WHAT'S THE POINT OF WELFARE?

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

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Introduction

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 prefer you not to know this.

The reported average median household wealth of the best-off tenth of all households in the UK is £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%. 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 (ONS, 2014a). By contrast, almost all the wealth of the poorest tenth of households is accounted for by the low value of their household goods. The gap between those at the very top and the rest has been growing 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.

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 1,000 of families in the UK live in London. The London rich are, on average, considerably richer than the superrich living elsewhere in the UK.

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 (Wearmouth, 2014).

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, Southern households have £12,300 saved in the bank compared to a household average of £2,400, 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

It only takes a few more members of the 1% to take 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. Since wealth inequalities tend to follow income inequalities (with a lag) we can expect rising wealth inequality in the near 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 and have been for some time (Dorling, 2011).

Whilst many people in the top 1% pay all the tax they should pay, almost all of the very big tax dodgers 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. In 2012 some 290 large US corporations revealed that they collectively held around $1.6 trillion in off-shore accounts (CTJ, 2012). In the United Kingdom hardly anything is declared, but huge quantities of the wealth of UK citizens are thought to be hidden offshore.

Moving backwards

In 2013, levels of income inequality in the UK returned to those last experienced in the 1930s. But if you assume even a very low level of tax dodging, you find that we have already returned to the 1920s. 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% (ONS, 2014b).

The UK itself operates as a tax haven for many of the world's super-rich, who usually have one of their many homes in or near London. 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. In 2012, even as global income fell during the great recession, the income 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 (Bowers, 2013).

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 (Bowers, 2013).

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. There is huge wealth in the UK but mostly just held by a tiny proportion of residents. But why does it matter that distributional patterns now resemble those prevailing before the Second World War?

There is now substantial evidence to suggest that wealth inequality has a widespread and significant negative effect on well-being (Pickett and Wilkinson 2015). 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 (Dorling, 2015).

In addition, rates of infant mortality are twice as high in unequal affluent countries compared to the most equal affluent countries. The supposed benefits of holding wealth for the rich are thus 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. '(E)nsuring 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' (Nowatzki, 2012: 419).

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.

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 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. 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 reducing. Denmark has some of the highest levels of wealth inequality in the European Union, but its levels of income inequality are very low so, over time, wealth inequalities 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 similar levels of wealth inequalities in both countries. There are many other examples to suggest that substantive change is not just possible, but is underway. 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

Michael Mernagh (2014) 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 losing 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. Few people believe that this is possible. How have we got to the point where even such a small positive change is near impossible to imagine?

Conclusion – The politics of wealth inequality

Regrettably, despite their unimaginable privilege, those with wealth and power tend to view even the mildest redistribution of wealth as a 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 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% 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.

Two years ago 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'.

Greed is being challenged again – but we have a long way to go.

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Note

A longer version of this article is available as: Dorling, D. (2014) What Everyone Needs to Know about Wealth in the UK, http://www.dannydorling.org/?page_id=4208. This version is condensed and updated.