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Tax and Spend: Towards a Smaller State?

Introduction

In November 1978, Arthur Cockfield addressed the Institute for Fiscal Studies (IFS). As will appear, Cockfield and the IFS had played, and would continue to play, important parts in debates over taxation and spending. Cockfield claimed to detect a turning point on spending and associated revenue policies, in Britain and elsewhere: ‘public resentment will ultimately compel a reduction in the role of the state...it may well be that the collectivist tide has already reached its high water mark’. Much of the literature reflects this apparent Conservative intellectual and rhetorical self-confidence. Some writers have discerned Conservative enthusiasm for radical Republican policies. Thus, Gamble suggests that, after 1974, the Conservatives embraced ‘the revival of a liberal economy’. In his view, they sought large reductions in welfare spending to secure substantial cuts in taxation.

Certainly, some clear overall trends are discernible in the period since the 1960s, taken as a whole. The burden of public spending has remained broadly constant, albeit that governments have found it increasingly difficult to finance their expenditure from revenue (see Table 3.1).

However, there have been some real changes in the distribution of the tax burden. After 1979, the basic rate of income tax fell from 33 to 20 per cent, and the top rate from 98 to 45 per cent. Payroll and indirect taxes took a greater burden. National Insurance employee contributions doubled, the ceiling was abolished for employer contributions, and the VAT rate rose sharply. Capital and local taxes played a small role throughout.

This chapter examines Conservative deliberations on these issues. We argue that the change in Tory policy was much less dramatic than
some of the literature suggests. In relation to taxation policy, there was remarkable continuity of approach. The preference for indirect taxation, and the distrust of progressivity, were always evident. Opportunity, not equality, would promote growth, for ‘incentives to make oneself unequal are a necessary part of the mechanism of creating new wealth’.7 It was, therefore, natural for the Conservatives to adopt supply-side changes in the tax regime. They did not do so at the behest of external ideologues. However, the wider debate over tax made it easier for them to advocate these changes.

In relation to spending, the approach changed much more sharply from relative complacency to deep anxiety about the size of the public sector and, in particular, its funding. However, the Conservatives were following, with varying degrees of enthusiasm, rather than leading, wider trends in this respect. They were ready and willing to adopt the New Realism, but they did not invent it.

Conservative rhetoric may have foreshadowed ‘a reduction in the role of the state’. The reality was much more modest change: there was only limited appetite for the rolling back of the state. Certainly, Conservatives benefitted from, indeed were swept along by, a broader mood of pessimism about the positive role of government. However, we can clearly see here the distinction between the Conservative approach and the minimal state, urged upon them by the neoliberals. The welfare state pillar of the post-war settlement remained in place, with the burden of spending reductions being taken by capital programmes.

We examine, in turn, therefore, taxation, spending, and broader questions concerning the relationship between the state and its citizens.