Wealth distribution, accumulation, and policy

John Hills, Francesca Bastagli, Frank Cowell, Howard Glennerster, Eleni Karagiannaki and Abigail McKnight

- Household wealth in Great Britain amounted to £5.5 trillion in 2008-10 on Office for National Statistics estimates, excluding private pension rights (or £10 trillion including them). Wealth (excluding pension rights) was four times national income by the mid-2000s, compared with only twice national income in the 1960s and 1970s.
- Wealth is far more unequally distributed than incomes or earnings. In all, the top tenth of households owned 850 times the total wealth of the bottom tenth in 2008-10. The least wealthy household in the top tenth had £967,200, seventy-seven times that of the household at the top of the bottom tenth. The top 1 per cent had 14 per cent of the total, with an average of more than £5 million.
- Household survey-based estimates suggest that wealth inequality fell between 1995 and 2005, as the wealth of moderately wealthy grew proportionately faster as a result of the house price boom than did the financial wealth of those at the very top. However, *absolute* differences widened considerably between 1995 and 2005 in real terms – it would now take many more years of saving for someone with a middle income to move up the distribution from the middle towards the top.
- By the mid-2000s, estates left to others (excluding to spouses) had an annual value of around £35 billion, about 4 per cent of national income. Each year around one adult in forty receives an inheritance, but these are very unequally distributed. Over the ten years from 1996 to 2005, one in five individuals reported receiving inheritances, but half of the total went to the top tenth of inheritors, just 2 per cent of all individuals.
- There appear to be long-lasting advantages for education, employment, earnings, health, and well-being for children from wealthier family backgrounds and for those with assets early in adulthood, even after controlling for other factors.
- Looking across tax and social policies such as social security, housing, education, and care, it is hard to discern a consistent pattern for the treatment of wealth and saving. Despite the growing value of personal wealth relative to incomes, its taxation has become much less important as proportions of overall tax revenue and of national income over the last fifty years.
- The present combination of policies results in sharp differences in treatment between people. Some are strongly encouraged to accumulate particular kinds of wealth, while others face strong disincentives to do so. These features often reinforce wealth inequalities, rather than narrow them.

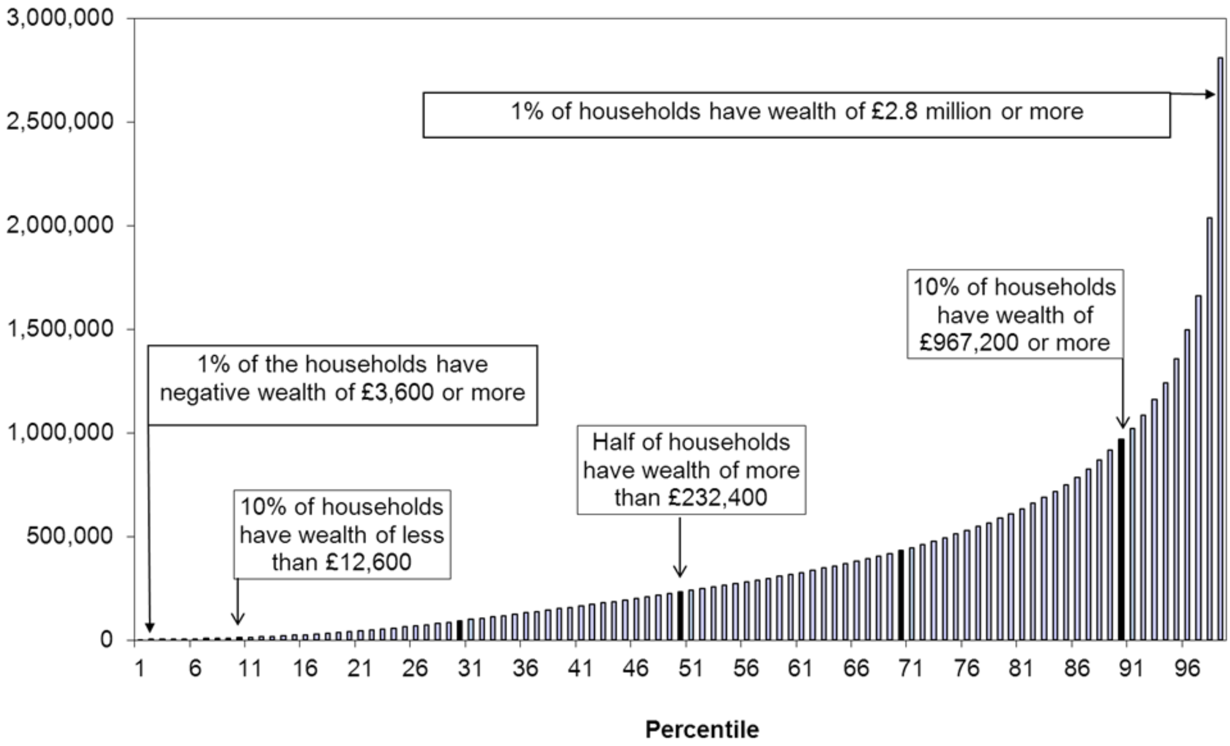
Further information

This CASEbrief summarises findings from *Wealth in the UK: Distribution, accumulation, and policy*, published by Oxford University Press (ISBN 978-0-19-976830-3). The book is available from booksellers or from Oxford University Press (24 hour hotline +44 (0) 1536 454534; e-mail bookorders@oup.co.uk, price £55 hardback).

A picture of wealth inequality

Figure 1 draws on the Office for National Statistics Wealth and Assets Survey (WAS) carried out between July 2008 and June 2010. It shows the distribution of 'total wealth' between households. This includes personal possessions, net financial assets, housing assets (net of mortgages) and the value of people's non-state pension rights. Each bar shows the level of total wealth at that percentile, from the poorest (with negative wealth) up to the point where the top one per cent of households begins. Median wealth was £232,400 (with half of households having more and half less). The cut-off for the wealthiest tenth of households, £967,200, was seventy-seven times the cut-off for the bottom tenth, £12,600. The top one per cent of households each have total assets worth more than £2.8 million.

Figure 1: Distribution of total wealth between households, 2008-10, GB



Source: Derived from ONS analysis of July 2008 to June 2010 wave of Wealth and Assets Survey. Total wealth includes private pension rights as well as personal possessions, net financial assets, and housing (net of mortgages). Each column represents the wealth of one per cent of households.

Wealth inequalities are, of course, strongly linked to the life cycle. Most people start their working careers with little by way of assets, but build them up through their working lives, and run down their savings through retirement. Those in their late 50s and early 60s are the wealthiest. But there are large inequalities *within* each age group as well – for instance with a ratio of fifty to one between the cut-offs for the wealthiest and poorest tenths of 55-64 year-old households. Considerable wealth inequalities remain even after allowing for life-cycle differences.

In international terms wealth inequality in the UK does not appear exceptionally large. Indeed, household wealth inequality measures are *lower* for the UK than in Sweden and Canada, as well as in the USA, even when one corrects the surveys used for under-reporting at the very top. Wealth plays a different role in these countries, though, with mean *per capita* wealth values that are twice as high in the UK as in Sweden and Canada (although they are only 60 per cent of the US figure). Wealth holdings are therefore lower and absolute differences smaller in Sweden and Canada.

Trends in wealth distribution

Inequalities of wealth between individuals fell considerably between the 1920s and the 1970s. The pattern since then has been more stable, but our study suggests that overall wealth inequality between households fell between 1995 and 2005, as the wealth of moderately wealthy households grew proportionately faster with the house price boom than did the financial wealth of those at the very top.

However, *absolute* differences between the more and less wealthy widened considerably between 1995 and 2005 in real terms and in relation to annual earnings. It would now take many more years of saving for someone with a middle income to increase their wealth from near the bottom to the middle, or from the middle to near the top of the wealth distribution than it would have done in the early 1990s.

Wealth accumulation between 1995 and 2005

Data from the British Household Panel Study suggests that household wealth inequality fell between 1995 and 2005, but nearly all of the reduction in relative household wealth inequality was driven by the house price boom: without it the pattern would have looked very similar in the two years. Over this period what mattered most was whether people were able to gain from the house price boom. The house price boom favoured mortgagors, those in middle age, and the more highly qualified. Those who were owner-occupiers by 2005 were both the most wealthy and had the largest wealth increases. Increases in net wealth averaged £186,000 (at 2005 prices) for mortgagors who became outright owners, for instance.

Following the same households between 1995 and 2005, the absolute gains in wealth were largest for groups who started as the most wealthy, but the proportionate gains were largest for the least wealthy groups.

Inheritance

By the mid-2000s, around 200,000 estates each year (excluding those passing to spouses) had a value of around £35 billion, or about 4 per cent of national income. The average of £175,000 was divided between 4-5 inheritors. Each year around one adult in forty receives an inheritance, averaging £28,000 (at 2005 prices) between 2000 and 2005. But inheritances are very unequally distributed. Over the ten years from 1996 to 2005, one in five individuals reported receiving inheritances, with a mean total of £35,000, but a median of only £7,600. Half the total went to the top 10 per cent of these inheritors, just 2 per cent of all individuals.

Both the chances of receiving an inheritance and its average size are greater for those who are already more advantaged in other ways such as through educational attainment, home-ownership and pre-existing wealth. In that way, inheritance tends to reinforce advantage and widen differences in wealth. But some inheritors start with little or no wealth and are moved up the distribution by an inheritance, which has an equalising effect. Inheritance therefore has mixed effects on wealth inequality. Overall, partly because the pre-inheritance distribution of wealth is so unequal already, inheritance in recent years tended to *maintain* the inequality of wealth, rather than to change it hugely in either direction.

Impacts of parental wealth and of early wealth-holding

Evidence from different surveys suggests long-lasting advantages for children from wealthier family backgrounds and for those who are able to accumulate assets early in adulthood:

- Controlling for other factors, greater parental wealth is associated with greater – degree level – educational attainment, with the largest effects coming from housing wealth. Differences are largest between those with low and with middle wealth.
- Parental asset-poverty (debt) has a significant negative association with children's probability of being in work at age 25, while parental wealth has a positive and significant association with children's earnings at age 25, again with greater effects for lower wealth families.
- Early holding of financial assets (at age 23), and the size of the asset held, are associated with greater employment and earnings (at 33 and 42), even controlling for a wide range of other characteristics, although patterns vary between men and women.
- There is also a positive relationship between early asset-holding and subsequent general health and psychological well-being ten and even twenty years later, again with variation in the effects between men and women at different ages.

Overall, both having wealthier parents and having more of one's own financial assets early in adulthood are associated with improved outcomes in education, employment and health – outcomes which can themselves lead to further accumulations of wealth, increasing the gaps still further, as well as directly improving quality of life.

Policies towards wealth

Contrasting traditions for the appropriate role of policy towards wealth can be traced back for more than two centuries. Conservative traditions emphasise freedom to save and use wealth as individuals choose, and avoidance of disincentives to accumulate it. Radical traditions stress the ways in which unequal wealth holdings lead to imbalances in power and in life opportunities.

Yet both traditions see virtue in the spread of personal wealth and the chances it brings to make informed life choices. The exclusion of a large section of the population from access to any kind of wealth conforms to neither tradition.

Table 1 : Range of potential reforms to policy towards wealth

Annual taxes on wealth

Council Tax:
- Revaluation so valuations bear more relation to current relative values
- More progressive banding – so tax payable is more in proportion to relative values, with new bands introduced for most expensive property
- Turn into housing services tax (to become the equivalent of VAT on housing consumption)

Annual tax on the unimproved value of land
Comprehensive annual wealth tax on total value of all assets

Inheritance taxes

Tighten up on avoidance
Charge from above a lower threshold with progressive rate structure
Replace with progressive lifetime accessions tax (so tax depends on receipts not size of estate)

Taxes on returns on wealth

End forgiveness of capital gains tax (CGT) on death
Reintegrate CGT rates with income tax
Reintroduce inflation indexation for CGT
Apply equivalent of NICs (or surcharge) to investment income
Integrate income tax and NIC and apply to investment income
Take ordinary interest-bearing accounts out of tax
Integrate income tax/CGT with 'Rate of Return Allowance' system

Tax imputed rents/capital gains of owner-occupiers (with or without roll-over relief)

Means-tested benefits

Automatic indexation of capital thresholds
Higher capital thresholds
Lower rates of tariff income

Long-term care

Raise capital threshold
End cliff-edge liabilities (*)
Cap lifetime liabilities (*)
Finance from low level NICs above state pension age or inheritance tax on lower slice of estates

Pensions

Cap (and freeze) tax-free lump sum
Abolish/phase out tax-free lump sum, turning into front-end matching
Lower (and freeze) cap for annual contribution relief
Abolish higher rate relief
Turn flat rate relief into front-end matching
Amalgamate means-tested benefit deductibility into matching system

Asset accumulation

Roll out national matched savings scheme for those on low incomes (Savings Gateway)
Reintroduce Child Trust Funds, including for 'missing generation'.
Or automatic capital lump sum on reaching adulthood, financed by higher inheritance taxes

Debt avoidance

Extend 'financial inclusion' agenda
Reintroduce national (or mandatory local) equivalent of Social Fund
More flexibility in Universal Credit payment periods

Note: Recommendations from Mirrlees Review in italics.
(*) Partly occurring in 2016 in response to Dilnot report.

Looking across current tax and social policies, it is hard to discern a consistent pattern for the treatment of wealth and savings.

- Despite the growing value of personal wealth relative to incomes, its taxation has become much less important as proportions both of overall tax revenue and of national income over the last fifty years. Inheritance taxes in particular fell from 1.5 per cent of GDP in 1948 to 0.2 per cent by 2010-11.
- Overall tax rates on the ownership and returns on personal wealth are on average lower than those on earnings.
- There is a wide range of treatments between different forms of saving where the state adds to people's saving (such as pension saving) and those where tax is levied on more than the real return on saving (such as conventional savings accounts). Most personal wealth is held in forms that minimise tax or are outside the tax system.
- However, both means-tested income support and assistance to pay for long-term care are withdrawn or sharply reduced for those with assets. The thresholds for eligibility are only infrequently adjusted for inflation or income growth, and over time have affected more people (although those applying to long-term care are now planned to be reformed in response to the Dilnot Commission report).
- The most important direct policy to encourage wealth ownership has been the Right to Buy for council tenants, with accumulated discounts on purchases now accounting for equity of £150-200 billion, 3-4 per cent of total wealth. Child Trust Funds and the Saving Gateway had positive effects on savings patterns, but both were discontinued after the 2010 election.
- Reforms to student finance mean that younger generations of graduates will have much higher levels of student debt, albeit of a kind where payment only needs to be made if income exceeds a threshold and is written off after 30 years

The combination of these policies can mean very sharp differences in treatment between people, with some being strongly encouraged by the tax system to accumulate wealth in particular forms, while others face strong disincentives from means-testing to do so. These features often tend to reinforce wealth inequalities, rather than to narrow them.

There is a very wide range of potential reforms to this structure (with a summary listing shown in Table 1 and discussed in more detail in the final chapter of the book). However, more or less forceful objections can be raised to most of them, and past experience – such as with the proposed introduction of an annual wealth tax in the 1970s – suggests that none would be politically easy.

About the research

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