Dorling, D. (2014) Growing wealth inequality in the UK is a ticking timebomb, the Guardian, October 15th, http://www.theguardian.com/commentisfree/2014/oct/15/wealth-inequality-uk-ticking-timebomb-credit-suisse-crash

Growing wealth inequality in the UK is a ticking timebomb

Credit Suisse has predicted a 40% rise in wealth in just five years, but this can't happen without repercussions. Is another crash on its way?

Danny Dorling

Wednesday 15 October 2014 12.04 BST   Jump to comments

'The UK is the only G7 country to record rising wealth inequality in 2000-14.' Photograph: Lefteris Pitarakis/AP

In its latest report on global wealth, Credit Suisse describes the UK as a country that enjoyed stable income-to-wealth ratios for the first 70 years of the last century and an evening out of the distribution of money across the population for most of that period. The average household came to have assets worth between four and five times their income, and more households were nearer that average than ever before.

That stability ended during the 1980s. Apparent wealth grew rapidly and became more concentrated among a few households. The housing market and equity in shares boomed for most years until 2007. By that point, the average household had nine times as much wealth as average income, double the ratio reported some 25 years earlier, but there were far fewer average households. The country appeared richer, but it was in riches increasingly held by the few.

According to the report, the UK's 2007 wealth-to-income ratio was "the highest level recorded for any country apart from Japan at the peak of its asset price bubble in the late 1980s". Credit Suisse doesn't spell out the implications but house prices in Japan in the late 1980s reached record levels, and subsequently halved in value in the great property crash around 1990.

In the UK, there was a similar, if smaller, collapse in wealth after 2007. Property and financial assets fell by 12%, or by 36% when measured in US dollars (because the pound itself fell in value). Measured in dollars, these assets have still not recovered to 2007 levels. Household debt in 2013 stood at 150% of national income. By 2014, that debt had rocketed to 170%, largely as some people borrowed more to try to buy a home.

Because income and wealth inequalities rose so much, fewer families were able to qualify to borrow huge sums of money to buy a home. Despite fewer mortgagees, but because of ever larger mortgages, coupled with the rising credit card and other borrowings of the rest of the population, household debts have risen to record levels.

The UK did not just see debt grow, it also had the second largest growth worldwide in million-dollar-wealth households between 2013 and 2014. Almost 500,000 people tipped over that wealth bracket in those 12 months, mostly from sitting in property that was rising in value in London. This was a 30.5% increase in millionaires in a year, compared with a 14.5% rise in France, 14.1% in Germany and 13% in the US. The UK is out of step.

The UK is the only G7 country to record rising wealth inequality in 2000-14. Wealth inequality has risen four times faster in the seven years after the crash compared with the seven years before. The rich in the UK are becoming richer faster than ever. Wealth inequality rose under Labour; it rose faster under the coalition.

So what of the future? The report looks forward just five years, to 2019, but even for this short period it predicts global wealth rising from $263tn to $369tn, or by 40% in just 60 months. It says real estate prices will rise, corporations will make greater profits and new financial instruments will be issued to raise wealth. To make these forecasts, Credit Suisse simply projects forward recent trends, assuming the bad years have come to an end.

The millionaire segment will be the fastest growing group, the report says, again simply by projecting forward. By 2019, there will be 53m million-dollar-households, a rise of 53% in just five years. It predicts a slowdown in the growth of millionaires in the UK on the basis that such exceptional growth simply cannot continue, or as Credit Suisse puts it, “We assume normalisation in market conditions”.

But markets are not self-correcting mechanisms. As the UK has become ever more unequal, it has created more wealthy people and drawn in yet more of the global wealthy, attracted by low property taxation as well as apparent bargains to be snapped up when the pound is cheaper. The UK could easily continue along this line, become yet more unequal and not normalise, or there could be a property crash of the kind that occurred in Japan. Almost anything could happen, but the near future is unlikely to be “normal”.

Most importantly, there comes a point when more and more people understand that wealth cannot increase by 40% in five years without repercussions. We are not all suddenly working so hard that we will produce 40% more of everything we have in that short time. The projected increase is a massive claim over the lives of others, over their labour, over their property, because a few at the top can create new financial instruments and say they have created wealth.

The wealth creators have decreed that there will both be a 40% increase in wealth and that the share of the total taken by the majority will diminish as the share taken at the top continues to rise. In the UK, this situation became normal in the 1980s, accelerated in the 1990s and is accelerating again now. Of all the G7 countries it is the UK that stands out like a sore thumb. The global story is far from stable, or sustainable, and the UK is the one to watch.