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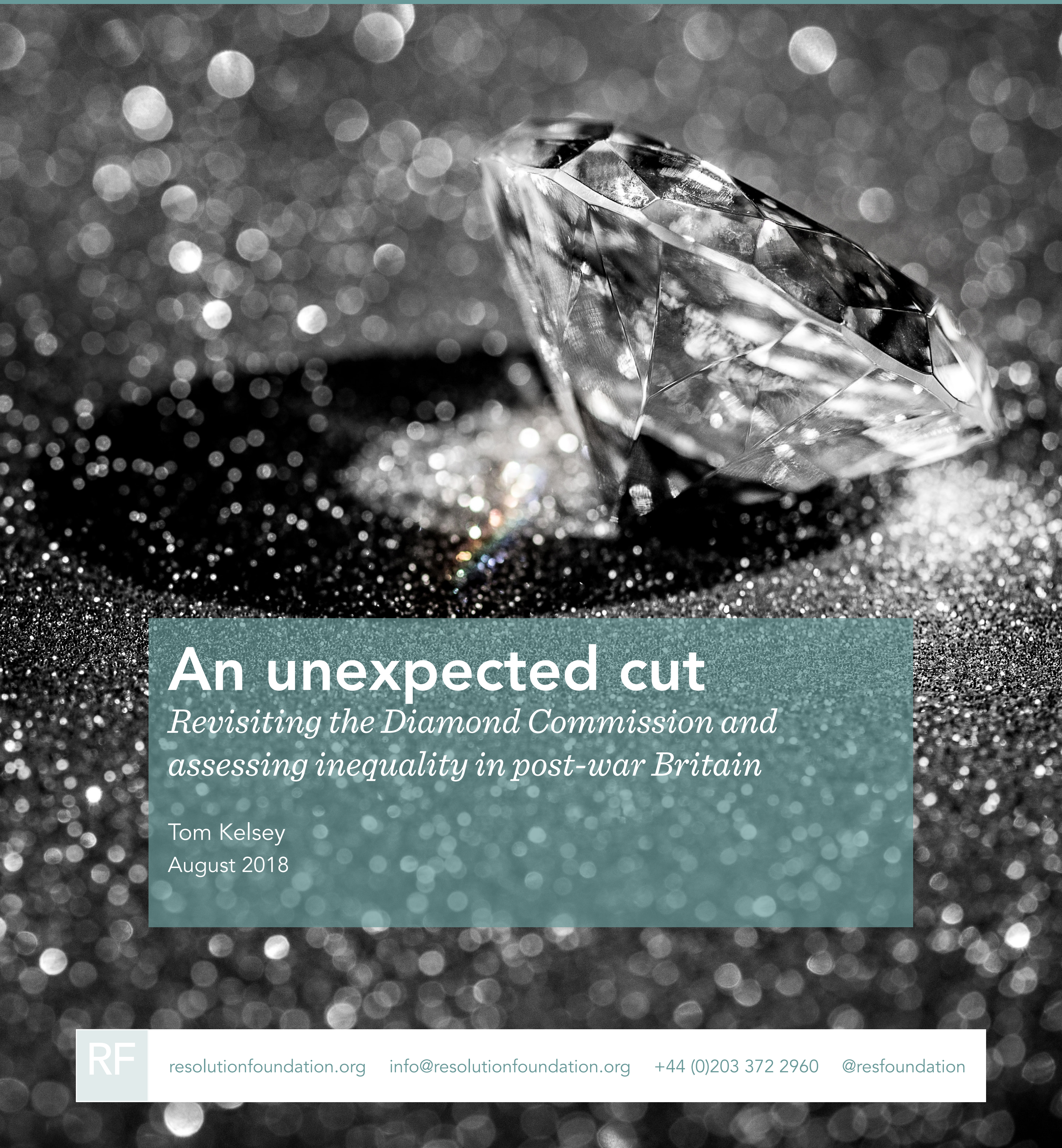

An unexpected cut

Revisiting the Diamond Commission and assessing inequality in post-war Britain

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Foreword

This is the second paper to be published by the Resolution Foundation as part of the Historians in Residence programme, which is based at King's College, London. The programme seeks to create stronger relationships between historians and the worlds of policy and public life.

Here Tom Kelsey takes a look back at the Diamond Commission, a unique Royal Commission established by the Wilson government in 1974. Unlike most other Royal Commissions this was not set up to investigate a specific area of policy or to produce a list of particular recommendations. Instead, the Diamond Commission was intended to have an ongoing role in educating and informing politicians, the media and the public as to the facts regarding the 'Distribution of Income and Wealth' – a goal very close to the heart of the Resolution Foundation today.

The findings, fallout and pitfalls from this endeavour are documented in this paper, with lessons for 21st century policy makers too. The story of the Diamond Commission helps to remind us that facts and figures do not in of themselves make change happen. Power in politics matters too, as does the extent to which nuanced findings are distilled – and simplified – by different actors in order to bolster arguments for what are often their already favoured policy proposals.

This paper also draws links between the findings of the Commission and more recent statistics. It helps us understand the extent to which the context for debates on inequality in the UK has shifted since the 1970s – inequality is significantly higher, and its shape is changing too with intergenerational issues rising up the agenda.

Commissions have become the go-to method for research organisations wishing to tie different pieces of work together under a common theme, from the Resolution Foundation's very own Intergenerational Commission to IPPR's Commission on Social Justice in the 1990s. Making sense of what worked – and didn't work – as the findings of the Diamond Commission came into contact with the real world is as worthwhile as it has ever been.

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Resolution Foundation

The views and opinions expressed in this report are those of the author and do not necessarily reflect those of the Resolution Foundation.

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Summary

We are often told that concerns about inequality have never been so high on the political agenda. Yet, a quick look into the recent past tells us a different story. We only have to go back to mid-1970s to see that the distribution of income and wealth was a crucial issue of political debate. In 1974, the Labour government even established a Royal Commission on the subject.

Much like today's investigations on inequality, the Royal Commission on the Distribution of Income and Wealth, also known as the Diamond Commission, was premised on the idea that by establishing the facts on inequality, the work of policymaking and the nature of the public debate would be far better informed and so the living standards of the least well-off would be improved.

The Diamond Commission was remarkable in many ways. It stands as one of the most comprehensive studies on inequality in post-war British history. In total, the Commission produced eight reports, many more background papers and a popular book. The total cost of such work was £1.5 million, over £10 million in today's money. The data the Commission unearthed was also impressive. It is rare that today's work on inequality goes further back than the 1980s. The Commission, in contrast, often looked back to the interwar years.

Given the similarity between the aims of the Diamond Commission and the increasingly quantitative nature of the research that informs today's policymaking, it is useful for us to look again at the findings and impact of the Diamond Commission. After explaining why the Commission was established, this paper restates the Commission's main conclusions and contrasts these findings with more recent data to shed light on how inequality and living standards have changed in recent British history. Afterwards, this paper analyses the influence of the Diamond Commission on policy and the public debate. The conclusion reflects on what the story of the Diamond Commission can tell us about the relationship between expertise, policymaking and matters of inequality for those concerned about these issues today.

Britain was a lot more equal in the mid-1970s than it is today. Between the late 1970s and the latest data, the Gini coefficient for (after housing costs) income equality has increased from 0.25 to 0.38. Nevertheless, looking back at the work of the Diamond Commission shows us that post-war Britain was not as radically redistributive as one might expect, especially in terms of income inequality. From 1949 to 1976-77, income inequality was remarkably stable on most measures. The bottom half of the income distribution only witnessed a 0.3 per cent increase in their share of total income.

The vehicles of equality in post-war Britain might also surprise. While much focus is rightly given to the role of taxation and the welfare state, the spread of pensions and broadening of home ownership were crucial engines of a more equal wealth distribution. For instance, when you include occupational and state pensions, the bottom 80 per cent's share of total wealth in 1976-77 increases from 27.4 to 44.7 per cent.

There have been some positive shifts in the make-up of inequality since in the mid-1970s. There has been a large reduction in poverty among pensioners as pensioner incomes have grown faster than working-age incomes. In 1976, pensioner households accounted for 48 per cent of those below average income; in 2016, this had reduced to 30 per cent. Many other contrasts with the mid-1970s are more troubling. Interestingly, the self-employed were better off than employees at that time – the reverse of the situation today. Most striking, if not alarming, is the changing role of inheritance, which has grown significantly over the past forty years and is set to grow further still. While it used to contribute to greater wealth equality, looking forward it risks making wealth gaps, at least in absolute terms, becomes more entrenched.

In crucial ways, the Diamond Commission had a rather unexpected impact, especially given that it was established by a Labour government. In the public discourse, the findings of the Diamond Commission were rarely used to justify greater moves towards income and wealth equality, but rather to suggest the opposite. Indeed, the work of the Commission was often used to make the case that Britain was too equal. Many powerful voices used the Commission's evidence to somewhat inaccurately suggest Britain was suffering a managerial 'brain drain' due to low pay among high earners. Several newspapers used the Commission's findings to argue that selling council houses would be a better way to spread wealth than further taxation of existing wealth. Moreover, the impact that the Commission had inside government was limited. Policy matters regarding the distribution of income and wealth were highly politically sensitive, which made it difficult for expertise to cut through the politics.

Perhaps the key lesson from the story of the Diamond Commission is that the facts can only get carried as far as the political winds will take them. How, then, can we make today's political climate more encouraging of greater moves towards equality? Good solutions that can be sold to the electorate are part of the answer. Stressing how the facts need to be socialised is also crucial. But, perhaps, the story of the Diamond Commission reveals something more fundamental.

During the 1970s, we see how a strong union movement with influence inside the British state made it more difficult for 'pro-rich' legislation to pass. In the eyes of many Labour politicians and state officials, the power of the unions made it harder to secure some perfectly sensible policy changes. Yet, at the same time, the hold of the unions also acted as a crucial bulwark against moves towards greater inequality. The broader point is to highlight how political action is not only motivated by good ideas, but also by strong brokers. Telling the story of the Diamond Commission brings into sharp relief how we need to think through where the pressure for reform on the distribution of income and wealth is going to come from in today's more unequal Britain.

Section 1 – The Establishment of the Diamond Commission

Before looking in detail at the findings and impact of the Diamond Commission, it is useful to first understand the context within which this public inquiry into the distribution of income and wealth was established. Crucially, Britain was a lot more equal in the mid-1970s than it is today. Between the late 1970s and the latest data, the Gini co-efficient for (after housing costs) income equality has increased significantly from 0.25 to 0.38. Yet, still, there was a sense on the left in the mid-1970s that Britain needed to be more equal and that publicising the facts of inequality would produce a climate in which this could happen.

Demonstrating the power of the unions at this time, the very idea for a Royal Commission on the Distribution of Income and Wealth came from Jack Jones, the General Secretary of the Transport and General Workers' Union (TGWU) and the chief economic spokesman for the Trades Union Congress (TUC).[1] Jones, in particular, thought that a greater knowledge about the distribution of income and wealth would produce a firm basis for redistributive policies.[2] This was how the Commission was implicitly framed in Labour's February 1974 manifesto, which was filled with promises of reducing inequality. Indeed, Labour famously promised 'a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families'.[3] A wealth tax would be introduced, so too a tax on large transfers of wealth, as well as the establishment of a 'Royal Commission to advise on income distribution, both earned and unearned'.[4]

After Labour was elected in 1974, Michael Foot, the Secretary of State for Employment, was responsible for choosing who was on the Commission and was well aware that its membership had to be wide enough in both politics and experience to command public confidence. Lord Diamond, a Labour peer, was Foot's first choice as Chairman. Diamond, a former businessman and chartered accountant, had been Chief Secretary to the Treasury under Harold Wilson from 1964 to 1970. In fact, Diamond's legacy from that time still lives on, as he was pivotal in the introduction of the Capital Gains Tax. Crucially, though, Diamond was the sort of figure that the City Comment of the *Sunday Telegraph* could describe as 'an amiable Socialist'.[5] No doubt it was Diamond's credentials as a moderate Fabian technocrat that drew Foot to him. The other seven Commissioners were a fairly even balance of academics, trade unionists and figures from business.[6]

[1] Harold Wilson, the Prime Minister, wrote that the idea for the Royal Commission came from Jack Jones on a note attached to a document outlining the potential scope of the study: National Archives, Records of the Prime Minister's Office, PREM 16/115, Proposed Royal Commission on Income Distribution, 17 May 1974

[2] Richard Whiting, *The Labour Party and Taxation: Party identity and political purpose*, Cambridge University Press, 2004

[3] www.politicsresources.net/area/uk/man/lab74feb.htm, accessed 16 July 2018

[4] www.politicsresources.net/area/uk/man/lab74feb.htm, accessed 16 July 2018

[5] Sunday Telegraph, *Diamond wants the facts*, 8 September 1974

[6] The Commissioners were Sir Leslie Murphy, the Deputy Director of Schroders merchant bank and future Chairman of the National Enterprise Board; Sir George Neville Butterworth, formerly chairman of Total Ltd and a member of the Grand Council of the Confederation of British Industries; Roy Arthur Cox, a businessman; David Lea, a trade unionist and the Secretary of the TUC-Labour Party Liaison Committee; George Henry Doughty, a retired trade unionist who used to sit on the General Council of the TUC; Dorothy Wedderburn, a trained economist turned industrial sociologist at Imperial College, London who focused on issues of social policy; John Greve, Professor of Social Policy and Administration at Leeds University; Sir Henry Phelps, an academic economist at the London School of Economics who specialised in the study of wages.

In an important sense, the power of the Commission was self-consciously limited by the very Labour politicians who established it. Originally, there was interest in asking Diamond to investigate the specifics of the government's incomes policy. Shirley Williams, the Secretary of State for Prices and Consumer Protection and future founder of the Social Democratic Party, argued that the Commission could be a useful tool to for justifying wage restraint. Those workers lobbying for pay rises needed to understand the inflationary impact of their demands.[7] Foot accepted that studies along these lines would be useful for the government but took the view that they were not politically possible. "Len Murray [the General Secretary of the TUC] has made it very clear to me that if we want the Commission to get off to a good start, we should concentrate on the more general issues".[8] The particularities of incomes policy should be left to the TUC and the government – not contracted out to experts. The Commission, then, was to be 'entirely advisory and its role educative and indicative' with the aim of producing the 'factual analyses to assist in the formulation of policy and the education of public opinion'.[9]

The Commission didn't last long into the Thatcher years – it was scrapped in 1980. Jim Prior, Thatcher's first Secretary of State for Employment, complained how the focus of the Commission was on "the distribution of the existing cake, not on its enlargement".[10] Yet, its life wasn't likely to be a long one even under a Labour government. Albert Booth, Secretary of State for Employment in the later years of Callaghan's government, was already questioning whether the Commission had a long-term future in 1978.[11] The later reports of the Commission were increasingly embarrassing to the Labour Government. While Prime Minister, James Callaghan personally and unsuccessfully tried to supress the publication of the seventh report of the Commission that concluded the purchasing power of the poorest fell under Labour in the mid-1970s.[12] More generally, as we shall see, the work of the Diamond Commission did not sit neatly with the politics of either of the main parties. Of course, this was good for democracy, as unexpected findings help to inform political debate, but such surprising discoveries did not aid the long-term prospects of the Commission itself.

[7] National Archives, Records of the Prime Minister's Office, PREM 16/115, Shirley Williams to Michael Foot, 30 May 1974

[8] National Archives, Records of the Prime Minister's Office, PREM 16/115, Michael Foot to Dennis Healey, 4 June 1974

[9] National Archives, Records of the Prime Minister's Office, PREM 16/115, Michael Foot to Dennis Healey, 21 June 1974

[10] National Archives, Records of the Treasury, T 227/5644, Jim Prior, The Royal Commission on the Distribution of Income and Wealth, May 1979

[11] National Archives, Records of the Prime Minister's Office, PREM 16/1588, Albert Booth to Dennis Healey, 16 January 1978

[12] National Archives, Records of the Prime Minister's Office, PREM 16/1588, Nigel Wicks to Jenny Bacon, 8 May 1978

Section 2 – The findings of the Diamond Commission

This section focusses on some of the key findings of the Diamond Commission, outlining the evidence gathered in the 1970s and drawing some comparisons between this work and more recent studies, some carried out as part of the Resolution Foundation's Intergenerational Commission. On incomes, attention is given to both low and high incomes as well as the composition of the self-employed. On wealth, changes in its distribution across age groups and the role of inheritance is examined.

Moves towards greater equality in income and wealth were slower throughout the post-war period than one might expect. There were slight moves towards greater income equality in the decades after World War II, but it is the stability of income inequality that is more striking. There was a significant reduction in the wealth held by the top 1 per cent during the half century from the interwar years. However, much of this shift in wealth was a transfer to the top 10 per cent. It might also come as a surprise that pensions, more so than taxation, were singled out as having a particularly equalising impact on the distribution of wealth in post-war Britain.

This section also charts important shifts in the make-up of income and wealth since the mid-1970s. The extent of pensioner poverty in post-war Britain is especially striking, especially compared to today. Meanwhile, the fortunes of the self-employed moved in the opposite direction. In the mid-1970s, the self-employed were better off, on average, than employees, today they are worse off. The most alarming shift is the changing role of inheritance, which used contribute to greater wealth equality, but will soon ensure wealth inequality becomes more entrenched.

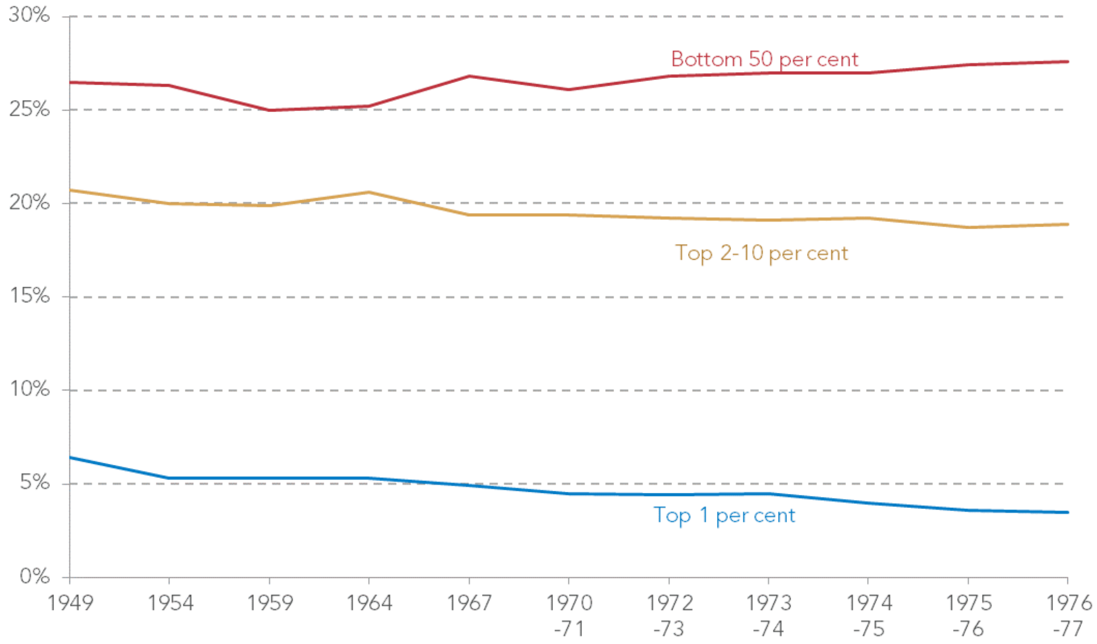
Income

The Diamond Commission's findings reveal income in the UK did become somewhat more equally spread in the first decades after World War II. The net income of the top 1 per cent fell markedly in post-war Britain, from a share of 6.4 per cent of all income in 1949 to 3.5 per cent in 1976-77, as shown in Figure 1.

Yet, if one ignores the decline in the relative position of the top 1 per cent, the distribution of income does not significantly change. The bottom half of the income distribution hardly moved in this period. As Figure 1 shows, this group only witnessed a 0.3 per cent increase in their share of total income from 26.7 per cent to 27 per cent.[13]

[13] Royal Commission on the Distribution of Income & Wealth, *Report No. 7: Fourth report on Standing Reference*, 1978, 14-15.

Figure 1: Distribution of personal income, United Kingdom, 1949 to 1976-77



Notes: Income after income tax, before housing costs, United Kingdom data
Source: Diamond Commission

Concluding their report on low incomes, the Commissioners argued that 'it was clear that while economic growth has permitted a substantial increase in the purchasing power of lower incomes, higher rates of growth have not been particularly associated with greater redistribution in favour of lower income'.[14]

This period of declining income shares for the top 1 per cent stands in stark contrast to recent history. Although the exact changes in the income of the very highest earners are difficult to measure, and different data sources point to different results, the evidence strongly suggests a rise in the top 1 per cent's share in the years since the Diamond Commission report was published. In fact, the income share of the top 1 per cent of households looks to have more than doubled from 4.2 per cent in 1985 to 8.5 per cent in 2015, any moves towards greater income equality in the years before the Diamond Commission was published have been more than undone in the years that followed.[15]

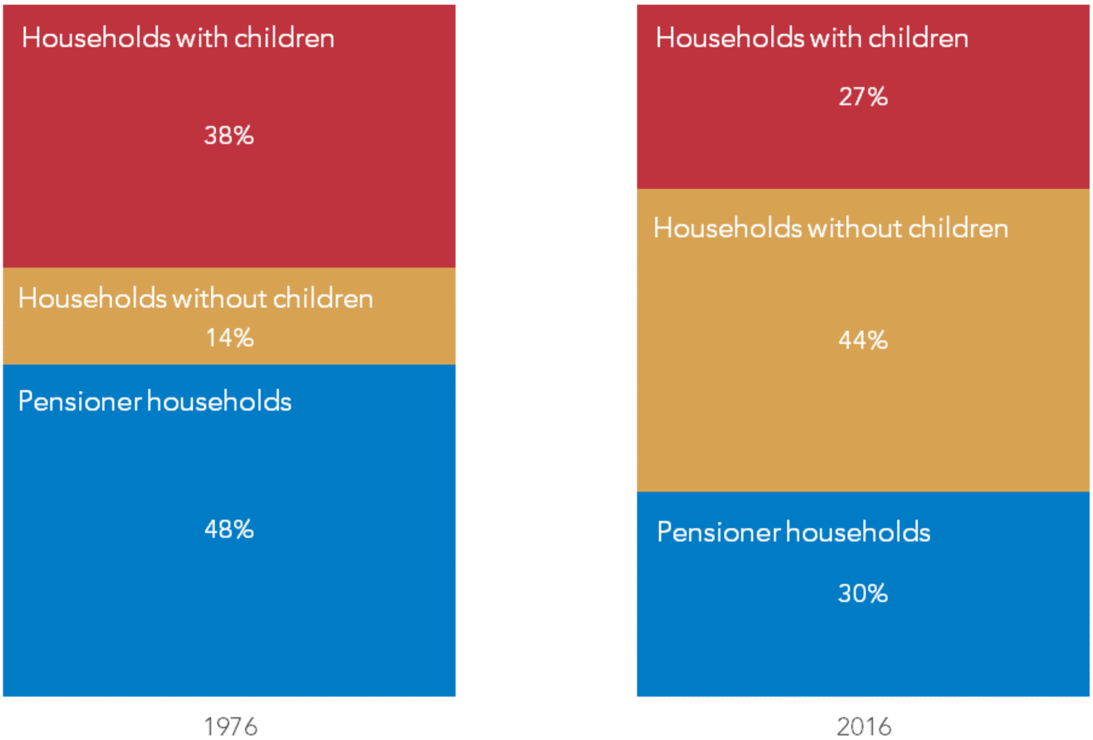
[14] Royal Commission on the Distribution of Income & Wealth, *Report No. 6: Lower incomes*, 1977, 145.

[15] A Corlett, *Unequal results*, Resolution Foundation, December 2017

Low incomes

The Commission focused much of its work on low incomes, defined as the lowest 25 per cent of income recipients. As Figure 2 shows, households where one or more individual was over retirement age accounted for 48 per cent of low income households. [16] Figure 2 also shows how the composition of this low income group has changed over the past 40 years. Comparable data from the Resolution Foundation[17] allows us to see that the biggest change is the decline in the share of this group that are in pensioner households, at the same time as a large rise in the share of households without children. This will reflect compositional change in the wider population, but is also reflective of recent living standards gains for pensioners; for example we know that after a long period of relatively strong income growth, it has been the case since 2011-12 typical pensioner incomes (after accounting for housing costs) have exceed typical working-age incomes.[18]

Figure 2: Proportion of bottom quarter of post-tax income distribution in each major household type, 1976 and 2016



Source: Diamond Commission (1976); Resolution Foundation analysis of *Households Below Average Income (2016)*

The Commission also highlighted how the real impact of the welfare state was not so much redistribution of income, but more the elimination the most severe forms of poverty, a task at which it was enormously successful. The Commission estimated that that 96 per cent of the poverty gap – the ratio by which the mean income of the poor falls below the poverty line – was eliminated through the social security system. Without cash benefits, the Commissioners estimated that 30.4 per cent of all families (22.7 per cent of all individuals) would be below the poverty line. With cash benefits, the number of families in poverty reduced to 4.4 per cent of all families (3.3 per cent of all individuals).[19]

[16] Royal Commission on the Distribution of Income & Wealth, *Report No. 6: Lower incomes*, 1977, 28.

[17] 1976 and 2016 data are broadly comparable, both are household incomes before housing costs and after tax and benefit.

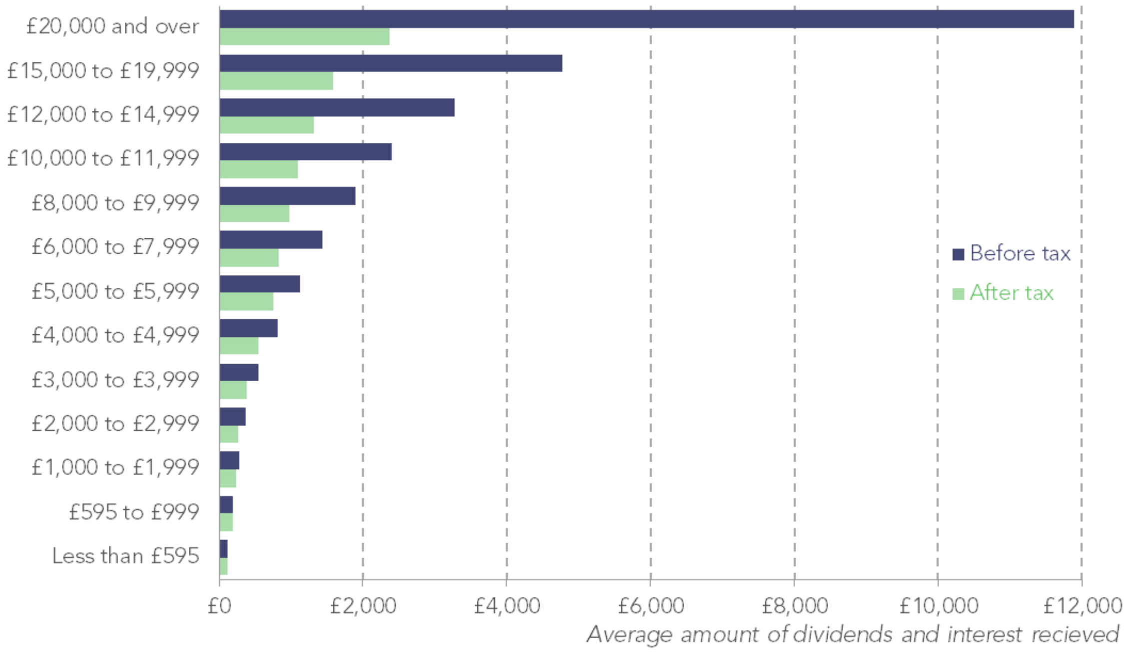
[18] A Corlett, S Clarke & D Tomlinson, *The Living Standards Audit 2017,* Resolution Foundation, July 2017

[19] Royal Commission on the Distribution of Income & Wealth, *Report No. 6: Lower incomes*, 1977, 98.

Dividends and the managerial 'brain drain'

One of the most notable finds of the Diamond Commission was how dividends were not the privilege of the rentier, as some on the left had long claimed. To some surprise, the Commission revealed that in the fiscal year 1972-73 almost half of dividend and taxed interest recipients had total incomes of less than £2,000, which was only £44 above the mean income.[20] However, the amount of money received through dividends across the income scales differed hugely, as Figure 3 shows.

Figure 3: Dividends and interest received, before and after tax, by annual income bands, 1972-73 quarter of post-tax



Source: Diamond Commission

Taxation had also had a significant levelling effect on incomes from dividends. With the ratio between dividends and interest received by those with incomes between £1,000 and £1,999 and with incomes of £20,000 and over falling from 1:41 to 1:10. But still, the work of the Diamond Commission demonstrated that the majority of the gains that a relaxation to dividend controls would bring would flow to those with higher earnings. As we shall see, the public discourse on this issue never captured this crucial fact.

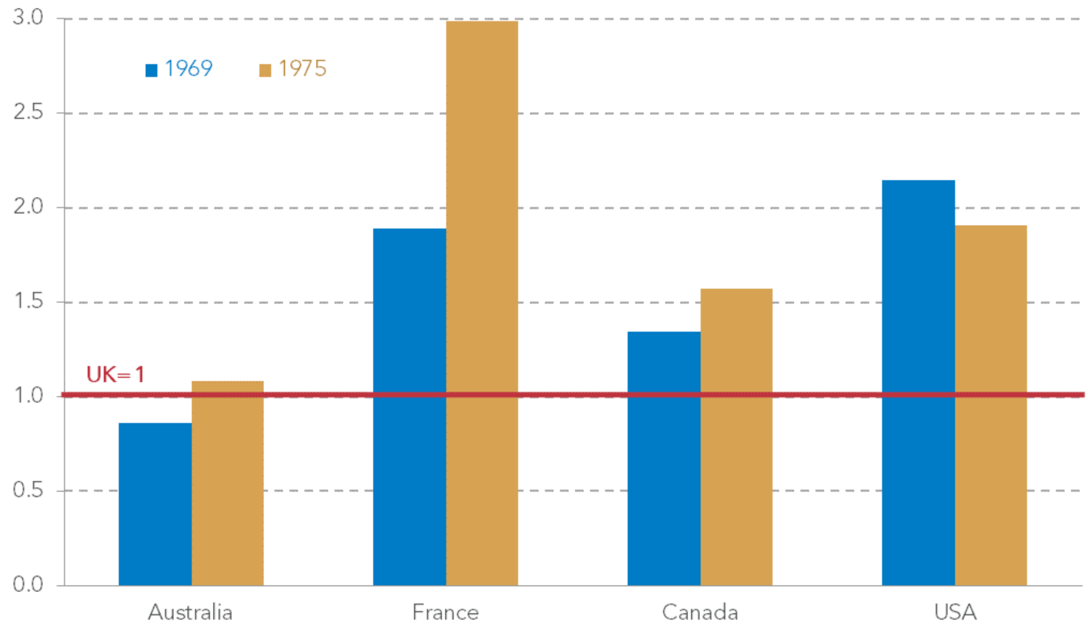
A particularly interesting aspect of the Commission's work was its detailed examination of the position and past trends of managerial pay in post-war Britain, an important issue as there had been much talk of a "brain drain" in British management caused by low pay compared to other rich countries.

[20] Royal Commission on the Distribution of Income & Wealth, *Report No. 2: Income from Companies and its Distribution,* 1976, 46.

The Commission found that between 1969 and 1975 there had been a decline in the real value of managerial salaries at higher income levels with the most dramatic changes occurring in the last two years and among the highest of high salaries.[21] The average decline in pay after tax was between 4 per cent and 26 per cent for managers, while the average salary increased in real terms.[22]

Further, the Commission concluded that British managers were paid less than those in other countries. After making adjustments for income tax and differences in price levels, British managers were shown to be paid significantly less than managers in other high income countries. As Figure 4 shows, managers in France were paid three times more than their UK counterparts in 1975. Managers in Australia, Canada and the USA were also more highly paid than those in the UK.

Figure 4: Comparison of salaries after tax in various countries, salary Band F (see notes), UK=100, 1969 & 1975



Notes: Comparisons between countries were conducted on a comparison between job level and responsibility. 'Band F' refers to General Managers, those less senior than M tors, but promoted above Works and Production Managers. It should be noted that the Commission did stress the difficulties in comparing date on employment across count

Source: Diamond Commission

However, the Commission also pointed out that not only were managers paid less in Britain, so too were those on low incomes. It wasn't just the high-paid that were losing out relative to their international peers, but earners across the distribution. The Commission also found that there was no upwards trend in the emigration of British managers. Overall, the conclusion drawn was that the government didn't need to act on the issue of low managerial pay.

Self-employment

For much of the 20th century in Britain self-employment was reducing. From 1921 to 1966, the number of self-employed men in the workforce reduced from 10.9 per cent to 7.6 per cent. For women, the reduction was starker, from 7.9 per cent to 3.9 per cent. Behind such shifts were falls in agricultural labour and self-employed shopkeepers.

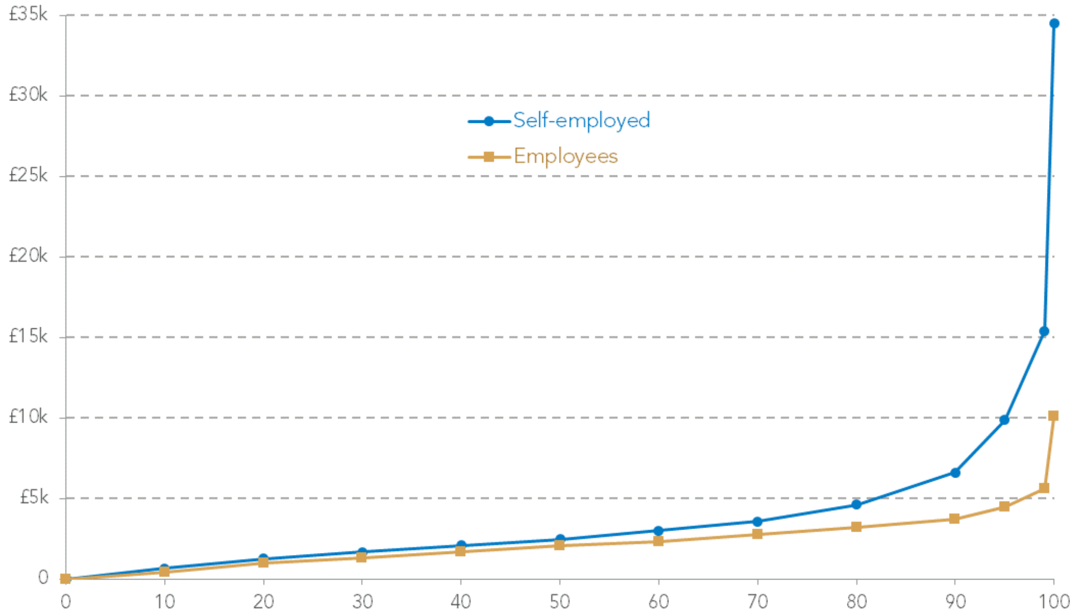
[21] Royal Commission on the Distribution of Income & Wealth, *Report No. 3: Higher Incomes from Employment,* 1976, 51-52.

[22] Royal Commission on the Distribution of Income & Wealth, *Report No. 3: Higher Incomes from Employment,* 1976, 55.

But from the mid-1960s, self-employment started to rise, especially among men. Much of this growth in self-employment was concentrated in the construction industry and the growth of "labour only" sub-contracting, an attractive option because of the reduced tax burden for both employees and employers.

The Commission did concede that a lack of reliable data meant that it was hard to make precise comparisons between the incomes of the self-employed and employed, but still it was confidently argued that the self-employed dominated the top income brackets. In 1974-75, the self-employed constituted under 9 per cent of the total number of tax units but their share of total net income was over one-third for the top decile group and nearly three-quarters within the top 1 per cent group [23] Many of the self-employed on high incomes were professionals, especially solicitors and those working in medicine.[24] As Figure 5 demonstrates, the average incomes of the self-employed was far higher than employees across the distribution, especially among the particularly high paid.

Figure 5: Distributions of the total net incomes of employees and the self-employed, 1974-75



Notes: Dots denote average income within range where the maximum point in the range is the dot itself. E.g. dots at the 30th percentile show the average income between the 21st and 30th percentiles

Source: Diamond Commission

The Commission also used Family Expenditure Survey data to compare the standards of living of households headed by self-employed individuals with those of households headed by employees. Here the possession of certain consumer durables and types of housing tenure were taken as indicators of relative standards of living. After standardising for income and age, the proportions of self-employed households possessing television sets and washing machines increased and were significantly higher than the proportions of employee households possessing such items. The data on housing indicate that proportionately more employees lived in council housing and proportionately less owned their houses outright than did self-employed households.[25] All in all, it is difficult not to conclude that the self-employed were, on average, much better off than the employed in the mid-1970s.

[23] Royal Commission on the Distribution of Income & Wealth, *Report No. 8: Fifth report on the standing reference,* 1976, 150; Royal Commission on the Distribution of Income & Wealth, *Report No. 8: Fifth report on the standing reference,* 1976, 202.

[24] Royal Commission on the Distribution of Income & Wealth, *Report No. 8: Fifth report on the standing reference*, 1976, 201.

[25] Royal Commission on the Distribution of Income & Wealth, *Report No. 8: Fifth report on the standing reference,* 1976, 164.

Like in the mid-1970s, there has been strong growth in self-employment in recent years, although the scale of this recent growth has been much sharper. Self-employment has increased 24 per cent since 2011; there are now 5 million self-employed workers – more than ten times the number in 1973. It's still the case that the self-employed work in a variety of sectors, and are most likely to be found in sectors such as 'construction and plumbing as well as in some relatively well-paid sectors like law and accountancy.

What has changed significantly, however, is that it is now by no means the case that the self-employed have higher average incomes than employees. In fact, recent data from the ONS shows that the distribution of self-employed incomes is more skewed towards the lower end than the distribution of employee incomes. In 2016, median income among the self-employed is around £240 a week, compared to around £400 a week for employees.[26]

Wealth

The Diamond Commission described how a significant reduction in the wealth held by the top 1 per cent took place in the middle half of the 20th century in England and Wales, even excluding the equalising effect of pensions. In 1923, the top 1 per cent owned 61 per cent of all wealth and the bottom 80 per cent had 6 per cent. By 1966, the share of the top 1 per cent had reduced to 31 per cent, while the proportion of wealth owned by the bottom 80 per cent had risen to 16 per cent. But the Commission also pointed out there had been a striking concentration of wealth among the top 6-10 per cent across this period; more than doubling from 7 per cent in 1923 to 15 per cent in 1976.[27]

The Commission pointed to increasing spread of privately owned houses as an important engine of wealth equality, as this allowed many more people to hold and pass on wealth. In mid-1970s Britain, the composition of wealth was drastically different between the wealthiest and the rest, as Figure 6 (which excludes pension wealth) demonstrates. In fact, when house prices rose relative to other forms of assets wealth equality increased because housing was proportionately far more important to the less wealthy. For those with total assets worth between £5,000 and £9,999, housing was, on average, 44 per cent of their wealth, while for those with total assets worth above £200,000, housing only accounted for 12 per cent of their wealth.[28] Stocks were disproportionally crucial to the top 1 per cent, who held over 54 per cent of all listed UK ordinary shares.[29]

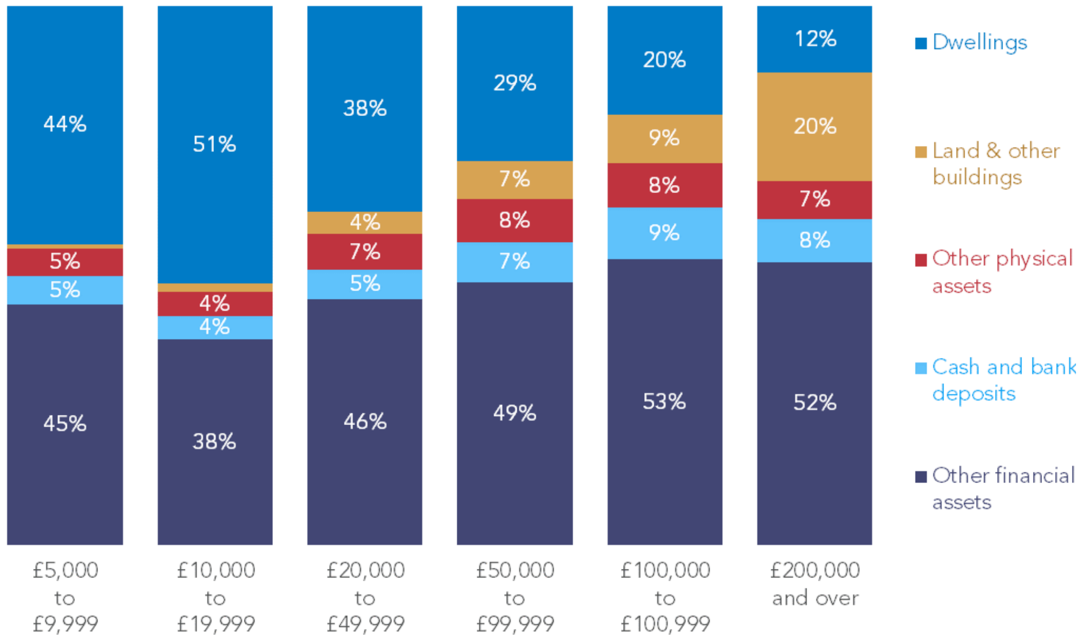
[26] S Sidhu, *Trends in self-employment in the UK,* Office for National Statistics, February 2018

[27] Royal Commission on the Distribution of Income & Wealth, *Report No. 7: Fourth report on Standing Reference*, 1978, 95.

[28] Royal Commission on the Distribution of Income & Wealth, *Report No. 7: Fourth report on Standing Reference*, 1978, 99.

[29] Royal Commission on the Distribution of Income & Wealth, *Report No. 7: Fourth report on Standing Reference*, 1978, 154.

Figure 6: Asset composition of personal gross wealth, bands of net wealth (excluding pension wealth and liabilities), 1976



Source: Diamond Commission

The Diamond Commission emphasised how pensions had a strikingly equalising impact on the dispersion of wealth. Once occupational pensions were included, the share of the top 1 per cent decreased from 24.9 to 21.1 per cent, the next 2 to 5 per cent from 21.3 to 20.1 per cent. But this effect was confined to individuals broadly within the top 60 per cent, as only around two-thirds of employees had occupational pensions. The additional inclusion of state pensions reduced the rate of wealth inequality further still. With the share of the top 1 per cent and next 2-5 per cent inclusive falling from 21.1 to 14.1 per cent and from 20.1 to 15 per cent respectively. The share of the bottom 80 per cent increased considerably going from 27.4 to 44.7 per cent.[30]

Data from the Resolution Foundation suggests that the composition of wealth between the most and least well-off has changed drastically since the mid-1970s. Financial assets, typically pensions, are now most important to the least wealthy, while the richest tend to have more of their money in property.[31] Pensions, though, continue to be an important form of wealth for producing greater equality. While inequality has risen in relation to both property (from 0.67 to 0.71) and financial wealth (0.91 to 0.93), the Gini coefficient for private pension wealth has actually fallen (from 0.78 to 0.75) in recent years. The early phase of auto-enrolment is likely to represent the lion's share of this drop.

The impact of inheritance on wealth equality

The lack of data around inheritance meant it was difficult for the Commission to assess its role in the distribution of wealth. The Commission, therefore, decided to conduct its own study of bequests using a sample of 238 estates of £15,000 or more from 1973-74; the rough equivalent of £250,000 today. The key finding of this study was that larger estates were divided more equally and widely than smaller ones.

[30] Royal Commission on the Distribution of Income & Wealth, *Report No. 7: Fourth report on Standing Reference*, 1978, 112.

[31] C D'Arcy & L Gardiner, *The Generation of Wealth*, Resolution Foundation, June 2017

The average number of bequests per estate varied from 5 for those between £15,000-£50,000 to 24 in those above £500,000. Moreover, only about a third of the estates valued at over £500,000 included a single main bequest which accounted for half or more of the total estate value excluding duty, in estates valued at £15,000-£50,000 the corresponding proportion was in excess of two thirds.

Moreover, a greater proportion of the wealth from larger estates was not passed on to individuals, mainly due to taxation. For every £100 of property passing at death, £85 was passed onto relatives and friends in estates of £15,000-£50,000, but less than £40 in estates of £500,000 or more. Indeed, larger estates paid significantly more estate duty. The average rate of duty paid on estates in the Commission's sample increased from 8.8 per cent among estates valued at £15,000-£50,000 to 53.4 per cent among estates valued at £500,000 or more. Larger estates also left more to charities. For estates £500,000 or over, an average of 14.5 per cent of the disposable estate bequeathed to charities compared to 5 per cent for estates between £15,000-£50,000. [32]

The Commission, therefore, suggested that the greater fragmentation of wealth among the largest estates was leading to greater wealth equality, although with a major caveat. The Commission suggested that it was highly likely that wealthy inheritors received multiple bequests and thus limited the distributional impact of inheritance that could be otherwise implied from its findings. In fact, the Commission argued that their findings on inheritance provided a useful explanation of the long-run trends in the distribution of wealth. It made sense that the pattern of inheritance they discovered co-existed with a long-run downward movement in the share of property held by the top 1 per cent of individual wealth owners, but one offset to a considerable degree by an increase in the proportion of wealth held by individuals immediately below the top percentile.[33]

More recently, the Resolution Foundation have also suggested that the future shape of inheritance will entrench absolute wealth inequality. As the 'baby boomer' generation pass their wealth onto their children, inheritances are set to more than double over the next two decades. A rapid increase in the rate of homeownership before and after the World War II means that almost two-thirds of young adults have parents who own property, as compared with only 38 per cent of adults born in the 1930s who received an inheritance. However, millennials that have yet to get onto the housing ladder are far less likely to have property passed onto them. So future inheritance will boost the absolute wealth differences among millennials. Millennials with their own property wealth of £200,000 or more have parental property wealth of £195,000 per sibling, while millennials who do not own their own home have parental property wealth of just £85,000 per sibling. The Resolution Foundation suggest that without changes to inheritance tax, it is highly likely that the large divisions in the asset gaps between richer and poorer millennials will make it harder still to create self-made wealth in the future.[34]

Wealth acquisition and age

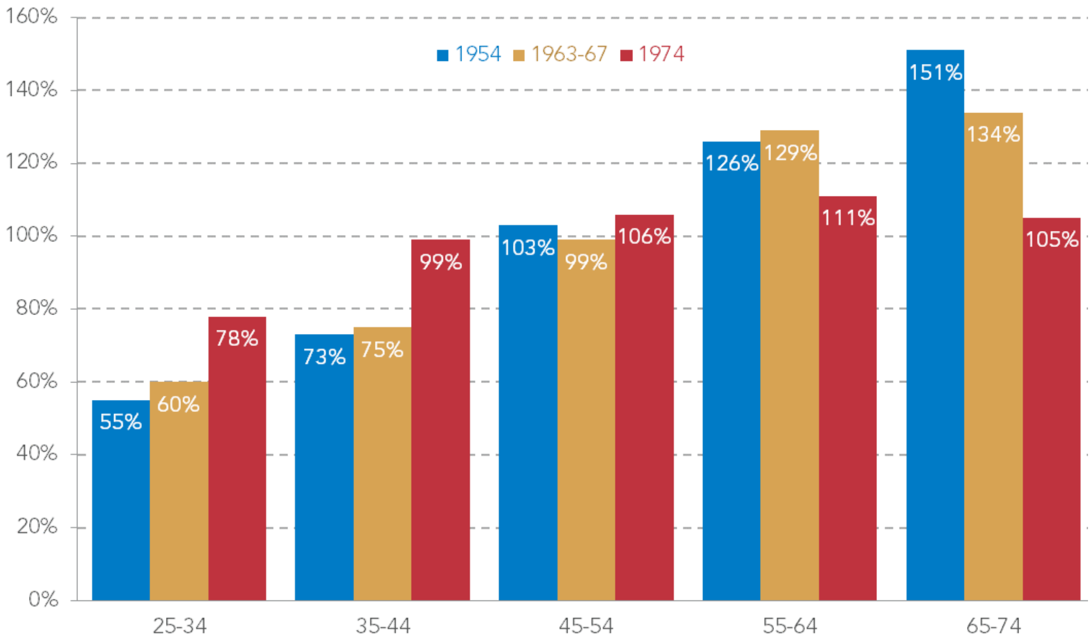
Although less concerned with generational inequality than we are today, the Diamond Commission did shine some light on the relationship between age and wealth. In fact, the Commissioners argued that their findings undermined the theory of the life-cycle effect; the hypothesis that because individuals save for their retirement, wealth gradually increases with age and then declines rapidly in old-age. The Commission discovered that age had become a less powerful determinant of wealth in the past decade, especially for men. Figure 10 shows the proportion of total wealth held by a given age group relative to the share of the population in that age group. If the value of wealth were distributed according to the number of people in each age group then we would expect all figures to be 100, so the divergence from this allows us to see the impact age has on the distribution of wealth.

[32] Royal Commission on the Distribution of Income & Wealth, *Report No. 5: Third report on the standing reference*, 1977, 186-187.

[33] Royal Commission on the Distribution of Income & Wealth, *Report No. 5: Third report on the standing reference,* 1977, 188.

[34] A Corlett, *Passing On,* Resolution Foundation, May 2018

Figure 7: Variation of average wealth holding by age, 1954 to 1974



Source: Diamond Commission

What is clear is how there was a strong correlation between age and wealth in the 1954 and 1963-67 data sets, but the relation became far weaker by 1974. The silent generation and the oldest of the baby boomers were collecting more wealth earlier.[35]

Such findings fit with what we know from the Resolution Foundation: younger generations in Britain today are gathering far less wealth than previous ones. A typical adult born during 1981-85 has on average half as much total new wealth at age 30 as a typical adult at the same age five years before them. After the oldest boomers made strong wealth gains, generational progress on wealth accumulation went into reverse for all cohorts born after 1955. From 1966 onwards, younger cohorts did less well in terms of private pension wealth as defined benefit pensions schemes became far less common. The generation that experienced the highest levels of homeownership was born as far back as the 1940s.[36]

[35] One crucial caveat to these findings is that were based entirely figures derived from estate duty, so did not include other forms of wealth like pension entitlements

[36] C D'Arcy & L Gardiner, *The Generation of Wealth*, Resolution Foundation, June 2017

Section 3 – The Public and Policy Debate

This section looks at the impact the Diamond Commission had on the public debate and on policymaking focusing on three areas in which the Commission's work was most discussed both inside the government and in public: the so-called 'brain drain' of managerial talent; the effect of dividend control and the Capital Transfer Tax.

Similar themes emerge in all these stories. Often the dominant public discourse was concerned with how Britain was too equal. The low pay of its managers was leading to an exodus of talent, for instance. Certainly, the Commission's findings did not lay the ground for a public acceptance of Labour's policies. Why continue to limit dividend controls if it was actually hurting poor pensioners? Why introduce a wealth tax if housing was the real driver of greater wealth equality?

The influence of the Commission's findings inside the government was more limited than the wide public discussion they provoked. Many Labour politicians secretly agreed that top managers were not paid enough, but could not reduce the income tax because this would be unacceptable to the unions. Likewise, dividend controls were accepted as economically irrational, but could not be removed for fear that the unions would not tolerate their removal. To put this in general terms, we see that in all three cases studied here the relationship between the facts, the public discourse and policy was far from straightforward.

The managerial 'brain drain'

By far, it was the Commission's findings on high incomes that received the most public discussion, especially the claim that the spending power of salaries for top managers had reduced in the early-to-mid-1970s. "If this Labour Government is deliberately trying to drive Britain's managerial class into inertia or emigration, it is going the right way about it", declared the *Daily Mail*.[37] High levels of taxation, it was suggested were unfairly punishing the talented and destroying the entrepreneurialism of the British economy. Moreover, it was only jealously that motivated such reckless damage. "What masquerades as social justice", declared the *Sunday Telegraph*, "springs in large measure from sheer envy, the hatred of the ordinary for the extraordinary".[38] Parliament reinforced the dominant view of the press. For instance, Sir Geoffrey Howe, the Shadow Chancellor, claimed "the brain drain of the 1960s had been transformed into the talent trek of middle management in the 1970s". He continued, "[we] must break away as soon as we can from this crippling, compressing, egalitarian tax policy".[39] It was not mentioned that the Commission actually found that there was little evidence to suggest a link between high taxation and emigration.

[37] 'Daily Mail: Comment: Two faces of capitalism', *Daily Mail*, 30 November 1976.

[38] J. W. M. Thompson, 'What is fair pay for top people?', *Sunday Telegraph*, 1 February 1976.

[39] *Hansard*, 14 July 1976, vol. 915, col. 711.

The radio and television coverage of the Commission's findings was more accurate than the political rhetoric and not surprisingly so as Lord Diamond himself was typically interviewed to talk about the subject of managerial pay.[40] In such circumstances, he stressed how the Commission discovered that it was only when additional factors were involved, like moving to a new house, that highly paid employees were unwilling to take more responsibility for higher pay.

He pointed out how they found no evidence to suggest that high taxation was a deterrent to effort. The squeeze on high salaries in Britain was also not out of line with other developed nations and although other countries paid their highest earning managers more, wages were also higher at all levels. He reiterated the main conclusion of the Commission – rarely reported in the newspapers – that there needed to be an open, public discussion about high salaries to reduce uninformed attacks on them.

In contrast to the dominant view within the press and Parliament, some argued that the Commission had created the misleading impression that the higher paid were becoming worse off when in fact their total remuneration was increasing. Detailed evidence pertaining to this view was produced by the co-founder of the Child Poverty Action Group and a sociologist at the University of Essex, Peter Townsend, in an article for the *New Statesman*. Here he argued that there had been a long-term trend away from direct salaries for top managers towards using indirect benefits as to avoid tax. In fact, Townsend was damning about the Commission's third report. "Whether because of pressures of time or the accumulated forces of established opinion, the Commission appears so far to have nurtured myths convenient to the rich".[41] The Trade Union Research Unit of the TUC made similar arguments, specifically about fringe benefits.[42]

Such quibbles over the data did not have much influence on government decision making. The increasingly widespread view among senior Labour politicians was that the highest paid were being squeezed too hard. By 1976, Dennis Healey, the Chancellor of the Exchequer, believed that the marginal rates of taxation were too high for top salaries. Moreover, he argued that the monetary costs of a reduction would be small.[43] Harold Lever, a former Treasury minister with connections in banking, wrote Callaghan a seventeen-page letter arguing that the Government needed to reduce the highest level of tax from 83 per cent to 70 per cent as soon as possible. His essential point was that targeting wealth was egalitarian, but punishing high incomes hurt the talented. Ignoring what the Diamond Commission found, Lever argued that without tax reductions high earners will emigrate and become demoralised. He recognised that the difficulty here was Labour's own supporters, but he believed that they could be convinced. Working people's living standards were so much higher than they once were. Moreover, Lever asserted that future economic growth would be eroded by depressing the wages of high earners. [44] However, the TUC was against a pay policy that would exempt the better off from the sacrifice which others were asked to make and so income tax was unchanged.

[40] The findings of the Diamond Commission on managerial pay were discussed on a special edition of 'Newsday' on BBC2 and a short feature in 'Look North' on BBC 1. Diamond was interviewed in 'Newswatch' on LBC and in the 'Financial World Tonight' on BBC Radio 4.
National Archives, Records of Royal and Viceregal Commissions, BS 7/436, Newsday: A Discussion on Wage Differentials, BBC 2, 29 January 1976; National Archives, Records of Royal and Viceregal Commissions, BS 7/436, Newswatch: The Managers Lose Out, LBC, 29 January 1976; National Archives, Records of Royal and Viceregal Commissions, BS 7/436, Look North: Survey on Salaries, BBC (y), 30 January 1976.; National Archives, Records of Royal and Vice regal Commissions, BS 7/436, Financial World Tonight: The Poor Don't Get Richer When the Rich Get Poorer, BBC Radio 4, 29 January 1976

[41] Peter Townsend, *How the Rich Stay Rich*, New Statesman, 1 October 1976

[42] Trade Union Research Unit, *A Rough Diamond*, Oxford, 1976

[43] He even said so at a meeting with the TUC: National Archives, Records of the Prime Minister's Office, PREM 16/834, Note of a Meeting held at 10 Downing Street, 13 October 1976

[44] National Archives, Records of the Prime Minister's Office, PREM 16/835, Harold Lever to James Callaghan, 9 July 1976

Dividends

More than any other aspect of their work, it was the Commission's findings on dividends that most undermined government policy. As part of the strategy to reduce inflation, Edward Heath, the Conservative Prime Minister, introduced statutory dividend control in 1973. Companies were not allowed to declare increases in dividends that were more than 10 per cent above the previous year.[45] The general argument supporting such measures was that when pay is being limited, income from dividends should also be controlled. For those in the Labour Party, the assumption that such income would only go to the highest paid was another justification for dividend control. Undermining this view, the Commission pointed out that half of all recipients of dividends and incomes had total incomes of less than £2,000 a year. Few shareholders were individuals and far more shareholders were involved in life assurance and pension schemes.

In 1978, Thatcher told Callaghan in a debate on the economy that the findings of the Diamond Commission had proven that there was no basis for dividend control. All Labour was doing was further eroding "hard-earned savings" that had "already borne the brunt of inflation".[46] Newspapers sympathetic to the Conservatives reiterated the argument that dividend control was only hurting pensioners, who were the poorest in society, and so ultimately had undermined the Labour Party's misguided view about the beneficiaries of dividends. For instance, the *Evening Standard* argued that shares and shareholders – "the favourite hate-objects of the Left" – were clearly not "functionless excrescences", as Harold Wilson suggested.[47] All of this criticism of dividend control rested on the statistic that most recipients of dividends had incomes less than £2,000.[48] No doubt this was a powerful point being made with an enlightening statistic, but government policy did not change.

The Labour Party responded to its critics on dividend control. Joel Barnett, the Chief Secretary of the Treasury, criticised Thatcher for taking "select quotations" from the Diamond Commission to misleadingly suggest that dividend control hurts the poorest without mentioning how lifting such measures would benefit the well-off far more.[49] But, really, Healey and his Treasury team did not believe that dividend control made economic sense. Not only because of the adverse impact on pensioners, but also because it increased the cost of capital. Moreover, if dividend controls went, the Treasury thought a widespread pay explosion unlikely. However, the Government was unable to lift dividend control in 1978 when the existing legislation for such a policy was set to expire because the unions could never be brought to agreement.[50] Dividend controls had become, as Callaghan said, "economically unnecessary but politically essential".[51]

Given that the Liberals did not offer their support for the continuation of dividend controls, Callaghan even risked losing a vote in the House of Commons on the matter. "[He] would rather go to the TUC in September and say he had tried to renew controls, but that Parliament had refused

[45] Dividend control was lifted in some exceptional circumstances, particularly for defence against takeover bids, recovery from an adverse trading position and the raising for new capital for investment

[46] *Hansard*, 25 July 1978, vol. 954, col. 1399.

[47] 'Diamond is a share's best friend', *Evening Standard*, 30 July 1975.

[48] 'Divis' Diamond Works Wonders!', *Evening News*, 30 July 1975; John Whitmore, 'Income from companies: the role of dividends', *The Times*, 31 July 1975; 'The real role of equity capital', *Financial Times*, 31 July 1975; 'Diamond is the City's best friend', *Daily Express*, 31 July 1975; Kenneth Fleet, 'At last the truth about wicked capitalists', *Financial Times*, 31 July 1975.

[49] *Hansard*, 27 July 1978, vol. 954, col. 1805.

[50] Healey was exploring whether a policy of voluntary restraint on dividends would be effective. He was reluctant to use fines for companies who were not acquiesce. 'The Government would find itself in a position of having to condemn companies, some of whom were among the most efficient and profitable, for actions which in themselves are both economically sensible, and largely unavoidable'. National Archives, Records of the Prime Minister's Office, PREM 16/1587, Dennis Healey to James Callaghan, 23 June 1978.

[51] National Archives, Records of the Prime Minister's Office, PREM 16/1587, Ken Stowe to A. M. W. Battushill, 29 June 1978.

to do so".[52] As it happened, Callaghan did not lose the parliamentary vote on dividend controls and the measures were only scrapped when Thatcher entered office.[53]

The Capital Transfer Tax

There were hopes inside the Labour Party that the Diamond Commission would produce a public discussion to strengthen the case for a great redistribution of wealth, but such expectations were soon dashed. The dominant view among the newspapers was that the Commission's results undermined the case for further taxes on wealth. Britain had already become a markedly more egalitarian nation. *The Times*, the *Daily Telegraph* and the *Daily Mail* all noted how home ownership was the great equaliser of wealth. Selling council houses, rather than any punishing tax reform, would be the best way to spread wealth further.[54] For the *Daily Express*, the discovery that most of the wealthiest became rich during their own lifetime, not through inheritance, was used to undermine the typical Labour image of an undeserving elite.[55] The *Sunday Telegraph* continued to attack the very purpose of the Commission in what was an often-made criticism:

> *"the activities of this superannuated Socialist warhorse and his colleagues encapsulate one of the most malignant and destructive trends in British public life... there is no hope of improving our economic lot while we concentrate blindly, obsessively, on thedistribution of wealth and forget totally about the importance of creating it"* [56]

Amid much hostility from the media, the Labour government managed to put the Capital Transfer Tax on the statue books, yet this proclaimed egalitarian shift in taxing inherited wealth gathered less revenue than its predecessor.

The shape of the Capital Transfer Tax was all about political pragmatism and the influence of powerful interest groups – the expertise of the Diamond Commission was not part of the discussion. It was widely accepted that the Estate Duty, which the Capital Transfer Tax replaced, was too easily avoided by simply passing on wealth before death. The Capital Transfer Tax solved this problem by taxing both gifts and inheritance. In light of this novelty, those politicians devising the legislation believed that it needed to err on the side of generosity as to produce public consent on the concept of taxing gifts. Sheer politics also mattered to the continuation of certain exceptions. Both the Inland Revenue and the Treasury pushed Healey to get rid of the 'killed in war' relief" that made British soldiers exempt from Estate Duty when they died in service. Healey, however, did not think that this would be politically shrewd while the war in Northern Ireland was on-going. In the end, the compromise was made that the 'killed in war' loophole would continue for at least another ten years and then come under review.

The business lobby also further diluted the potential revenue generating power of the Capital Transfer Tax. After the City Tax Committee, the Confederation of British Industry and Association of British Chambers made their concerns known, the new measure was made even less burdensome.[57] It was no surprise that the Capital Transfer Tax raised less revenue than Estate Duty – many in Whitehall even predicted this overcome.

[52] National Archives, Records of the Prime Minister's Office, PREM 16/1587, Note of a Meeting Held in the Prime Minister's Room, 19 July 1978.

[53] *Hansard*, 27 July 1978, vol. 954, col. 1932.

[54] 'How Best to Spread Wealth' – *The Times* – 'Home Ownership Rise 'A Sign of Wealth Shift'', *Daily Telegraph*, 18 November 1977; 'Daily Mail: COMMENT', *Daily Mail*, 12 July 1979.

[55] 'So elusive - the rich pips that Healey is planning to squeeze', *Daily Express*, 31 July 1975.

[56] 'Worthless', *Sunday Telegraph*, 3 August 1975.

[57] National Archives, Records of the Treasury, T 328/1035, D. B. Andren, 22 August 1974; National Archives, Records of the Treasury, T 328/1035, C. W. France to Mr Fox, 4 September 1974; National Archives, Records of the Treasury, T 328/1036, R. R. Martin to Dennis Healey, 16 September 1974; National Archives, Records of the Treasury, T 328/1036, C. W. France to Dennis Healey, 16 September 1974.

Section 4 – Conclusion

In 1976, Norman Lamont, the future Conservative Chancellor of the Exchequer, told the House of Commons that "[if] ever there were a boomerang that backfired and hit the Government firmly on the nose, it is the Diamond Commission". The Commission had produced "an unanswerable case for ending dividend control', it had highlighted 'the plight of middle management" and had shown that "Britain has become a very egalitarian society". Yet, Labour simply ignored its reports; he argued. "I wish that the Government would pay a little more attention to them and not merely cling their myths in disregarding the facts that have been put to them".[58] There was certainly some truth in Lamont's analysis. The Diamond Commission led to a more informed debate about income and wealth in 1970s Britain, even if it was not the public debate that the Labour government had been expecting.

The debate today

The Diamond Commission was premised on the need to educate the public and policymakers on matters of inequality. Inadequate information, the Commission suggested, could lead to a misconceived public debate and ultimately to misdirected policies in government. This problem has resurfaced today, although contemporary debate suffers less than it did from an absence of statistics on income and wealth, but more from the distortions and confusions that arise from a surplus of economic statistics. In other words, in our contemporary context, there is more of an emphasis on producing a clearer sense of the facts, rather than establishing the facts themselves.

Many of the difficulties the Diamond Commission faced certainly remain highly familiar. There was a tendency among the press to cherry-pick facts to suit their pre-existing political beliefs. The brain drain in senior management, for instance, remained much discussed, even though the findings of the Commission actually undermined such concerns. We also look back into the 1970s and see potentially good policy interventions sacrificed to political expediency. The inability of the Labour government to scrap dividend controls has echoes of the U-Turn over self-employed national insurance contributions at the 2017 Budget.

Perhaps the key point that emerges from the story of the Diamond Commission is how presenting the facts of income and wealth is not quite enough to enact policy changes. Empirical realities need to be socialised. The facts need to be made to mean something to the electorate, the press and the political establishment. This process may be happening today; failing homeownership and rising wealth inequality are increasingly regarded as crucial issues across the political spectrum. If the facts can only be carried so far as the political winds will carry them, it is important to observe that the weather seems to be changing.

But it also crucial to appreciate that policy changes need both good ideas and strong brokers making the case to the British state. Questions remain over where exactly the pressure for greater income and wealth redistribution will come from, especially given the dominance of the baby boomer generation in voting terms and a strong opposition to higher taxation in almost all its forms. The fate of the Diamond Commission's findings suggest that real thought needs to be given not only to good, sellable policy solutions, but also to what sort of institutions might champion them.

[58] *Hansard*, 11 May 1976, vol. 911, col. 334-335.

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