



11

Hugh Dalton (1887–1962)

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1 Introduction

In March 2015, the *Economic Journal* celebrated its 125th anniversary with a special issue containing ten of the best papers that it had ever published, together with critical appraisals by modern authorities. The first of the ten chosen articles was Hugh Dalton's 'The Measurement of the Inequality of Incomes', with an appreciation by Tony Atkinson and Andrea Brandolini (Dalton 1920a; Atkinson and Brandolini 2015). Dalton was in very good company: among the other authors so honoured were Frank Ramsey, Roy Harrod and Gary Becker. But Dalton is mostly remembered today (if at all) as a socialist politician who sat in the House of Commons for several decades, served in the Labour governments of 1929–1931 and 1945–1951, and ended up in the House of Lords as Lord Dalton of Forest and Frith in the County Palatine of Durham.

Dalton's academic career at the London School of Economics (LSE) lasted only 16 years, from 1919 to 1935, and due to his political commitments, he was for several of those years on leave of absence or employed part-time. Yet he made a significant contribution to the interwar economics literature,

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not only on the theory of distribution but also on public finance and the economics of socialism. His fundamentally pre-Keynesian ideas owed more to A.C. Pigou than to anyone else and reveal the substantial scope that neo-classical Cambridge economics offered for the development of a surprisingly radical Pigovian brand of democratic socialism.

2 Call Back Yesterday: Hugh Dalton, 1887–1962

Edward Hugh John Neale Dalton was born near Neath, Glamorgan, on 26 August 1887, the descendant of Welsh landowners on his mother's side and Anglican clergy on his father's side. His father, Canon John Neale Dalton, was tutor to two royal princes, one of them the subsequent King George V, and Hugh grew up in The Cloisters at Windsor Castle. He was educated at Eton and King's College, Cambridge, where he studied first mathematics and then economics, in which he earned an Upper Second-Class degree in 1910, narrowly missing a First. Dalton was taught by A.C. Pigou and by John Maynard Keynes, only four years his senior, with whom he enjoyed a somewhat uneasy social relationship. Robert Skidelsky notes that he was always known as 'Daddy Dalton' in Keynes's circle. There was some respect but little affection between the two men, and by 1945 'mutual antipathy kept them apart: Keynes used to call Dalton "the Dirty Doctor"' (Skidelsky 2004: 646, 957).

Dalton moved to London after graduating and read for the bar at Middle Temple, to which he was called in 1914. He began also to work on a doctorate at LSE on the personal distribution of income. Here, Dalton was supervised by Edwin Cannan, who was a strong influence on him, at least if his contribution to the Cannan Festschrift can be believed:

I have the notes of a course of his which I attended in 1911. It was very largely a running commentary on Marshall's *Principles*. It was full of humour and elements of positive construction. But he wasted no time on unessentials [sic]. Chapters which he thought unimportant were quickly dismissed with such summaries as "nothing much there!" or "nothing much in that!" Having only just come down from the Cambridge of that day, such iconoclasm took me by surprise. But to suffer mental shock is a vital element in education (Dalton 1927: 14, fn. 3).

In terms of content, Dalton was impressed by Cannan's work on the theory of distribution:

He found a confused discussion proceeding about distribution between factors of production and he not only straightened it out, but laid the foundations of that much more interesting and directly important branch of the subject, distribution between human beings. These were revolutionary changes in exposition and emphasis, though they seem obvious today (*ibid.*: 16).

One important result of this intellectual revolution, Dalton continued, was the light which it redirected, after nearly fifty years of academic neglect in this country, to the fundamental institution of inherited wealth, which was exhibited as the chief cause, under existing arrangements, of the inequality of incomes. More comprehensively still it brought the whole institution of property back into the academic limelight and focused attention upon social institutions generally, their economic effects and their essential variability (*ibid.*: 16–17).

Here, Dalton identifies Cannan, and by implication also himself, as an institutional economist. This has significant political consequences, he suggests, since Cannan maintains that ‘no natural harmony exists between individual self-interest and the common good, but only a partial and limited harmony, dependent on the deliberate creation of appropriate institutions’ (*ibid.*: 17). This doctrine, Dalton argues, ‘may be found to justify sweeping changes in existing institutions’ (*ibid.*: 18), and it also explains Cannan’s attitude towards socialism, which was broadly sympathetic but by no means uncritical (see *ibid.*: 18–23).

After war service in France and Italy, Dalton returned to LSE, where he completed his doctorate and, after working briefly as a teaching assistant, was appointed Sir Ernest Cassel Reader in Economics in 1920 (the title pages of some of his books describe him instead as ‘Reader in Commerce’). His former student Lionel Robbins (later a colleague) found him to be an excellent teacher, generous with his time to the young, if not always so attentive to the needs of his contemporaries (see Robbins 1971: 75–78). But Dalton was already active in the Labour Party and successfully juggled his academic and political careers until he resigned from LSE in 1935. His political career, which occupied the entire second half of his life, is documented at great length in the biography by Ben Pimlott (1985), summarised in Pimlott (2004); see also Durbin (1985). Dalton was a Member of Parliament (MP) between 1924 and 1931 and again between 1935 and 1959, representing Peckham (briefly) and Bishop Auckland. In 1960, he became a Life Peer.

Dalton was a member of Labour’s parliamentary executive and its National Executive Committee for three decades. Most of this was spent

in opposition, but he served as Under-Secretary for Foreign Affairs in the Labour government of 1929–1931 and as Minister of Economic Warfare (1940–1942) and President of the Board of Trade (1942–1945) in the Churchill coalition government during the Second World War. After Labour's victory in 1945, Dalton's appointment as Foreign Secretary was vetoed by King George VI in 'the most important exercise of the royal prerogative of the age' (Leventhal 1988: 422; see also Pimlott 1985: 414–417) for an examination of why the monarch intervened). Dalton's stormy period as Chancellor of the Exchequer (1945–1947) came to an end as a result of a budget leak, apparently much to his relief, and he served happily in lesser roles until the end of the Attlee government, first as Chancellor of the Duchy of Lancaster (1948–1950) and then as Minister of Town and Country Planning (1950–1951) and Minister of Local Government and Planning (1951). After 1951, Dalton remained active in opposition to the Conservative governments of Churchill, Anthony Eden and Harold Macmillan, before he retired as an MP in 1959 and accepted a life peerage in the following year. Hugh Dalton died in London on 13 February 1962.

As Lionel Robbins's tribute suggests, Dalton won the loyalty and respect of young men, including what has been described as 'the Dalton kindergarten', a group of talented young disciples that included Evan Durbin, Hugh Gaitskell and Douglas Jay (see Addison 1977: 49). Others found him rather less attractive. While acknowledging his abilities and noting Arthur Henderson's belief that he was a potential future leader of the Labour Party, Beatrice Webb was (in 1927) unimpressed by Dalton's character and personality:

But he has no personal magnetism and though an intellectual and moral man, he has neither intellectual nor moral uniqueness nor distinction. And in his curiously deferential and ingratiating method of address with persons who are likely to be useful to him, there is just a hint of insincerity; in his colourless face there is a trace of cunning. Is his faith in Socialism genuine and likely to endure? (Webb 1956: 145).

In conservative circles, Dalton was seen rather differently, as 'a renegade from the upper classes...[who] retained from his early years an innate sense of superiority, a ruling mentality displaced into left-wing politics. Bursting with ambition, he loved the rough and tumble of politics, intriguing noisily, clumsily, and without a blush' (Addison 1977: 49).

The crucial word was 'noisily', as this wartime anecdote suggests: 'Possessed of a booming voice, Dalton was once heard shouting in an ante-room when Churchill came in. "Who's that shouting?" he demanded.

“It’s Dalton. He’s speaking to Edinburgh”. “Why on earth doesn’t he use the telephone?” said Churchill’ (Skidelsky 2004: 957).

Dalton’s work in economics was no less powerfully self-confident.

3 The Distribution of Income and Wealth

Dalton’s celebrated article was concerned with the relationship between inequality in income and inequality in economic welfare. It began by modifying Bernoulli’s hypothesis, according to which ‘proportionate additions to income, in excess of that required for “bare” subsistence, make equal additions to economic welfare’ (Dalton 1920a: 350) to allow for the effects of the diminishing marginal utility of income. This permitted Dalton to conclude with great confidence that economic welfare would be improved by ‘transfers from rich to poor...a proposition that has excited the interest of “modern” public finance theorists of the neo-utilitarian school’ (Fishburn and Willig quoted in Peacock 1987: 360). But Dalton concluded that the use of the modified formula required much more accurate statistics on the existing distribution of income than were then available, and so he devoted the remainder of the article to other ways of measuring inequality that were less demanding. Drawing on his extensive knowledge of the Italian literature, Dalton introduced the Gini coefficient to the English-speaking world and also assessed the rival merits of seven additional measures of inequality. His work drew immediate praise from Corrado Gini (1921) and, somewhat later, a more critical appraisal by Dwight Yntema (1933).

Apart from these and a few additional references, Dalton’s article was largely ignored for half a century. Then, after 1970, its merits began to be appreciated, with no less than 1100 citations down to 2014 (according to Google Scholar), 484 of them coming between 2000 and 2009 (Atkinson and Brandolini 2015: 211). The question of a ‘Dalton-improving tax reform’ began to appear in the titles of journal articles (see Mayshar and Yitzhaki 1995; Yitzhaki and Lewis 1996). Thus ‘Dalton’s paper was ahead of its time ... It took half a century of substantial achievements in neighbouring fields, such as social choice theory and the theory of decision under risk, before his seminal contribution could grow into a fertile research field’ (Atkinson and Brandolini 2015: 212, 218). The paper had been completed too late for inclusion in the first edition of his book, *Some Aspects of the Inequality of Incomes in Modern Communities* (Dalton 1920b), but it did appear as an appendix to the 1925 reprint (presumably to save the publisher expense, it was placed after the index, paginated 1–16, and not included

in the table of contents). The book itself sold well, and there were further reprints in 1929 and 1935.

The 353-page volume is divided into four parts. In the brief Part I, ‘Some Ethical Aspects of the Inequality of Incomes’, Dalton reveals himself to be an uncompromising utilitarian, with no great interest in theories of economic justice; instead, he endorses ‘Mill’s saying that justice is included within the sphere of social utility’ (Dalton 1920b: 27). He also has no qualms about making interpersonal comparisons of utility:

Put broadly, and in the language of common sense, the case against large inequalities of income is that the less urgent needs of the rich are satisfied, while the more urgent needs of the poor are left unsatisfied. The rich are more than amply fed, while the poor go hungry. This is merely an application of the economists’ law of diminishing marginal utility ... An unequal distribution of a given amount of purchasing power among a given number of people is, therefore, likely to be a wasteful distribution from the point of view of economic welfare, and the more unequal the distribution, the greater the waste. Up to a certain point, the more equal the distribution, the further a given amount is likely to go in satisfying economic needs, and hence in increasing economic welfare (ibid.: 10).

Dalton does not advocate complete equality of incomes—‘crude equalitarianism’ (ibid.: 21)—as this would have serious disincentive effects and greatly reduce economic welfare. But he is quite certain that ‘a large reduction in the existing inequality could be made, which would result in bringing us considerably nearer to the ideal’ (ibid.: 11).

The much longer Part II deals with the treatment of income distribution in the history of economic thought in seven periods, from the pre-1776 era to the eight years 1911–1918. It reveals Dalton’s highly critical attitude towards Marx: ‘It cannot be maintained that he made any large and valid contributions to economic theory. If no better arguments for Socialism could be found than those contained in his pages, it would indeed be a lost cause’ (ibid.: 83).

Dalton is much more favourably inclined towards Mill, whose work is discussed at length ((ibid.: 60–74), and to whom there are 33 references in the name index), Marshall (ibid.: 106–111 and 36 index references) and Pigou (ibid.: 146–151 and 265–267 and 39 index references). Dalton is especially impressed by Pigou’s *Wealth and Welfare* (Pigou 1912), which he describes as ‘the most important book of the last few years before the war ... [A] very powerful book’ (Dalton 1920b: 146, 149).

Part III is devoted to the functional distribution of income. Dalton’s treatment of the relative shares of labour and capital is resolutely neoclassical,

but it has a curiously old-fashioned air. Written some years before the path-breaking work of Cobb and Douglas (1928), it makes no use of an aggregate production function or the concept of the elasticity of substitution. Instead, the analysis is conducted in terms of the relative elasticities of supply and demand of the two factors of production, with Dalton flexing his mathematical muscles in the process (see Dalton 1920b: 187, fn. 1, 188, fn. 3, 189, fns. 1 and 2, 194–197).

This leads to the core of the book, Part IV, ‘The Division of Incomes between Persons’, which is, as we have seen, Dalton’s principal interest. He distinguishes four sources of income: labour, property, gifts and ‘civil rights’, by which he means welfare benefits. In the chapter on ‘Incomes from Work’, there is an extended discussion of the restrictions on human investment that are due to low income and which he sees as the major cause of inequality in the acquisition of skills, not least in the case of women (*ibid.*: 252–270). Most of Part IV, however, is devoted to inequality in income from property, which had received ‘very little direct attention from economists’ (*ibid.*: 271). There are three sources of such inequality: different saving rates, differences in capital gains and differences in inheritances and gifts, the latter being ‘considerably the most important’ (*ibid.*: 272).

Thus, the question of inherited wealth takes up the next six chapters (*ibid.*: 281–345). Again, Dalton notes, this is an issue that ‘has been very much neglected, especially by professional economists’ (*ibid.*: 283). Its significance is not restricted to property incomes: ‘[T]he effects of inherited property in maintaining the inequality of incomes from work are also very great, since the children of those who inherit property inherit better economic opportunities, in the form of better chances than they might otherwise have had, of health, education and comfort’ (*ibid.*: 281). Dalton now puts his legal training to good use, with an extended discussion of the law of inheritance, both fiscal and non-fiscal (*ibid.*: Chapters VI–VIII, 287–310).

His policy proposals are wide-ranging and radical. First, there should be a substantial increase in welfare payments, including an increase in the old-age pension and a new benefit for widows with young children. Dalton also comes close to endorsing the ‘still ampler scheme’ proposed by Dennis Milner (Milner and Milner 1918) ‘who suggests that a “pool” should be formed by a general levy of twenty per cent on all incomes, and that out of this pool 9s. a week should be paid to every member of the community, children included’. ‘This idea’, which is better known today as ‘Basic Income’ (Van Parijs 1995), ‘has the merit of simplicity, if no other’ (Dalton 1920b: 250).

Second, Dalton calls for 'better and more equally distributed facilities for education and training' in order 'to increase the ability of the great majority of workers, at the beginning of their working lives, to make a freer choice than at present between different occupations', thereby reducing wage differentials (ibid.: 264). This would significantly increase 'what has been called "vertical mobility", in the sense of the mobility of workers from the worse paid to the better paid occupations' (ibid.: 267). Legal and customary restrictions on the employment of women need also to be removed (see ibid.: 269).

Third, to reduce inequality in incomes from property, Dalton's focus is overwhelmingly on the reform of the laws of inheritance. He expresses sympathy for Mill's proposal to 'limit the amount which any one individual may receive by inheritance or gift' (ibid.: 298; cf. ibid.: 336) but suggests that this is best achieved through taxation: 'Nearly all modern communities have inheritance taxes' (ibid.: 312), he notes, and he would certainly have been dismayed by their disappearance in the late twentieth century in nations such as Australia, Canada and New Zealand (see Duff 2005).

Dalton's preferred form of inheritance taxation was taken from the Italian theorist Eugenio Rignano (1901): 'This principle is that of an inheritance tax, which shall be "progressive in time", or, in other words, such that the rate of tax shall increase with the number of times that the property subject to it has already changed hands through inheritance' (Dalton 1920b: 316; see also Dalton 1921a; Erreygers and Di Bartolomeo 2007). The Rignano tax 'would do more than any other to keep sharp the stimuli to work and saving among the wealthy' (Dalton 1920b: 340). It should be applied only to that part of the estate, which the deceased had himself acquired by inheritance or gift, and should be progressively graduated according to the size of the taxable estate. The net estate remaining after the deduction of this tax should be subject to a second tax based on the amounts of individual inheritances. This tax also should be progressively graduated, and the graduation should be so arranged as to take a hundred per cent of the inheritance above a certain amount, thus fixing a maximum individual inheritance, as proposed by Mill (ibid.). These inheritance taxes would not, however, remove the need for 'a steeply progressive income tax' (ibid.: 346).

At the very end of the book, Dalton raises the question of whether income inequality is increasing or decreasing 'in modern communities', which he describes as 'one of the most important questions in economics', but one that could not be answered from the very limited statistical sources that were available in 1920: 'Conclusions pretending to much generality on

this subject are to be mistrusted’ (ibid.: 351). Dalton would have been fascinated by Thomas Piketty’s *Capital in the Twenty-First Century* and greatly encouraged by the huge critical literature that it has stimulated (see Piketty 2014; King 2017).

3.1 *Principles of Public Finance*

Towards the end of his first book, Dalton had foreshadowed the second, reminding his readers that ‘[t]he whole field of Public Finance is relevant’ to the inequality of incomes (Dalton 1920b: 346). His *Principles of Public Finance* (Dalton 1922a) soon became the leading text in the field, at least in the UK. It went into several editions, the 1929 fifth edition (the one that is cited here) containing substantial revisions and enlargements. A German translation (by Hans Neisser) appeared in 1926, and a summary of the implications for taxation policy was later provided for the general reader (in English) in Dalton (1935a). The last edition of *Principles of Public Finance* appeared as late as 1954, with five new chapters and extensive revisions. It was favourably reviewed by Ursula Hicks:

First published in 1922, the book was a pioneer achievement in breaking from the narrow Victorian outlook on the subject which emphasized the tax side almost to the exclusion of everything else. Dalton’s was the first book in the country to put public finance in the wider background which is now universally acknowledged to be its right, and to give due weight to the expenditure side of the budget. Moreover the book is simply and clearly written and eminently readable (Hicks 1955: 360).

It was ‘still selling 4000 copies a year in 1953’ (Durbin 1985: 36).

As Hicks noted, *Principles of Public Finance* was much more than a book on the economics of taxation, although the twelve chapters of Part II, ‘Public Income (mainly Taxation)’, do account for more than half of the 291 pages of text. They are preceded by a brief Part I (‘Introductory’) and followed by five chapters on ‘Public Expenditure’ (Part III) and a further five chapters on ‘Public Debts’ (Part IV). At least in the 1929 edition that I have used, the focus is overwhelmingly microeconomic, though some very interesting macroeconomic questions are raised in Parts III and IV. Moreover, it is overwhelmingly neoclassical in its theoretical orientation, drawing heavily on the work of Cannan and (especially) Pigou.

Dalton sets out the principles of ‘a good tax system’ with admirable clarity:

It is best to rely on a few substantial taxes for the bulk of the tax revenue. In so far as it is desired to tax the rich, incomes and inheritance taxes are the best means; in so far as it is desired to tax the poor, taxes on a few commodities of wide consumption, preferably commodities not necessary to health and efficiency. Some commodities, of which alcohol is the most important example, may indeed be taxed on their merits, or, as some would say, on their demerits, apart from any question of the distribution of the burden of taxation between different sections of the community (Dalton 1922a: 46).

He provides an extended account of the implications of the principles of ‘equal sacrifice’ and ‘proportional sacrifice’ for the way in which the burden of taxation is distributed. Both principles imply progressive taxation and both are subject to the general rule that ‘the more rapidly the marginal utility of income is assumed to diminish with increasing income, the more steeply progressive must the tax system become’ (ibid.: 92). The lengthy Chapters X and XI deal with the effects of taxation on production (ibid.: 103–128) and distribution (ibid.: 129–152). Here, Dalton discusses the respective merits of income taxation and taxes on inheritance (ibid.: 113–125), expenditure (ibid.: 135) and wealth (ibid.: 135–138). He concludes by briefly considering two other sources of government revenue: income from public property and public enterprises, and ‘income from the printing press’, which he does not favour. ‘On balance’, he maintains, ‘inflation is likely to increase the inequality of incomes and operates, in effect, not as a proportional, but as a regressive tax’, which is a sufficient (though possibly not a necessary) reason for rejecting it (ibid.: 183).

This is the first mention of macroeconomics, though a similar point had been made in Dalton’s earlier book, where he advocated deflating the price level on similar distributional grounds (Dalton 1920b: 347, 349). Most of Part III deals with the microeconomic aspects of increased public expenditure, which he endorses on the grounds that, sensibly managed, it will tend both to increase production and to improve the distribution of income. Dalton had already, in the introductory section, noted a fundamental difference in the principles governing private and public expenditure. Individuals always discount the future, probably to an excessive extent:

But, since the community outlasts the individual, and since...the statesman should regard himself as a trustee for the future, the latter is not entitled to

discount the future at so high a rate as most individuals in their private capacity normally do. Indeed, it is doubtful whether he is entitled to discount it at all (ibid.: 20–21).

For Dalton, this was a powerful argument in favour of public investment.

Towards the end of this third section of the book, Dalton returns to macroeconomic issues. He advocates countercyclical government spending to increase employment in times of depression, which ‘may both increase the economic welfare of those directly affected and may result in the more effective use of the community’s productive power, a large part of which, in the shape of labour, capital and organising power, not merely lies idle, but deteriorates during periods of trade depression’ (ibid.: 228). In the fourth and final part of the volume, which deals with public debt, Dalton takes this proto-Keynesian argument further, anticipating one aspect of Abba Lerner’s principle of ‘functional finance’: ‘[A]ll transactions connected with an internal debt resolve themselves into a series of transfers of wealth within the community. It follows that there can never be any direct money burden, or direct money benefit, of an internal debt. For all the money payments cancel out’ (ibid.: 247; cf. Lerner 1944: 302–303).

However, Dalton’s subsequent discussion (Dalton 1920b: 247–252) does not culminate in a Lerner-style denunciation of ‘sound finance’ and the application of ‘Swabian housewife logic’ to fiscal policy (on which, see King 2015). He is concerned more with the clearly adverse distributional implications of increased public debt than with any possible beneficial macroeconomic consequences.

In 1923, Dalton published a 94-page pamphlet advocating the Labour Party’s policy for a ‘capital levy’ to pay off a large part of British government debt. The debt had grown explosively during the First World War, amounting in 1922/1923 to some £7.8 billion, of which £1.09 billion was owed to the USA with the remainder constituting internal debt. Annual interest payments on the debt, at roughly £300 million, were absorbing no less than one-third of all government revenue. ‘The object of the Capital Levy’, Dalton explains, ‘is to pay off quickly, by a special emergency effort, a large proportion of the War Debt, so as to allow of a permanent lowering of annual taxation and a permanent raising of the level of social expenditure’ (Dalton 1923a: 14). The Labour Party’s proposal involved a one-off wealth tax set at zero for those owning less than £5000, with a marginal rate rising from 5% (on wealth holdings between £5000 and £6000) to a maximum of 60% (on wealth in excess of £1 million). Total payments would rise progressively, from 1.2% of total wealth for an individual worth £6000 to 59% for

someone worth £10 million. The capital levy would yield at least £3 billion, Dalton estimated, enough to pay off almost one-half of the internal debt (see *ibid.*: 32).

Both Keynes and Pigou supported the principle of the capital levy, Dalton noted, if not the precise details set out by Labour (see *ibid.*: 12, fn. 1, 49, fn. 2). None of the alternatives to the capital levy was attractive: doing nothing was not an option; a sinking fund would take far too long to have a significant effect; a forcible reduction of the rate of interest on War Loans would unfairly discriminate against holders of one type of security; repudiation could not be contemplated; and currency inflation would enrich speculators at the expense of wage earners and fixed-income recipients (see *ibid.*: 14–21). In addition, none of the many objections that had been raised to the capital levy was at all convincing, Dalton claimed. It would not be easy to evade:

No person resident in this country and liable to pay the Levy would escape liability by exporting his capital. He would be assessed on his total net wealth, whether situated at home or abroad. Legal liability could only be evaded if, before the imposition of the Levy, the owner emigrated along with this capital (*ibid.*: 62) ... And the levy would not on balance discourage saving, since it would permit a substantial reduction in income tax rates, with much of the increased post-tax income being saved (*ibid.*: 63).

The Labour Party's proposal had already generated a great deal of ill-founded criticism from Conservatives, which Dalton dissected at some length (*ibid.*: 47–66). His own pamphlet provoked an immediate critical response in the form of a 71-page pamphlet by Harold Cox (1923), published by the National Unionist Association. In the 1929 edition of *Principles of Public Finance*, Dalton acknowledged that there was no longer any significant political momentum behind the proposal for a capital levy, but he continued to defend it in principle (Dalton 1922a: 264–269).

He returned to questions of public finance in 1934 as the lead author of a collaborative volume on *Unbalanced Budgets*, to which he contributed the introduction and conclusion. As he explained in the Preface, he had planned and supervised the work of three young holders of Acland Travelling Scholarships which took them (in 1932–1933), respectively, to Berlin (Brinley Thomas), Rome (T.J. Hughes) and Geneva and Paris (J.N. Reedman) to study the impact of the Great Depression on the finances of European governments. The first of Dalton's two brief introductory chapters bore the title 'Capitalism in Paralysis', yet the metaphor

was, as he acknowledged, a dangerous one: ‘Analogies of the capitalist system must, indeed, be handled with discretion. For the stoutest defenders of this system reject the suggestion that it lacks a central brain, and that this defect might be remedied by deliberate state action to create such an organ’ (Dalton 1934: 3–4).

As leading ‘extremists of academic Liberalism’, he names his own LSE colleague Friedrich Hayek, and also Ludwig von Mises (*ibid.*: 4). Unlike Dalton himself, they were not at all impressed by the ‘bold experiments’ that were being made in the USA and the Soviet Union ‘to break down the barriers which “crisis” and “depression” have been allowed to raise between mankind and better times’ (*ibid.*: 9).

In the second chapter, ‘Unbalanced Budgets’, Dalton begins by taking a rather orthodox stance: ‘One incident in the general mess is a world-wide epidemic of unbalanced budgets’ (*ibid.*: 11), due principally to the fact that a falling price level reduces government tax revenue much more rapidly than its expenditure commitments. As the metaphor of an epidemic suggests, he here views budget deficits as indications of an illness, ‘a vivid symptom of world-wide disorder, both in economics and finance’ (*ibid.*: 12). In the first of his two concluding chapters, ‘Some Comparative Performances’, Dalton abandons the medical metaphors and pays sympathetic attention to the decisions of those governments that ‘have deliberately preferred a moderately unbalanced budget to the strain which would be required, whether through increased taxation or increased economies, to balance it’ (*ibid.*: 437). Dalton is referring here to France and Italy, and his evident (and very disturbing) sympathy for Mussolini is again apparent later in the chapter when he discusses the use of increased government expenditure, more or less fully financed through increased taxation, on public works (*ibid.*: 445–448). It reappears in the final chapter, ‘Some General Reflections’, when he ‘speculate[s], without dogmatism, whether modern Italy is not moving along a path which will lead, not only to Economic Planning, but to Socialism’ (*ibid.*: 455).

Much of this final chapter is, however, devoted not to Fascism but to ways of ensuring social justice in times of economic crisis. This, Dalton argues, requires not ‘a uniform percentage reduction of all money incomes, of whatever kind, in proportion to the fall in the general price level since a given date’, but rather ‘a scheme of progressive cuts, taking a higher proportion from large incomes than from small’ (*ibid.*: 454–455). This might be termed classical macroeconomics with a human face. Only at the end of the chapter does Dalton return to ‘the expansionist doctrine’ according to which escape from budgetary disequilibrium, and from its causes, should be sought, not by economies, which are a policy of contraction, but by a planned expansion

of production, designed to bring back idle resources of all kinds into employment and thus increase revenue, while diminishing expenditure for the relief of unemployment (ibid.: 457–458). In a footnote he cites Keynes as a supporter of this proposal, along with Sir Arthur Salter and Wilhelm Röpke (ibid.: 458, fn. 1).

Dalton's own position is worth quoting at some length:

Whether or not this doctrine is well founded is one of the major issues in current controversy. For there are those who hold it to be a dangerous delusion which, if applied, would make bad worse and postpone, if not destroy, hopes of a real recovery ... Here I will only express the personal opinion, without embarking on the lengthy argument which would be necessary to justify it, that those who advocate the expansionist doctrine have the better case, but that their policy, in order to be fully effective, needs to be pushed a good deal further than most of them seem willing to push it. I believe that freedom from the plague of recurrent booms and slumps can be found only in a Planned Economy (ibid.: 458).

There is no mention here of budget deficits or the national debt. One interpretation of this rather enigmatic passage might be that, for Dalton in 1934, countercyclical fiscal policy is a necessary but by no means a sufficient condition for sustained recovery. In macroeconomics, it seems, he had by that time shaken off Pigou but had not enthusiastically embraced Keynes.

4 The Economics of Socialism

As Dalton had noted in his introduction to *Unbalanced Budgets*, the new planned economy of the Soviet Union was 'still in course of being worked out, by a process of trial and error, with wonderful energy, though in face of tremendous difficulties'. It was 'a very gallant effort, in which it is, I think, a sign of mental senility to take no interest, though of childish credulity to find no flaws' (Dalton 1934: 10). He had made an extended visit to Russia in 1932 with a party from the New Fabian Research Bureau, talking to central planners in Moscow and their local counterparts in Kazan, Magnitogorsk, Rostov, Stalingrad and Sverdlovsk. Dalton stressed the improvised nature of Soviet planning, which, 'it was admitted in one conversation, is definitely post-Marxian. No direct guidance concerning its problems is to be found in any of the Marxian writings' (Dalton 1933: 20). Nonetheless, and despite the many signs of great inefficiency, he approved

of the way in which ‘unemployment has been planned away’ in the course of ‘the swift transition from the slowest to the fastest tempo in the world’ in terms of economic growth (ibid.: 16, 33).

Dalton’s overall verdict was favourable: ‘I returned from the Soviet Union strengthened in my belief that, for a community as for an individual, bold and conscious planning of life is better than weak passivity and the tame acceptance of traditional disabilities, that trial and error is better than error without trial’ (ibid.: 33–34). This attitude was largely shared by Dalton’s young disciples, Durbin, Gaitskell and Jay: ‘Fervently anti-Marxist in domestic politics, the Dalton kindergarten was none the less profoundly influenced by the example of Soviet planning. Parliamentary democrats as they were, they were not Keynesians, but apostles of strong legal and physical controls over the economy’ (Addison 1977: 49).

Dalton’s book-length statement of his socialist principles, entitled *Practical Socialism for Britain*, also reflected the influence of the Soviet system (Dalton 1935b). It included detailed proposals for the operation of each nationalised industry as a ‘Public Corporation’, which ‘must be unified within the national area, under a single control, though there may be in suitable cases a large measure of local devolution in administration’. Each corporation should be managed by public servants, with ‘no element of private profit, in the sense of the participation by private investors in any surplus realised by the undertaking’. Critically, Dalton argued, ‘each public corporation must work according to a plan, whose aim is efficient public service, but the plans of different corporations must be continuously co-ordinated in a larger national plan’ (ibid.: 95). It was also necessary to ‘socialise the leading financial institutions, enforce a proper measure of social control upon financial policy, and infuse a social purpose, as distinct from a profit-seeking purpose, into financial operations’ (ibid.: 185). The Labour Party’s proposed National Investment Board would ‘be one of our most effective instruments of Socialist planning and national development, a powerful agency for dealing with unemployment’ (ibid.: 213).

Dalton advocated ‘five lines of policy to reduce unemployment. We must slow down the entry of the younger generation into the field of employment; speed up the exit of the older generation from this field; reduce the hours of labour; plan and push national development; plan and push international trade’ (ibid.: 253). If this placed the emphasis on reducing the labour supply and on planning, rather than on Keynesian measures to increase effective demand, Dalton did also mount an extended attack on ‘the orthodox Treasury dogma’, which he regarded as ‘quite untenable’. He cited Keynes and Colin Clark on the need for increased public expenditure and public

borrowing to reduce unemployment: ‘There is no valid ground, *in this connection*, for distinguishing between new public and new private works. Both lead to a demand for labour, materials and money. Both, when these are available and not in use, reduce unemployment. Common sense, therefore, triumphs over the Treasury view’ (ibid.: 259; italics in original). Dalton also maintained that it was important to keep both long-term and short-term interest rates ‘to the minimum’ possible. Cheap money was essential, and the proposed ‘socialised banking system both should and can promote this end’ (ibid.: 263).

It is significant that Dalton ended the economic section of the book with three chapters on ‘Equality’, culminating in a chapter-long discussion of ‘Inherited Wealth’ (followed by two chapters on foreign policy and the preservation of peace). In the final analysis, socialism for Dalton meant ‘a very great reduction in our present economic inequalities’, which implied that, ‘while the average level of well-being must be greatly raised, the rich shall become poorer and the poor richer’ (ibid.: 319). This should be achieved very largely through fiscal policy: greatly increased public expenditure on education, health and social services, together with progressive taxation of incomes and inheritances. But he was not averse to other proposals: ‘[W]e should, I think, turn our minds also to the possibility of new taxes on luxury consumption’ (ibid.: 326), together with the imposition of a capital levy ‘to reduce both the deadweight debt and that attached to [newly] socialised enterprises’ (ibid.: 327). Thus, Dalton’s early theoretical work on inequality of incomes and on public finance continued to inform his subsequent thinking on the practical economics of socialism.

Three years later his former teacher A.C. Pigou published a small book entitled *Socialism versus Capitalism*. The long concluding paragraph is worth quoting in full:

If, then, it were in the writer’s power to direct his country’s destiny, he would accept, for the time being, the general structure of capitalism; but he would modify it gradually. He would use the weapon of graduated death duties and graduated income tax, not merely as instruments of revenue, but with the deliberate purpose of diminishing the glaring inequalities of fortune and opportunity which deface our present civilisation. He would take a leaf from the book of Soviet Russia and remember that the most important investment of all is investment in the health, intelligence and character of the people. To advocate “economy” in this field would, under his government, be a criminal offence. All industries affected with a public interest, or capable of wielding monopoly power, he would subject at least to public supervision and control. Some of them, certainly the manufacture of armaments, probably the

coal industry, possibly the railways, he would nationalise, not, of course, on the pattern of the Post Office, but through public boards or commissions. The Bank of England he would make in name—what it already is in effect—a public institution; with instructions to use its power to mitigate, so far as may be, violent fluctuations in industry and employment. If all went well, further steps towards nationalisation of important industries would be taken by degrees. In controlling and developing these nationalised industries, the central government would inevitably need to “plan” an appropriate allocation for a large part of the country’s annual investment in new capital. When these things had been accomplished, the writer would consider his period of office at an end, and would surrender the reins of government. In his political testament he would recommend his successor to follow the path of gradualness—to mould and transform, not violently to uproot; but he would add, in large capitals, a final sentence, that gradualness implies action, and is not a polite name for standing still (Pigou 1938: 137–139).

It is difficult to see anything in this statement that Dalton could have disagreed with. Redistribution of income through progressive taxation of income and inheritances; substantial public investment in health and education; anti-monopoly legislation; countercyclical monetary policy managed by a nationalised central bank; significant and increasing public ownership of key industries; national economic planning: this reads like the platform of the new Labour government in 1945, in the construction of which Dalton was to play a major role, and Pigou’s final sentence reads almost like a critique of the work of that government—from the Left. Dalton’s was indeed a Pigovian socialism.

5 Conclusion

Hugh Dalton achieved a great deal in an academic career that lasted only 16 years, above all in developing a rigorous economic case for a more equal society. His brief article on the measurement of inequality has probably been cited more often than any other paper published in an economics journal in 1920, and his book on the reduction of inequality was influential both between the wars and subsequently; it permeates Anthony Crosland’s *The Future of Socialism*, a central text in the ‘revisionist controversy’ within the Labour Party in the 1950s and beyond (Crosland 1956). Dalton’s work on public finance was again motivated very largely by his belief in the need to reduce inequality, which was also an important consideration in his advocacy of a capital levy. Moreover, his vision of a socialist future for Britain

placed more stress on reducing inequality in social welfare than on taking ownership of the means of production.

Like his teacher A.C. Pigou, Dalton was sure that interpersonal comparisons of utility could and should be made. Also, like Pigou, he believed that market failure was often much worse than state failure, so that extensive government intervention was needed. Dalton's distinctively Pigovian brand of socialism serves to remind us that neoclassical economic theory has not always been used to apologise for neoliberal capitalism.

Appendix: Dalton's Other Writings

Between the wars, it was not unusual for an academic economist to write more books than refereed journal articles (this would be a very dangerous career strategy today!). Thus, Dalton published only two full-length articles on economics in the course of his 16 years at LSE. One was the 1920 paper on inequality, discussed in detail in Section 2 above. Eight years later came an article on the theory of population, in which he drew on the many books on the subject that he had reviewed for the LSE's house journal *Economica* to survey the literature on the theory of optimum population and its relationship to unemployment (Dalton 1928a).

Dalton wrote a large number of book reviews, beginning with several contributions in 1914–1915 to the Chicago-based *International Journal of Ethics*, for whom he reviewed books on economics, politics, social policy and religion by authors who included W.J. Ashley, W. Cunningham and J.A. Hobson. Dalton wrote review articles for *Economica* on public finance (Dalton 1921b) and the economics of industry (Dalton 1922b) and lengthy reviews of works on population (Dalton 1923b) and public finance (Dalton 1928b), together with many shorter reviews on these and related topics. A quarter of a century later, his last two academic publications were reviews of the official history of the wartime economic blockade (Dalton 1953a) and Ursula Hicks's treatise on British public finances (Dalton 1954).

His fluent command of Italian, presumably acquired during his military service in the First World War, made Dalton the reviewer of choice for Italian-language books for the *Economic Journal* in the 1920s and early 1930s, a decade in which the global domination of the English language in academic economics was much less absolute than it would become after 1945. Some of the authors that he reviewed were well known (Achille Loria in 1921 and 1922; Roberto Michels in 1922; Maffeo Pantaleoni in 1925), others less so (Ulrisse Gobbi in 1921; Umberto Ricci and Alfonso

di Pietri-Tonelli in 1922; Ugo Spirito and Lello Gangemi in 1933; Leone Wollemborg in 1935). The Italian author who most influenced Dalton's own work was the socialist Eugenio Rignano, as we saw in Section 3 (see Dalton 1921a). Dalton also wrote books on international relations (Dalton 1928c, 1940) and contributed articles on political themes to the journal *Political Quarterly* (Dalton 1931, 1935c, 1936). His diaries for the years 1918–1960 were published 24 years after his death (Dalton 1986a, b). Finally, mention must be made of the three volumes of his memoirs, which drew heavily on the diaries (Dalton 1953b, 1957, 1962).

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