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What Everyone Needs To Know About Wealth In The UK

by Danny Dorling

Wealth inequality has soared to levels not seen since the 1920s – and even the mildest efforts to address the problem are attacked.

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What is the state of economic inequality in the UK? And why does it matter?

Most discussions of economic inequality focus on income, the annual flow of monies to people – earnings, benefits, rent and interest. This one will focus on wealth. Wealth is not income. It is accumulated monies; a stock not a flow. The wealth of the rich produces their income, and the income of the rich produces their wealth. When income inequality is reduced, wealth inequality also tends to decrease, but only decades later. In the past the direct taxation of wealth has sped up this process, making everyone better-off. Today a small and very wealthy group of people would prefer you not to know this.

The reported average median household wealth of the best-off tenth of all households in the UK is now £1,393,900 more than the paltry median wealth of the poorest tenth. The former have, on median average, recourse to £1.4 million of household wealth each; 290 times the median average household wealth of the poorest 10%.[1] Of what can be counted, this richest tenth hold 42% of their wealth in pension rights, 32% in property, 20% in savings and just 6% in goods. By contrast, almost all the wealth of the poorest tenth of households is accounted for by the very low value of their household goods: their furniture, their clothes, and their junk.[2] The gap between these two groups is slowly growing,[3] but the gap between those at the very top and the rest has been growing much more rapidly.

The UK *Assets and Wealth Survey* unfortunately does not sample the very rich sufficiently to accurately measure their wealth. This means that the wealth of the richest 1% of the population is mostly not included in the reported wealth of the best-off tenth in the UK. One US study over-sampled the richest half-a-percent of the American population by a factor of fifteen to allow good estimates of their wealth to be made. The report's authors found that actual holdings of stock and shares among this richest group were around 70% higher than those reported when a normal random sample of the population was made.[4] In the UK, fortunately, other sources are available.

The *Sunday Times* has reported on the very rich for many years (and in increasingly fawning terms). When the annual rankings are revealed, its magazine now profiles 'top billionaires' and their wives with *OK* magazine style photo-shoots and sycophantic write-ups. In its most recent survey it found that almost half of the richest 1000 people in the UK live in London. The London rich are, on average, considerably richer than the superrich living elsewhere in the UK. In total, the superrich of London hold £331 billion of wealth; those living in the rest of the South East of England 'just'£56 billion (six times less); and those in the North East of England £8.6 billion (six times less, again, in aggregate).[5] Regional variations in the wealth of the superrich are orders of magnitude greater than those found between average households. For instance, average household wealth in the South East of England was recently recorded to be £309,000, as compared to £143,000 (and falling) in the North East of England.[6]

But, unlike in the case of income, hardly any households are average when it comes to wealth. Figures from the most recent ONS assets and wealth survey suggest that, again on average, Southerner households have £12,300 saved in the bank compared to £2,400, which is the mean average bank account savings of households in the North East. Most have far less. When it comes to wealth, the median holdings are always much lower than the mean.

Offshore wealth and tax avoidance

Holdings of stock, shares and other financial instruments are important if the wealth of the very rich is to be understood. The very wealthy do not work for their money; their employees or their private bankers manage their wealth for them. These lackeys spread their masters' wealth over a wide portfolio of interests meaning they do not have to take the aggregate risk that is theoretically supposed to justify their returns. Furthermore, the very rich only provide a small proportion of all corporate finance and their relationship with the corporations they invest in can be ended within seconds if they choose to sell their shares. They have almost no direct control over those corporations, usually buying a tiny stake often for a short amount of time.[7]

Eventually all the extra wealth that rich shareholders, stockholders and other hoarders amass, clandestinely or otherwise, will produce income in one form or another. Since much of that wealth may be held offshore, the income is often received offshore as well and its acquisition by someone who lives most of the time in the UK may never be recorded other than through the purchase of luxury goods and extremely expensive property in the UK.[8]

Only a few members of the 1% have to be taking about an extra quarter of their income through various forms of tax avoidance –registering their property as a company and so on – to return the measure of UK income inequality back to that last seen when the Titanic sank. It would then not take long for inequalities in wealth to revert to those past extremes. Since wealth inequalities tend to follow income inequalities (with a lag) we can expect rising wealth inequality in the future.

Most wealth inequality estimates assume that people pay their taxes. Estimates of the wealth of the top 1% are heavily reliant on data about taxation. Tax data on people who have died has been the main historical method of estimating wealth distributions, but it has relied on families not trying to avoid paying inheritance tax. Yet even according to that data – that is, even assuming zero tax avoidance/evasion – both wealth and income inequality in the UK are at a post-war high.[9]

Whilst many people in the top 1% will pay all the tax they should pay, almost all of the very big tax dodges will be in the 1%, and therefore the mean average income of the group as a whole will rise greatly if estimates for tax avoidance/evasion are included. In the United States there is a tax incentive to declare how much money you hold overseas. As a result of this, in 2012 some 290 large US corporations revealed that they collectively held around $1.6 trillion in off-shore accounts.[10] In the United Kingdom hardly anything is declared, but huge quantities of the wealth of UK citizens are thought to be hidden offshore. As the wealthy become wealthier, attempts to defend their gains also grow, as was revealed by recent leaks about funds held in the Channel Islands.[11]

Moving backwards

In 2013, levels of income inequality in the UK returned to those last experienced in the 1930s, but were not yet as high as in the early 1920s – the time of the fictional character, the Great Gatsby.[12] But if you assume even a very low level of tax dodging, you find that we have already returned to the Great Gatsby years. Include the wealth of the super rich, and the wealthiest 10% of households in the UK now have 1,154 times the wealth of the poorest 10%.[13]

Social scientists now refer to a 'Great Gatsby Curve' where the higher the rate of income inequality in a country, the less social mobility there appears to be between generations. What we don't know is whether it is possible for the United Kingdom and the United States, two of the most unequal of the affluent countries, to continue to move up the curve as growing income inequalities result in a future of ever wider inequalities of wealth.[14] That we are incredibly economically unequal today does not mean that we might not become still more so in future. The graph below does not encompass the limits of possibility.

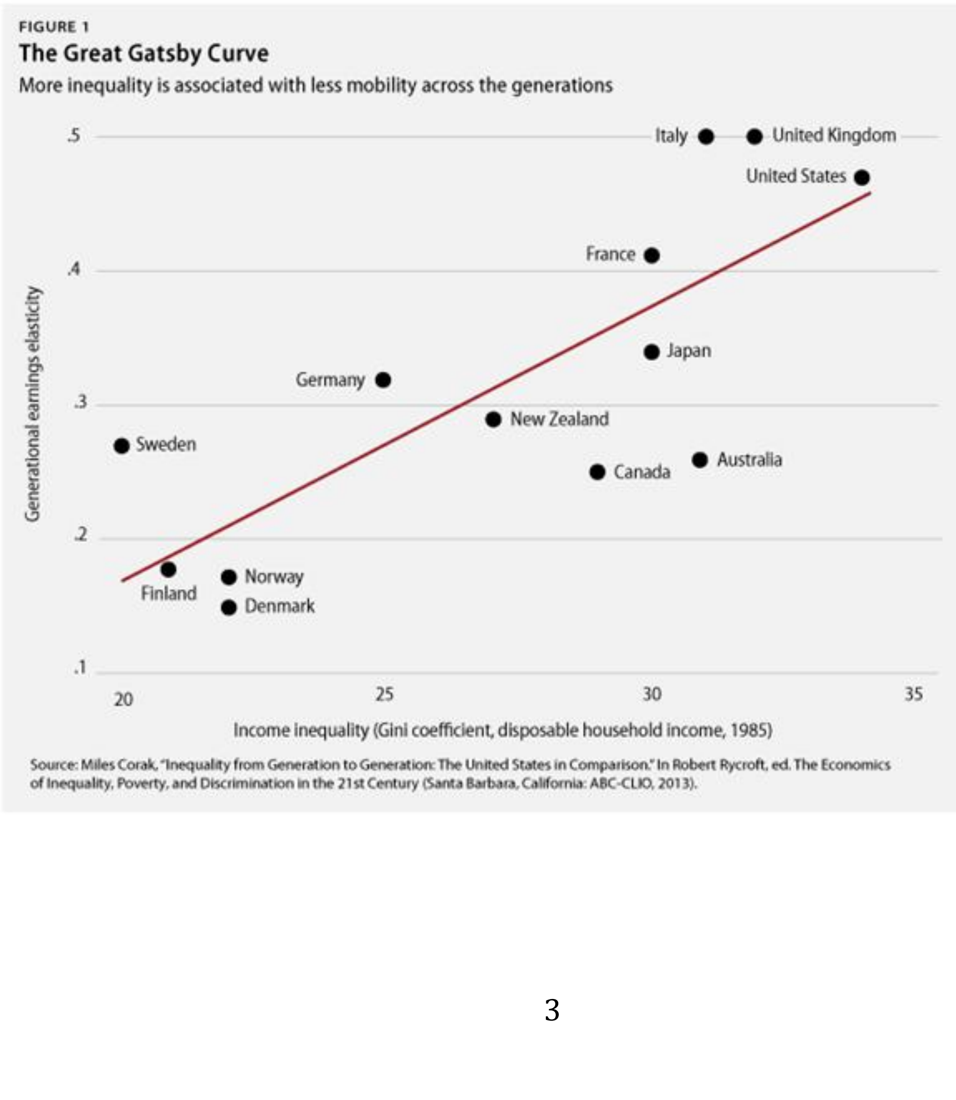

FIGURE 1
The Great Gatsby Curve
More inequality is associated with less mobility across the generations

Source: Miles Corak, "Inequality from Generation to Generation: The United States in Comparison." In Robert Rycroft, ed. The Economics of Inequality, Poverty, and Discrimination in the 21st Century (Santa Barbara, California: ABC-CLIO, 2013).

The author of this particular version of the Gatsby Curve, Miles Corak, quotes Charles Murray of the American Enterprise Institute, suggesting that ever rising economic inequality in the US is due primarily to the 'the role of family and values associated with the raising of children'.[15] Such arguments have gained popularity in the UK and other very unequal countries as many of the rich seek to blame the poor for their poverty and to flatter themselves about the basis of their wealth.

One irony of the renewed obsession of the rich with the marital arrangements of the poor is that it is through the frequent marital breakup of the rich that we often best glimpse the true extent of their wealth. The best investigators of the wealth of the very rich are the rich themselves. In one high profile divorce case (heard in 2012) a wife claimed her husband's assets were worth £30 million. He claimed to possess fifteen times less than that. The judge in the case remarked: 'a great deal of energy has been expended by the husband on seeking to establish what he is not worth'.[16] This, of course, is the normal state of affairs for the extremely rich: to try to hide your wealth, in the face of taxation and divorce alike.

The UK itself operates as a tax haven for many of the world's superrich, who usually have one of their many homes in or near London.[17] The global super-rich are estimated to have squirreled away between £13 and £20 trillion of wealth in countries where they can avoid tax, including in the UK.[18] In 2012, even as global income fell during the great recession, that of the very richest rose abruptly. An additional 210 people became dollar billionaires, a club whose 1,426 members together sat on almost £4 trillion. They made up just a fifth of 1% of 1% of the richest 1% of all people in the world.

All the way up the wealth spectrum, right to the very top, those just above you appear to have the wealth of emperors and those just below look like paupers. To be in the global 1%, to be one of the best-off 70 million people in the world, requires wealth of at least £440,000. However, it takes 1,400 of the worst-off of this global 1% to match the wealth of the poorest billionaire.[19] Over the course of 2013 a further 268 people became dollar billionaires, taking the global figure to 1,645 with a combined wealth approaching £4.2 trillion.[20]

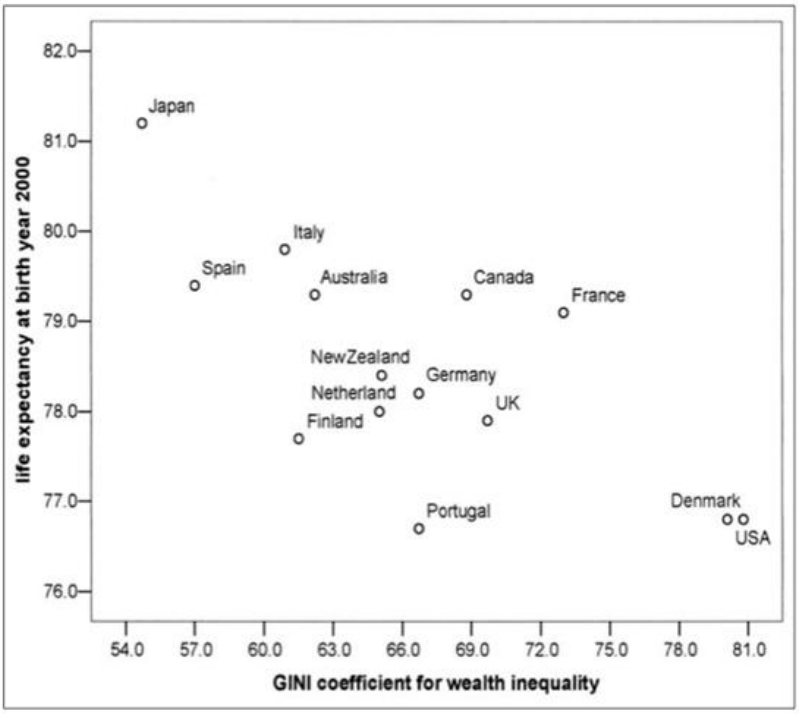

Figure 2: *Overall Wealth Inequality and Life Expectancy in Affluent Countries of the World*. Source: Nowatzki, N.R. (2012), 'Wealth Inequality and Health: A Political Economy Perspective', *International Journal of Health Services*, 42.3, pp. 403–424.

Wealth, health and harm

I have tried here to describe, in a nutshell, what we know about wealth inequality in the UK and where it's heading. But why does it matter, in any case, that distributional patterns now resemble those prevailing before the Second World War?

The evidence suggests that wealth inequality has a widespread and significant negative effect on wellbeing. After many possible confounding factors are taken into account, people living in affluent countries with the greatest wealth inequality live, on average, four years less than those in the most equitable countries. The relationship between wealth inequality and life expectancy in affluent countries is far stronger than that found with income inequality.

In addition to this, rates of infant mortality are twice as high in unequal affluent countries as compared to the most equal affluent countries. The supposed benefits of holding wealth for the rich are thus more than outweighed by the harm suffered by the poor and the rest of the population in a country where only a few have access to wealth and many simply have debts. The diagrams above and below make this clear and are taken from the same source, which concludes that 'ensuring income security in retirement would reduce the need to accumulate private wealth and would provide households with sufficient material living conditions, and more confidence and stability, which are likely predictors of good health.'[21]

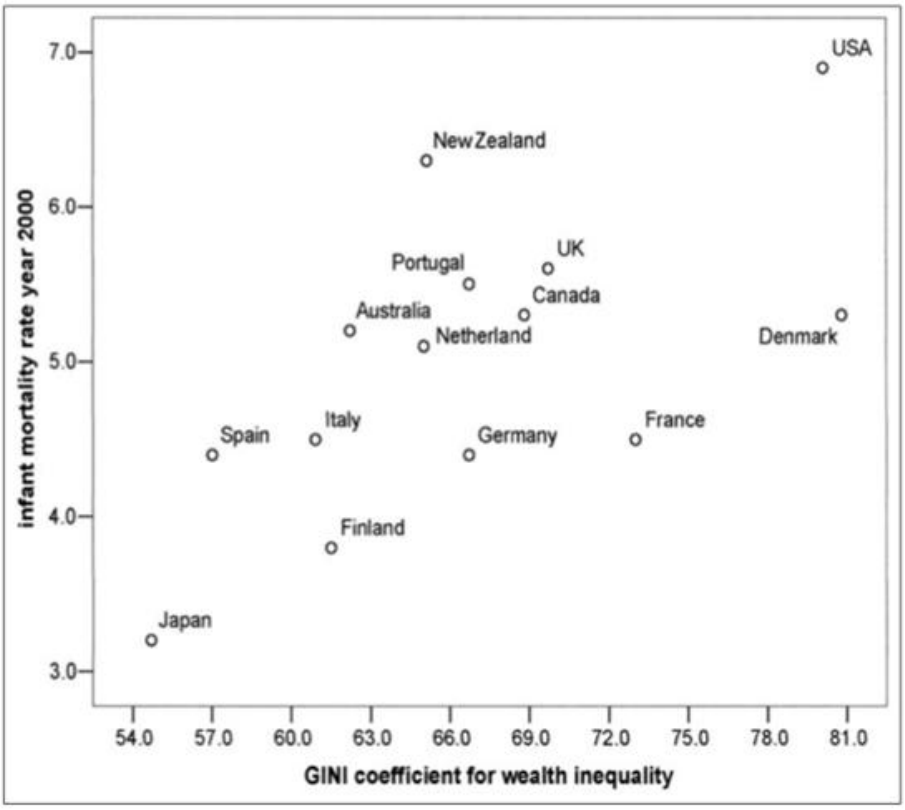

Figure 3: *Overall Wealth Inequality and Infant Mortality Rates in Affluent Countries of the World*.Source: As above.

Correlation is often not causation, but it is rarely pure coincidence. One instance of how economic inequality appears to be related to health is the degree of recourse to drugs. Legal and illegal drug use tends to be higher, per person, in countries with greater inequalities of wealth and hence greater incentives to escape inequitable and precarious realities. For example, the UK has some of the highest rates of cocaine use in Europe. Use is now so common that the drug can be detected in routine samples of drinking water in the form of benzoylecgonine, the metabolised form that the drug changes into once it has passed through the human body.[22]

To amass enormous sums of wealth you have to divert your efforts towards actions that will make you the most money and away from actions that might do the most good. You will not maximise profit if you allow yourself to be distracted. If you can convince others in your society to part with money for things they do not really need, and which do not cost you too much to produce, you can very quickly become wealthier. In many ways PR, fashion and advertising, far more than by drugs, addles our minds. If you can hobble your competitors so that you can keep your prices high, you can become wealthier still. If you can create a monopoly of supply, or establish a rentier relationship with your customers, you can become immensely wealthy as they become poorer. There are, of course, great advantages to having trade and specialisation; but when the supposedly free market is manipulated to secure great profits, people know they are being fooled.

One reason wealth inequalities continue to rise in more unequal countries is that people try much harder there to accumulate wealth to provide themselves and their families with economic security. There is a greater need to feel economically secure in countries that are more unequal. The UK and Russia have similar levels of income inequality where the worse-off 10% receives about 14 times less to live on a year than the best-off 1%. In both countries the rich are similarly successful. Those who are successful in amassing such an unfair share of their nation's wealth will each harm the prospects of many others in a myriad of ways. It is not possible to accumulate great wealth without causing harm. There comes a point when profit is not rewarding efficiency but Machiavellian traits.

In a more equitable affluent nation, selfish behaviour is more likely to be seen for what it is and frowned upon. The population at large is more likely to develop safeguards against a few people securing most of the wealth. Provision of good pensions to all is likely to be far better and so the incentive to a few to try to become very wealthy to secure their own safer future is diminished. More people are more able to choose to do work and other activities that are to the benefit of their fellow citizens and are less likely to see those others as people to use, to exploit, and to try to keep away from socially. There is far less truck for believing that just a few people are 'wealth creators' and that most of the rest rely on them. But very unequal countries can improve.

Denmark is an example of a country in which wealth inequalities, although very high, are probably reducing. Denmark has some of the highest levels of wealth inequality in the European Union, as illustrated in the graphs above, but its levels of income inequality are very low so, over time, wealth inequalities are very likely to diminish. Young adults in Denmark receive a university education that is free at the point of delivery and numerous other benefits that young adults in the USA, for example, do not receive, despite the similar levels of wealth inequalities in both countries. Denmark is becoming a much more equitable nation economically and this will be upsetting some people there, especially as many recent immigrants tend to be poor. There are many other examples to suggest that substantive change is not just possible, but is underway in places. We are a long way from the end of history, and a global race to ever greater inequality. There are many examples of inequalities falling in parts of Europe, the Americas and Asia.

Addressing global wealth inequality

In 2013 it was reported in Greece that the Emir of Qatar planned to buy a series of islands. The Emir was reportedly annoyed to discover that it would be difficult to secure planning permission to build his envisioned new properties on the island, in which one restroom alone had a floor area of 250 square metres.[23] When stories of the greatest excesses are told, many despair as to whether anything can be done. But many people, each doing very little, can have a very big effect. Michael Mernagh has looked at the implications of a redistribution of just one half of one percent of global wealth away from the richest 1% towards the poorest half of humanity. The richest 1% of people in the world own almost half of all its wealth, so loosing half of one percent of all wealth would be hardly noticeable to them. It would, however, represent a doubling of the wealth of the poorest half of humanity.[24]

Mernagh goes on to show that if this redistribution were to continue, and if the shape of the inequality distribution were to remain curved, then for such a redistribution to occur without radically altering the relative gaps between different groups, the global best-off 7% would have to see their collective share of world wealth fall by 2%, which would be gained by the other 93%, mostly by the bottom 50%. The slight transformation Michael envisages is shown diagrammatically below in terms of the change to world wealth distribution that would result. The alteration to the distribution is barely perceptible, moving the Gini coefficient of inequality from its current very high rate of 0.90 to just slightly lower at 0.88; and yet this graph describes an almost unimaginable transformation of global society.

The Gini coefficient is the ratio of the area between the curves shown below and the dashed diagonal line, to the area below each curve. A curve that almost followed the dashed line would represent a very equal distribution of wealth and a Gini of near zero. Few people believe that is possible, but almost as few believe that an inequality of 0.88 is possible! How have we got to the point where even such a small positive change is near impossible to imagine?

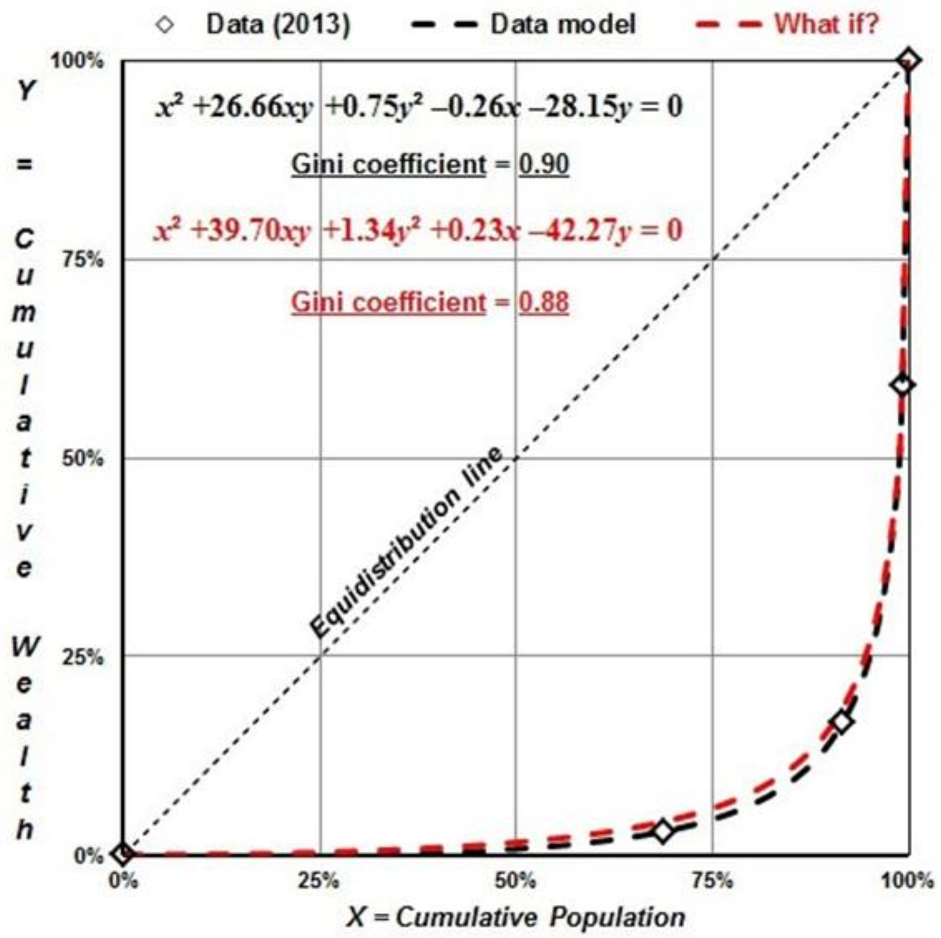

Figure 4: *World Wealth Inequality today and the distribution if the wealth of the poorest was doubled*.Source: Mernagh, M. (2014), 'What if the poor doubled their share of the world's wealth? Significance Magazine', http://tinyurl.com/ocow7ta.

Mernagh ends his statistical report by asking:, quite reasonably, 'does the 1% have a conscience?'

The politics of wealth inequality

Regrettably, despite their unimaginable privilege, it becomes daily clearer that those with wealth and power view even the mildest redistribution of wealth as an mortal threat and mobilise energetically to prevent it. Hundreds of millions of dollars a year are channelled to right-wing think-tanks. Usually this is done secretively to advance the views of many of those who hold the most wealth. In 2013, one chief executive of a right-wing trust explained that 'we exist to help donors promote liberty which we understand to be limited government, personal responsibility, and free enterprise'.[25] Such views are rarely countered because, as a *New Yorker* magazine writer very recently explained,

"Today, there are no centrist business organizations with any real political clout, and the only business lobbies that matter in Washington are those pushing an agenda of lower taxes and less regulation. Corporate profits and C.E.O. salaries have in recent years reached record levels, but there's no sign of a return to the corporate statesmanship of the past …[Today] corporate chieftains have little to fear, other than mildly higher taxes and the complaints of people who have read Thomas Piketty. Moguls complain about their feelings because that's all anyone can really threaten." [26]

In the UK, wealth inequalities are high and rising, and none of the three main political parties are committed to reducing them. There are no well-funded think-tanks or lobbying organisations committed to explaining the problems caused by a tiny number of people becoming richer and richer. That work is left to global poverty charities like Oxfam, a handful of analysts shocked by their findings and a constant stream of articles reporting views from the political fringes. But there are positive signs that change may be afoot.

Public concern about greed and inequality is growing. People are not routinely asked their views on wealth, but in 2010 75% of those who responded to the annual British Social Attitudes survey said that the income gap was too large. By 2012, this figure had risen to 82%. Most importantly, only 14% per cent agreed that the gap is 'about right'. Only 1 in 7 people think the rich deserve to be so rich and most of that minority appear to have little appreciation of just how much better-off the 1% are even when compared to those immediately below.[27]

Last year Robert Shiller, the winner of the 2013 Nobel Prize in Economics, declared that '…the most important problem we are facing now, today…is rising inequality'.[28] Greed is being challenged again – but we have a long way to go.

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