Earnings dispersion is measured by the decile ratio: the ratio of earnings 10 per cent from the top to earnings 10 per cent from the bottom. By looking at the differential movement in two series, we can control for the common errors in the series. To the extent that remuneration is understated in both the earnings and the household income series, then this leaves the difference unaffected. (This does not of course imply that all error has been controlled for. For example, non-response by households affects only the household income series.)

Looking at the two series allows a degree of triangulation. We can learn from the fact that they do not always move in tandem. There are in fact four distinct phases. In the 1950s, earnings dispersion widened. We sometimes forget that a widening earnings distribution is not a new phenomenon. In the Golden Age of the 1950s the top decile was rising and the bottom decile was falling. In that sense, Titmuss was right. All was not well in terms of the measured earnings distribution. But measured household income inequality – the Gini coefficient – was broadly stable. This suggests that certain other factors were operating in an offsetting direction. These may have included the increase in 2-earner families and the decline in the concentration of wealth. There then followed a period when the 2 series move together, including a period when earnings dispersion narrowed – reflecting such measures as equal pay at the bottom and progressive incomes policies at the top. This was followed in turn by the Thatcher period, where I want to draw attention to the fact that in this period earnings dispersion rose, but income inequality rose even faster. This was not true of the last period, when the rise in earnings dispersion, measured by the ratio of the top decile to the median, was much more marked.

I emphasise the Thatcher period, since there is no doubt in my mind that the rise in income inequality was a policy choice. It was not just that Britain was confronted with world forces over which it had no control. We can see this by triangulating in another way – by comparing with the US. As may be seen from Figure 6, the dispersion of earnings increased more in the US than in the

UK. But income inequality increased more, and by more than in the US. It increased more because of the policies pursued, notably the substantial cuts in social security benefits, including the erosion of the state retirement pension.

Figure 5

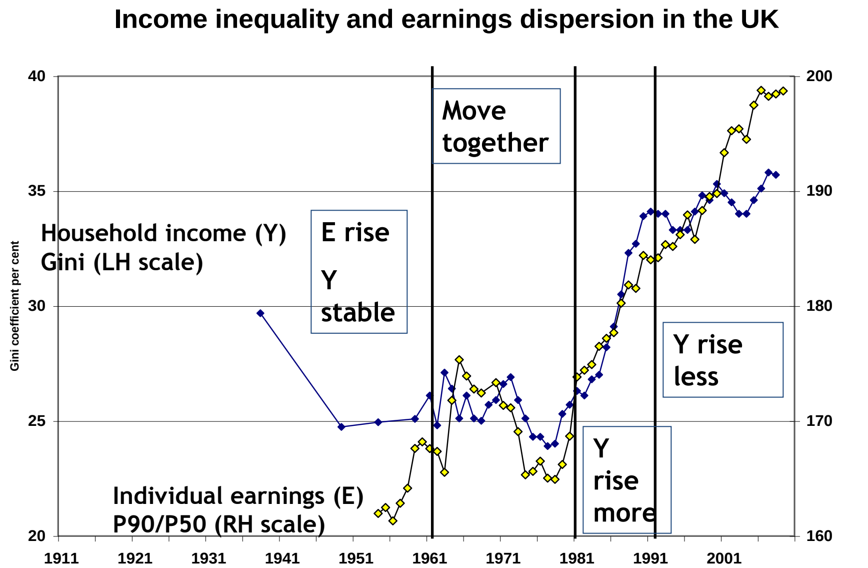
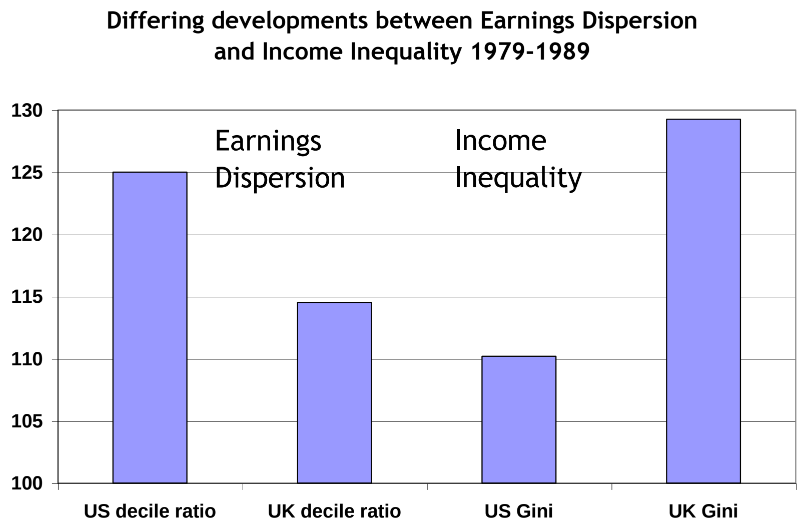


Figure 6: Comparison of US and UK in 1980s

Percentage increase since 1979



3. Wealth and social change

In the final section of the lecture, I turn to social change. “Social change” features in the book’s title, and it has already played a part in the story: social change lay behind the difference between households and nuclear families. I now want to put social change to the forefront and to do so by shifting the spotlight from *income* to *wealth*. In this I am following the urging of Sir Alan Peacock, who, in a review that is generally critical, stresses the importance of what Titmuss has to say about wealth: “it is to be hoped that his more thoughtful political supporters will take more notice of what he has to say about the distribution of wealth than about the distribution of income” (Alan Peacock, *British Journal of Sociology,* 1964). Parenthetically, I may note that I have found no fewer than 11 reviews of *Income Distribution and Social Change*. This is partly because more people wrote book reviews. It would be a rare book today that received 11 reviews. But it also reflects the appeal of the book to a variety of disciplines and audiences: it was reviewed, as you can see, in the *British Journal of Sociology*, but also in the *British Tax Review, Journal of the Royal Statistical Society, Journal of the American Statistical Association,* and the *American Economic Review*.

I would like to make two main points. The first is that we need to give renewed attention to the role of the inheritance of material wealth. Inheritance used to be seen as a major factor. Famously, there were two early research students at the LSE who were interested in inheritance. Josiah Stamp, later Lord Stamp, gave his Presidential Address to Section F of the British Association in 1926 on the subject of “inheritance as an economic factor”. He regarded inheritance “to be inextricably bound up with the inequality of incomes and wealth” (page 339). Josiah Wedgwood spent 2 years studying the economics of inheritance under Hugh Dalton, and wrote a book with this title that was one of the early blue Pelicans.

Both Josiahs, writing in the 1920s, were of the view that inheritance was becoming less important over time. Stamp says that the impact on the distribution of inheritance was far greater a century ago than “today” (i.e. 1926), “when many of the highest fortunes have been made within the lifetime of the holder” (page 356). That this was true in France has been demonstrated in a recent study by Thomas Piketty, which shows inheritance as a percentage of national income. Figure 7, based on his estimates, shows that, at the end of C19, the amount passing each year in bequests and gifts inter vivos was between a fifth and a quarter of the national income. That is, if one considers the flows arriving in a household, and ignores for the moment the difference between national and personal income, then the amount arising as a wealth transfer used to be around a fifth or more of the total receipts. Thomas typically when presenting the data cites Rastignac from the Balzac novel in which he advises a young man that he has a choice – either train for a career or aim for an inheritance. At that time, the latter seemed a reasonable option, since inheritances were large – more than a fifth of national income. But, as the graph shows, inheritance declined to only some 2½ per cent of national income by the 1950s. But, and this is the main point of Thomas' paper, inheritance is making a comeback. In France, the ratio is rising and indeed accelerating, so that it is now over 10 per cent – see Figure 7.

Is the same true in the UK, and, of so, why? As part of a current project that forms part of the E-MOD programme at Oxford directed by David Hendry, I have been engaged with Facundo Alvaredo on a study of inheritance and wealth ownership in a range of countries. Figure 8 shows the provisional findings for the UK, providing an incomplete answer to the question. The answer is incomplete because the data relate only to bequests and gifts close to death, and are not adjusted for small bequests not covered by the tax statistics or for the exemption/under-valuation of assets. We are working on producing estimates of the full extent of gifts inter vivos, and on the additions for small estates and for missing wealth, but for the moment these figures provide an under-estimate of the extent of wealth transfers. As may be seen, at the end of C19, the figures are close to those for France, even without the additions (although it should be noted that they are expressed as a percentage of total personal income rather than of national income). There was then a long fall, which continued until the 1970s. Inheritance was indeed becoming less significant, as Stamp and others believed.

But since the 1970s there has been a reversal, with the ratio of estates to personal income rising from 4 per cent to 7 per cent. The rise is less marked than in France, but is evident. Nor is it surprising. One of the major driving forces, as is clear from the work of Piketty, is the ratio of wealth to income, and this has been rising – see Figure 9. The rise has not been a steady one. Rather the ratio of wealth to income was fairly stable from the 1950s through to the 1970s, but then began to climb. The climb is indeed steep. The ratio has doubled – from 4 to 8 – in 30 years. What is not evident from the figure, but brings me to the last topic, is that this rise in personal wealth is not the counterpart of an overall rise in wealth. The ratio of national wealth to national income has hardly changed over this period. Rather, what has happened is that wealth has been transferred to the personal sector from other sectors. These other sectors include the company sector, which I will not have time to discuss, and the state, which is the last subject discussed.

Figure 7

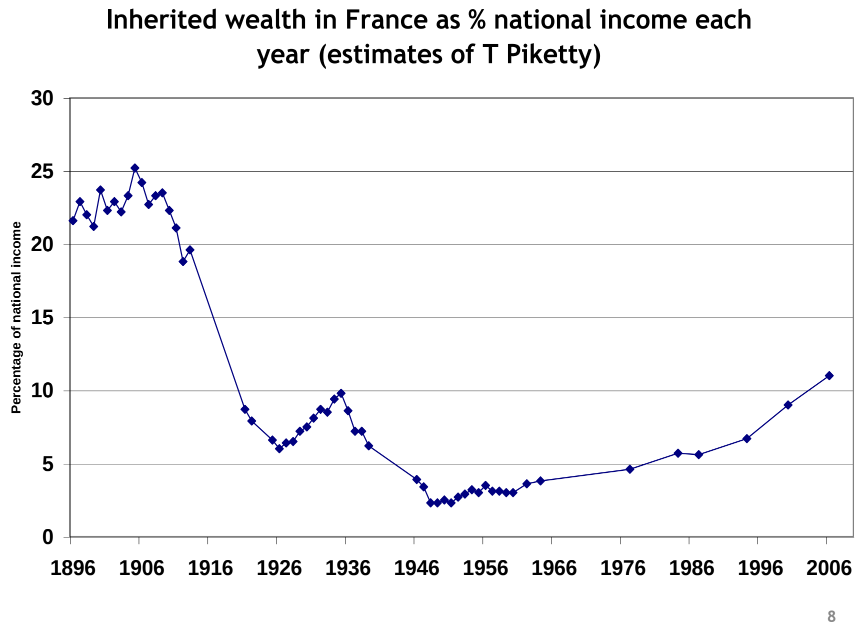


Figure 8

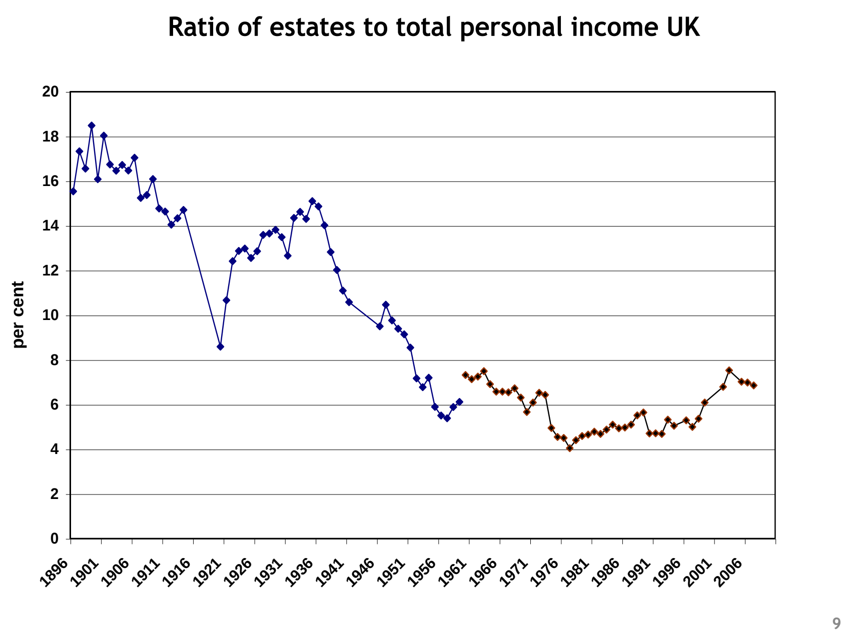
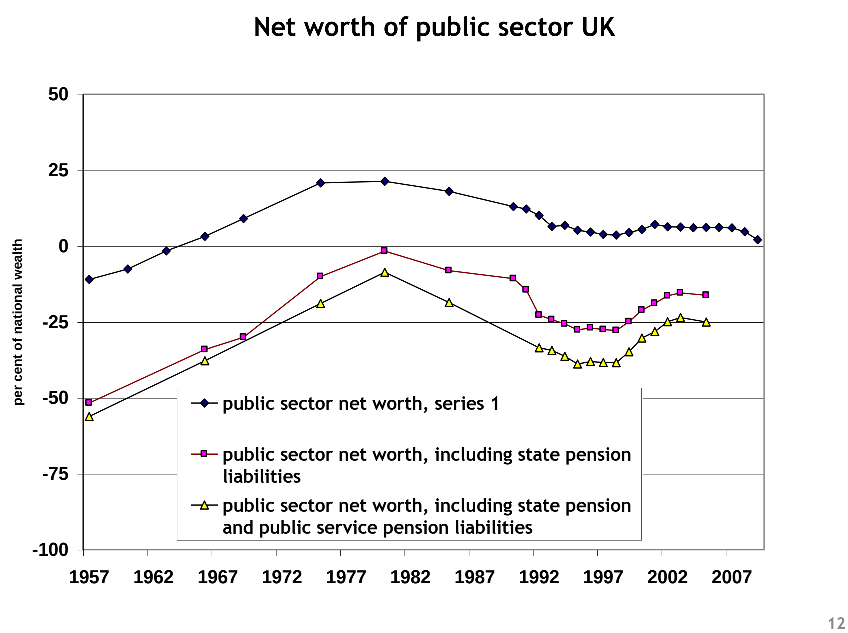


Figure 9

Figure 10



National debt and private wealth

So far, I have focused on the inheritance of private wealth, but we need also to consider social ownership. The significance of social property was well brought out by Stamp "[All] today are the heirs of a body of knowledge accessible to them without distinction; to a system of law, and a considerable amount of communal wealth in parks, roads, and public facilities. … while we may focus on *individual* inheritance, it cannot be wholly dissociated from the communal aspects" (Josiah Stamp, *Economic Journal,* 1926). We have to consider the net worth of the state: the value of communally owned assets minus the liabilities in the form of the national debt.

I highlight this as my final point because if one asks what would have been Richard Titmuss's target if he were alive today, then a strong candidate would have been the preoccupation with the national debt. We are constantly being told that the Coalition Government inherited a fiscal crisis because our national debt is 155 per cent of national income, or over £2 trillion. But these figures need the same cross-examination as that applied by Titmuss to the official income distribution statistics. In particular, we need to look at the overall balance sheet, where assets as well as liabilities are taken into account. This does not however mean that the position is a healthy one. Figure 10 shows the development of the net worth of the public sector, where I am drawing on the work of John Hills and the official figures produced by the Office for National Statistics. It shows the difference between the assets of the state and the national debt, expressed as a percentage of the total national wealth. As may be seen, in the 1950s the net worth (Series 1) was negative, but it was becoming less negative, and turned positive in the 1960s. Indeed, I was taught by James Meade and others that the state needed to have a positive net worth, measured this way, since no allowance had been made in Series 1 for the obligations to pay state pensions. The second series allows for the estimated value of these liabilities – that is the rights already earned – and it may be seen that the net balance was close to zero at the end of the 1970s, when the top series reached its maximum. Even at that time, though, the balance was not positive when account is taken of public sector pensions.

The direction of change since the 1970s has however been in the wrong direction – and it is the long-running decline in the non-pension net worth – the top line in the diagram – that is the source of the UK's fiscal problem. In effect the process of privatisation, with the proceeds used largely to fund tax cuts, transferred wealth from the state to the personal sector. We saw that it was at the end of the 1979s that personal wealth began to rise faster than income. While this was right in accounting terms, it failed to recognise the worsening of the public balance sheet. And the Government should be cautious in allocating blame, since most of the decline took place under Conservative administrations.

4. Conclusions and policy implications

In this Lecture, I have taken a more sympathetic view of official statistics on income distribution than that of Richard Titmuss in *Income Distribution and Social Change*. This is in part because I have been more willing to taken on the shortcomings of official data and use them warts and all. It is in part because the statistics are now very much better and more extensive than when he wrote. Talking some half century later, it is possible to be more sympathetic because there are now rich household surveys to which academic researchers have access and which modern computing power allows them to exploit in a way that would simply have been impossible in the 1960s. But the provision of the data, and the facilitation of access, has required major investment of resources – it has required public spending.

Here I come to my first conclusion. It is essential that this investment be maintained. The progress made with regard to distributional statistics is impressive but it needs resources. The Prime Minister has recognised the importance of statistics in his recent call for improved measures of well-being. In that he is calling for a multi-dimensional approach to the assessment of well-being, then, as I said at the outset, I am fully in agreement. An important element in the *Beyond GDP* agenda is the introduction of dimensions other than income. But a second important element is the move beyond aggregates to consider distributions. *Who* is gaining or losing is important, just as is *what* they are gaining or losing. For this, we need to augment, not diminish, the distributional analyses carried out by ONS.

The second set of conclusions concern the taxation of inherited wealth. Now this has proved a controversial issue, and there is considerable public resistance to “death taxes” as they are called by Republicans in the US. Any proposal has to address this resistance. To counter this opposition, it is necessary to emphasise the purpose of the tax, which is to ensure a reasonable degree of equality of life chances. To this end, I have long believed that the tax should be made progressive with respect to the amount received, not with regard to the total transferred. Less tax should be paid if an estate is divided and if the beneficiaries have not already inherited (or been given) substantial sums. In my book *Unequal Shares,* published in 1972, I argued for such a lifetime capital receipts tax, but the idea has long been canvassed. Indeed, Lord Randolph Churchill, in the Budget he never introduced in the 1880s, proposed a genuine inheritance tax.

My final conclusion refers to the ethics of paying taxes. Much of *Income Distribution and Social Change* is concerned with tax avoidance and evasion, with the constant running of the gamekeepers to keep up with the poachers. There is no doubt that it is extremely difficult, probably even more difficult today than in the 1960s, to administer progressive taxes. But it seems to me that we tend to downplay the role played by social values. I was struck, reading the appendix by Tony Lynes on the use of life assurance, pension schemes, and trusts for tax avoidance, by the fact that some of the life assurance industry took a negative view of tax avoidance schemes. I say "avoidance" advisedly. The feature writer in the journal the *Policy Holder*, was quite outspoken: "it is a point of honour for life offices to see that no further attempt is made to find a flaw in the technique of the Finance Acts which will enable life assurance to be used as a means of lowering taxpayers' liability" (page 221). (Although he did write under a pen name!) It seems to me that Governments need to create a climate of opinion that is more positive towards the payment of taxes. The official report of the Singapore tax authority in 2009/10 opened with a clear statement of the role of taxation: "taxes, being the major source of government operating revenue, are used to build a stronger community, create a better environment and sustain a competitive economy". In contrast, the BBC World News carries advertisements for tax efficient investments! In the spirit of Richard Titmuss, I end by saying that taxation is, and should be treated as, a moral issue.