

The launch of IFS

Dick Taverne (1970 to 1979)

After the 1970 election, in which the people decided among other things that I should no longer be a Minister, I was asked by the late Nils Taube if I would be director of a new institute for fiscal studies and help launch it. With Will Hopper, a merchant banker, John Chown, a tax consultant, and Bob Buist, a stock broker, Nils, himself a stockbroker, had set up the IFS in 1969 as a company limited by guarantee, to follow up an article this group had written to *The Times* about a new approach to tax reform. The idea of this institute appealed to me immensely. As Financial Secretary to the Treasury when Roy Jenkins was Chancellor, I had become acutely aware of the lack of tax expertise outside the Inland Revenue, as it then was. The Revenue seemed to have a virtual monopoly of specialist knowledge and could demonstrate beyond argument that any major reform of the system suggested by outsiders was impossible on technical or administrative grounds. What was clearly needed was a kind of 'shadow' Inland Revenue and Treasury.

Looking back to my time at IFS, I believe I made three important contributions to its development: the launch, setting up the Meade Committee and persuading John Kay to be director.

The launch in 1971 was perhaps the easiest part, because once the rationale of the new institute was explained, those concerned to see a better tax system regarded the need for IFS as self-evident. I borrowed the broad lines of its constitution from another institute with which I had been more familiar in my early Parliamentary days, the International Institute of Strategic Studies. Pump priming funds were raised mainly from industry and partly from accountants and solicitors. Marks and Spencers led the way. Indeed in the early days IFS was heavily dependent on corporate money because we did not yet have the academic reputation to approach bodies like the Social Science Research Council (as it then was) and other major grant-making trusts and foundations, although some of them did provide limited funds for special projects.

We decided, I believe wisely, that we would not initially recruit in-house research staff, but would commission work from outside. A new institute with no track record was unlikely to attract first class academic talent. But at first progress was relatively slow. This was at least partly because as director I had limitations: I was not an academic, let alone a tax expert or an economist, and I had many outside diversions - first as MP, especially after I became an independent social democratic MP for Lincoln after a by-election in 1973, and also as a non-executive director of some major companies. Much of the credit for the establishment of IFS in its infancy belongs to Thelma Liesner, who was the research director until 1979.

What really put IFS on the map was the Meade Report. I had been acutely conscious that nearly all tax reforms had been approached *ad hoc*, without regard to their effect on the tax system as a whole, much of which lacked a rational base. Conflicting objectives were pursued at random and often in contradictory ways. I was excited by the Carter Commission set up in Canada in the early 1970s to look at its tax system as a whole. A similar committee in Britain could be our big idea, which I felt was needed to enable IFS to make a national impact. So we established, under Professor Meade's chairmanship, an interdisciplinary committee to examine the structure and reform of direct taxation in the United Kingdom. The Commission was generously financed by various trusts and foundations, led by David Sainsbury's Gatsby Charitable Foundation, and we were even able to return a small balance of Gatsby's final grant when the report was completed. Remarkably that took only just over two years. The

publication of the report in 1978 was met with all the respect and deference due to a major Royal Commission. In fact it was often thought to be a Royal Commission. The Financial Times devoted page after page to its analysis.

In retrospect we were almost recklessly ambitious. Soon after the committee was set up, James Meade, that wonderful man who was an inspirational chairman and who wrote most of the report himself, said to me "Now that I have thought about what I have undertaken, I am appalled and overwhelmed by the enormity of the task you have given me. I am over seventy, you know."

Several factors contributed to its success. One was the role played by the deputy chairman, Donald Ironside, a very modest and immensely able accountant. He not only organised the work of the Committee, but translated the language of the tax experts to the economists and of the economists to the accountants. For his contribution he was later given the award of "Accountant of the Year", an award annually given to an accountant who had enhanced the reputation of the profession. Another factor was our prescience in our choice of members, especially the three young economic advisers, later made full members of the committee. The original two were John Flemming (later chief economist at the Bank of England) and a very young Mervyn King, whom I knew well and for whom I had a very high regard. Mervyn recommended another very young economist, an Oxford don, John Kay, who looked about sixteen years old. Further a major boost for the report was that shortly after its publication James Meade himself received the Nobel Prize. It was actually awarded for his work on trade, but he received a telegram from President Jimmy Carter congratulating him on a prize so thoroughly deserved "for your work on tax".

To me one of the most gratifying things about the Meade report is how well it has worn. In my foreword I said: "We hope and believe that this report will be a rich quarry for tax reformers and a reference point for students of taxation for decades to come." I believe this hope was realised.

My third, perhaps my most important service to IFS, followed the report's publication. Although he was the youngest member of the committee, John Kay made probably the most important academic contribution after James Meade. At a series of very well attended public seminars we held to discuss the report, James Meade consistently answered difficult questions by saying: "I think John Kay should answer this one". I succeeded in persuading John, despite the many tempting academic offers already coming his way, that if he became its director, IFS would give him unique opportunities. We had better links with industry and the City than most academics could hope to have. More important, now that the Meade report had firmly established our reputation, I was confident we could raise a lot more money (which we duly did with the help of the Bank of England) and he would have virtual carte blanche in recruiting able young staff, which he did. Almost immediately our output increased dramatically and the general research programme assumed a coherence which without in-house research staff we had not been able to achieve before. He (and later his successor, Andrew Dilnot) developed IFS into the force it is today.

Dick Taverne now sits in the House of Lords, and six years ago set up a new institute, Sense About Science, which promotes the evidence-based approach to the public discussion of scientific issues.

John Kay (1979 to 1986)

My association with IFS began in 1975. As a young Oxford don, I was asked to join Mervyn King and John Flemming as secretaries to the Meade Committee. Anyone who imagined that a group as opinionated as John, Mervyn and myself would be content with a role as scribes was naïve. It was soon accepted that we were full members of the Committee. It was also true that anyone who imagined that someone with as fertile, lucid and definitive a mind as James Meade would allow others to write the report of a committee of which he was chairman was naïve. The Meade Report as it was published bears the stamp of James on every page.

The Meade Committee was a formative experience, because it was my first acquaintance with the application of economics outside the academic world. I found that congenial. I acquired a taste, and perhaps a skill, in explaining economic concepts to a more general audience. When Dick Taverne asked me to become the Institute's first full-time research director, the decision to give up the comfortable tenured position of lecturer at the University of Oxford – till 30 September 2015 – was not an easy or an obvious one. But the ground for it had been prepared. I was already sure I did not wish to be a full-time academic till 2015.

So in January 1979 I arrived at the Institute's first premises in a depressing location at Castle Lane, to manage a research staff of two people. But I arrived with some firm ideas about what needed to be done. I wanted to develop two major empirical databases, one for the personal sector, one for the corporate sector. These would underpin our research and ensure that no-one would ever again think that the government had a monopoly of the information needed for policy analysis. I knew this would make us unpopular in some parts of government, and it did. And I had a suspicion that pensions – an area where policy discussion had almost been closed down after bipartisan support for the Castle reforms in 1975 – in fact raised huge unresolved issues of provision and cost.

I came to public policy issues with a passionate commitment, not to any particular policy conclusions, but to improving the process by which these conclusions were reached. This differentiated – and still differentiates – IFS. Most think tanks exist to put forward a particular view of the world. Many people found it hard to understand that we were more concerned to get to the right answers than with what these answers were. If the data didn't support our prejudices, we unhesitatingly jettisoned the prejudices. This became the ethos of IFS, and is the basis of the ferocious independence it maintains to this day. That was another reason why IFS was unpopular with government – and will have failed if ever it is not unpopular with government; its existence is a constant antidote to spin.

That is not to say we didn't have views. Fiscal neutrality is today a cliché, and it is hard now to remember how unfamiliar a notion it was thirty years ago. For most people, it was then self-evident that the tax system should reward the good and punish the bad. Our reframing of that debate has had an enduring impact on public policy in Britain, and it is the kind of influence a think-tank should aspire to exert on the climate within which ideas and policies are framed. The interaction between tax, national insurance and social security, and the complexities and inefficiencies of the tax treatment of savings and investment, were constant themes of our work and they became themes of government attention and action as well. And we began the process that led to the dismantling of the state earnings related pension scheme, a complex political construction that threatened the public finances in the next century without tackling the main weaknesses in UK pension provision.

Many people and events contributed to making IFS a success, but for me there were three decisive moments. One was when a bearded economist in the Department of Health and Social Security walked into my office on the recommendation of Wilfred Beckerman, his tutor at Balliol. Within a few minutes, I realised that Nick Morris was the lieutenant I needed. Without Nick's unmatched capacity for getting things done we could never have achieved a fraction of our aspirations.

Another key event came soon after the 1979 election. The newly elected Thatcher government implemented a major switch from direct to indirect taxation, taking three points off the basic rate of income tax while raising VAT from 8% to 15%. They were concerned that the rise in the RPI might feed into wage increases, and argued that what was really required was an index which measured the spending power of gross income. So we set out to construct one.

It was the first use of our personal sector database, and Nick Morris worked through the night to compute it on a programmable calculator. (It was to be another two years before IFS acquired its first computer, a Sirius mini-computer, which we all looked at with awe). The index itself wasn't that important. What really mattered was the press interest we aroused. Britain has the best economics journalists in the world, and we had discovered their ravenous appetite for original, well researched, material. We began to understand that feeding that appetite was the most effective way of getting our work across.

Funding proved harder than we expected in those early days. As a band of three or four researchers, we could never hope to realise our ambitions. Dick Taverne and I went one afternoon to see David Sainsbury. I talked at length about our plans, and David simply listened. I left feeling disappointed at the absence of reaction. I couldn't have been more wrong. Two days later, the Gatsby Foundation which David had established agreed to fund our personal sector research programme. We knew then that IFS was in business.

But the most rewarding aspect of work at IFS was the development of the skills of individuals and the capabilities of teams. In the spring of 1980, in the quadrangle at St John's College, I was chatting to a young student with a flair for empirical data who was looking for a summer job. I suggested he join us at IFS. The following year he became a member of the research staff: and ten years after that, Andrew Dilnot became director of the Institute. It is immensely fulfilling that first in Bill Robinson's hands, and then in Andrew's, the Institute has gone from strength to strength.

*After he left IFS in 1986, John Kay went on to hold chairs at London Business School and Oxford University and to set up (with Nick Morris) a consultancy, London Economics. He now writes books (his latest *The Long and the Short of It* was published in January 2009) and a weekly column in the *Financial Times*.*

Bill Robinson (1986 to 1991)

My connection with the IFS goes back to late 1981. I was at that time a Senior Research Fellow at the London Business School, producing macro-economic forecasts and policy advice. I vividly recall the day Nick Morris walked into the LBS offices to ask for help with the macro-economic background to the *Green Budget*. I had never heard of Nick or the *Green Budget*, but he said enough to persuade me that the IFS had thought more deeply about tax revenue projections than we had.

After a working meeting with Nick, to which he brought along his young assistant Andrew Dilnot, I decided that the LBS forecast could only benefit from collaboration with these young unknowns. So I persuaded my colleagues that the LBS should enter into a strategic alliance (as it would now be called) with the IFS. The synergies were obvious. The IFS got the most up-to-date macro forecast from the leading practitioner. The LBS got a better fiscal forecast and in due course some greatly improved forecasting equations.

We did three *Green Budgets* together, in the course of which I learned a lot about tax, the work of the IFS and the extraordinarily productive partnership between John Kay and Nick Morris. John, with his powerful intuition, could always see things before the rest of us (e.g. that SERPS placed an insupportable burden on the public finances). Nick would then do the empirical work to prove it. In addition to his enormous contribution as a researcher Nick would also organise conferences, write fliers, recruit staff, run the office - and mend the coffee machine if it went wrong.

When, in 1986, Kay and Morris decided to move on and asked me to succeed John as Director, there could only be one answer. The pay was poor and the working conditions appalling. I was a macro economist who knew too little about tax. Many people doubted if the IFS would survive without John Kay's leadership. So of course I said yes - after all I was a policy wonk and I believed the IFS could have as much influence over tax policy as the LBS had had over macro-economic policy in the early 1980s.

When my friend and mentor Jim (Professor Sir James) Ball took over as Principal of the LBS he was asked what his objectives were. "To survive" he said. That was my objective at the IFS and if it sounds too modest I should make it clear that I wanted IFS to survive in order to go on changing the world. Survival meant finding half a million pounds a year in research funds. To do that we had to come up with some good ideas for policy-relevant research, and maintain the excellent IFS tradition of explaining our findings to press, politicians and other policy wonks in language that non-economists could understand.

It was easier than I feared. I had some very able lieutenants. Andrew Dilnot, Mike Devereux and Steve Smith each headed up a small team of policy-oriented researchers in the IFS and came up with a steady stream of ideas for policy-relevant projects. Richard Blundell maintained our links with the academic community and ensured that our research techniques were state of the art. Robert Markless, our administrator, looked after all the practical details, especially the organisation of conferences. It is a remarkable testimony to the affection that the IFS inspires that two of this team are still playing a key role today, and two others maintain looser links as associates.

So what did we set out to achieve in the Robinson years at the IFS? My first aim was to keep us at the forefront of the policy debate, which meant plugging away with the essential messages on fiscal neutrality, and the need to rationalise and simplify the tax system. We took two initiatives to this end.

We launched the Capital Taxes group, which brought together academics and tax practitioners under the chairmanship of Malcolm Gammie, and produced a series of influential reports on Inheritance Tax, Capital Gains Tax, and more generally on the taxation of savings and corporation tax (the ACE proposal came out of that work).

We entered into another strategic alliance on the *Green Budget*, this time with Goldman Sachs, and turned it into a much more high-profile event. The *Green Budget* report, now essential reading for policy makers, became a splendid shop window for IFS policy ideas. To change policy you need to repeat the message, many times, in different ways, taking account of the latest data and developments. The *Green Budget* is a brilliant device for achieving repetition without being repetitious.

However, we also needed some new tunes. I always saw the IFS as an institution whose job was to take ideas from the academic community and turn them into practical policy proposals, backed with solid empirical research. In the late 1980s there was a new wave of concern about the environment, on which there is a huge academic literature. I decided that the IFS should get involved in the debate on Green Taxes and launched a research programme into environmental taxation, funded initially by the Esmée Fairbairn trust. There is now a chapter on Green Taxes in each *Green Budget*, (many who don't know the history have wondered if that was why it was called the *Green Budget*) and every politician now knows that it is a good idea to tax bads rather than goods.

However the most important event of the late 1980s, in terms of its implications for tax policy, was the creation of the Single Market. This led to calls for harmonisation of VAT rates across Europe. I can still remember Stephen Smith coming into my corner of the open plan office in the Tottenham Court Road and explaining to me that you did not need to have a ceiling, only a floor, if you wanted to achieve this. Market forces would push tax rates downwards, because each jurisdiction would compete for the favours of cross border shoppers by lowering its VAT rate. You simply needed to agree a floor, otherwise this tax competition would erode VAT revenues altogether.

Over the last twenty years, which have seen increasing globalisation of markets, the importance of tax competition has grown. The UK government has been quicker to understand this than some of our European partners, partly because it has been very well educated by the IFS. My own small part in this process was to give a big push to the IFS work on European tax issues in the late 1980s. We devoted an Oxford residential conference to the subject, undertook research projects in collaboration with other institutes around Europe and I served on various EC committees, including the Ruding Committee on corporation tax.

I left the IFS under the happiest of circumstances. In the summer of 1990 we learned that we had been successful in our application to become an ESRC Centre of Excellence. In the early autumn we moved into splendid new offices. In the late autumn I was invited by the Chancellor of the Exchequer to become his Special Adviser, with particular responsibility for tax issues. So I handed over the reins to Andrew Dilnot and departed to the Treasury with my head full of tax reform plans – starting with the abolition of mortgage interest relief, politically possible now that Mrs Thatcher had gone.

I hugely underestimated the difficulty of getting rid of that ridiculous relief, but in the 1991 Budget we managed to restrict it to the basic rate of tax. I never dreamt it would take another nine years, and a Labour Chancellor, to complete the process. In the face of such enduring anomalies we need an enduring force for reform. I am proud to have played a small part in building such a force.

Bill Robinson is now Director at London Economics where he leads their Strategy and Policy team.

Andrew Dilnot (1991 to 2002)

I vividly recall lunch on my first day at the IFS in the summer of 1980. Dick Taverne took the research staff to the local pub, and the five of us (Dick, John Kay, Nick Morris, Richard Hemming and I) sat round in the sunshine talking about the size of the Black Economy. The research we did that summer used one year of Family Expenditure Survey data, 1977, and ran overnight on an ICL mainframe computer that reputedly needed as much water to cool it as the entire domestic consumption of its host city, Oxford. I couldn't understand why there was a pneumatic drill going so often in the computer centre, and only later discovered it was a card reader.

Much has changed since then. By 1999, when IFS celebrated its 30th anniversary during my time as Director, there were 34 economists on the permanent staff, 19 Research Fellows and Associates in the UK, and 23 overseas. IFS continued to recruit very young economists, although these days the process is rather more formal than a chat in an Oxford quadrangle. We all now have sitting on our desks computers much more powerful than the mainframes of 1980, and the scale and diversity of data has grown beyond our wildest imaginings.

We were lucky to catch the crest of a technological wave, that took us from writing COBOL in 1980 (to the amusement of my younger colleagues in later years) to the high level programming languages of the late 1990s; from enormous struggles to produce simple cross tabulations of data, to ease of computing sophisticated statistical models on vast datasets more quickly than we could interpret the results.

And there is much for an organisation like IFS to do. Tax credits for research and development, incentives for small company investment, making work pay, integrating the tax and social security system, a rewrite of the tax law, a climate change levy, incentives for young people to stay on at school, more reform of pension systems, worries about international tax competition. The debate about the role and impact of government policy on people and companies is at least as vigorous now as it ever has been. As well as questions about the scope for policy to affect behaviour, questions about how the world is – the distribution of income, of tax payments, whether taxation is going up or down, how we should measure inflation, are also crucial.

All these areas, and many others, provide the backdrop to IFS work. The goal set for us 40 years ago was to face up to the challenges of policy with the equipment of rigorous analysis. In my experience, that is for us the joy of the work for the Institute's researchers. We were then, and they are now, committed to using the very best techniques available to address these fundamental questions. Sometimes what is needed is very careful description of large datasets, sometimes clear understanding of institutions and rules, sometimes the application of economic theory, sometimes the use of sophisticated statistical technique. Most often, all of these are necessary, and it is the bringing together of these that IFS seeks to achieve.

In our striving after this integration of policy and research we were enormously helped during the 1990s by the Economic and Social Research Council's support of a research centre within the IFS, the Centre for Fiscal Policy, directed by Richard Blundell. ESRC funding of the CFP delivered about a third of our total income during my time as Director, and, crucially, gave us the ability to commit very substantial resources of time and effort to the underlying scientific base of much of our work. The fruits of this are of great value in themselves, and added enormously to our contribution on policy. Our applied work on key elements of the government's strategy, such

as the encouragement of innovation, of personal saving, and of paid employment, were all made possible by basic research.

Many other funding bodies also made invaluable contributions – the Leverhulme Trust, the Joseph Rowntree Foundation, the Nuffield Foundation, the Esmée Fairbairn trust, the European Union, and many government departments were among our larger supporters – and still support IFS today. And the corporate sector continues to provide membership income which allows the flexibility to respond rapidly to new issues when they arise.

The IFS grew out of concern about the legal and accounting debate on tax, or lack of it, as well as the economic. The Tax Law Review Committee was a 1990s innovation which made substantial contributions.

There were many exciting moments as research came to fruition in the 90s, but one illustrates well the way the agenda moves on. For many years, we had an ambition to produce a consistent series of data on the distribution of income in the UK – an aim stretching back to the late 1970s. In 1994, after research which had required the use of the mainframe computers of a large supermarket to read computer tapes unread for decades (government no longer had a suitable machine!), and trips to the Public Record Office to locate missing households from the 1960s, we published. Yet even as we published we were aware of many research ideas stimulated by the results. Why were there so many households with apparently zero incomes – were more households experiencing intermittent periods of very low income, perhaps the self-employed? The distribution of income had widened more quickly than that of spending – why?

Were those with low incomes permanently poor, or was there substantial mobility, from year to year, or generations to generations. Why had inequality risen – wages, unemployment, lone parenthood? We set research in progress on these issues, which has helped us to comment on recent government proposals aimed at responding to low incomes. This work informed policy and generated new questions for the future.

Some of our questions arose from consideration of theory, some from our results, some from government and opposition. These three sources of ideas for research continue to provide the inspiration for work at IFS.

Looking backwards I am very aware of the role of those who founded the Institute, of the staff who have come and gone, and now all of those who still work at IFS. It is the people who have worked at IFS who have made it special, and do so now. Throughout its life as a research institute IFS has been served by outstandingly able and committed people.

Andrew Dilnot is Principal of St Hugh's College, Oxford.