

Wealth inequality and accumulation

**John Hills, Centre for Analysis
of Social Exclusion, London
School of Economics**

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Some paradoxes in UK wealth distribution?

- The UK has high income inequality in international terms
- Wider income inequalities since the 1980s have allowed the well-off to accumulate increasing amounts of wealth
- Inheritances are more likely and are larger for the already advantaged

And yet:

- In international terms UK wealth inequality is not exceptional
- Conventional wealth inequality measures have been constant or have narrowed in recent years
- Inheritance does not appear to have widened wealth

The UK does not look unusual internationally

(shares of household net worth, %)

	Top 1%	Top 5%	Top 10%	<i>Gini coefficient</i>
Italy (2002)	11	29	42	61
UK (2000)	10	30	45	66
Finland (1998)	13	31	45	68
Canada (1999)	15	37	53	75
Germany (2002)	16	38	55	80
USA (2001)	25	49	64	81
Sweden (2002)	18	41	58	89

Source: OECD (2008), table 10.3, based on household survey data from Luxembourg Wealth Survey. US data from PSID.

Personal wealth has become more important

(% of GDP, UK, 1950-2005)

The individual wealth distribution appears relatively stable over last 30 years

	Top 1%	Top 10%	Top 50%	<i>Gini coefficient</i>
1923	61	89		
1938	55	85		
1950	47			
1976	21	50	92	66
1985	18	49	91	65
1995	19	50	92	65
2005	21	54	94	70

1923 figures are England and Wales only; 1938 and 1950 are Great Britain (from Atkinson, Gordon and Harrison, 1986). 1976-2005 figures are for UK from HMRC. Figures are from estate duty for distribution between individual adults.

But household survey data shows *lower* inequality since 1995

(Shares of household wealth, %)

	Top 1%	Top 10%	Top 50%	<i>Gini</i>
Financial and housing wealth (BHPS)				
1995	12	48	96	69
2005	8	39	90	59
Wealth in 2006-2008 on different definitions (WAS)				
Physical and financial	12	46	89	<i>Na</i>
Non-pension	11	41	90	59
Total (with private pensions)	12	44	91	61

Sources: Own calculations from British Household Panel Study (BHPS; Office for National Statistics, Wealth and Assets Survey (WAS). Figures refer to GB.

But the *absolute* gaps have widened greatly

(household wealth at different points in distribution,

	P10	Median	P90	Mean
Financial and housing wealth (BHPS): levels (£000s)				
1995	-0.1	37	190	76
2005	0	110	390	160
Financial and housing wealth (BHPS): changes				
£000s	+0.1	+73	+200	+84
Change as multiple of median earnings	0	+3.1	+8.6	+3.6

Source: Own calculations from British Household Panel Study (BHPS). Figures refer to GB.

As a result, while half of households have total wealth (*excluding* pension rights) over £145,000, a tenth have over £491,000 and one per cent over £1.5 million

And while half of households have total wealth (*including non-state pension rights*) over £200,000, a tenth have over £850,000 and one per cent over £2.6 million

The life cycle has a substantial effect, but there is substantial inequality *within* every age group
(P10, P30, median, P70 and P90 for households by age)

But accumulations between 1995 and 2005 do not follow a life-cycle pattern

(Median net wealth, £000, by initial age of household head)

Although they would have done without the house price boom ...

(Median net wealth, £000, by initial age of household head; house values adjusted to 1995 house prices)

And removing the house price boom removes nearly all of the change in distribution

	P10	Median	P90	Mean	<i>Gini coefficient</i>
Net household worth at 2005 prices (£000s)					
1995	-0.1	47	217	86	65
2005	0	146	427	194	53
Net household worth at adjusted house prices (£000s)					
2005* (adjusted)	-0.6	61	223	93	64
Change at 2005 prices (£000s)					
Actual house prices	+0.1	+99	+210	+109	
Adjusted house prices	-0.5	+14	+6	+7	

Source: Own analysis of BHPS. Sub-sample of households with data in both years.

Does that mean that the 'paper gains' from higher asset prices do not matter?

- The absolute gaps mean very considerable differentials in the resources available to parents and grandparents to assist their families
- Inheritances are growing in scale and are also heavily skewed towards the already advantaged
- Wealth differentials in later life are the best predictor of mortality rates

Labour market inequalities are amplified into huge differences in household resources available for retirement; households aged 55-64 (2006/08)

	Total Household Wealth (£000s)		
	P10	Median	P90
Large employers and higher managerial	370	990	2430
Higher professional	290	910	2170
Lower managerial and professional	190	670	1720
Intermediate occupations	84	400	1070
Lower supervisory and technical	20	300	820
Semi-routine occupations	13	220	640
Routine occupations	8	150	520
All	28	420	1340

Source: National Equality Panel (2010) from ONS, based on Wealth and Assets Survey, Wealth includes financial assets, houses, and private pension rights.

Inheritance over previous nine years by *final* net wealth

Quintile group of final net wealth (2005)	Mean wealth (£000s)	Share of net wealth (%)	% inheriting (1996 to 2004)	Mean amount for inheritors (£000s)	Share of inheritance (%)
Top	460	56	39	75	65
Fourth	197	24	28	29	18
Third	117	14	23	15	7
Second	48	6	17	12	5
Bottom	-3	-0.4	11	7	2

Source: Karagiannaki (2011b), tables 8 and 11, based on British Household Panel Survey. All figures at 2005 prices.

Inheritance over following nine years by *initial* net wealth

Quintile group of initial net wealth (1995)	Mean wealth (£000s)	Share of net wealth (%)	% inheriting (1996 to 2004)	Mean amount for inheritors (£000s)	Share of inheritance (%)
Top	265	66	37	59	32
Fourth	86	22	30	45	24
Third	43	11	28	31	15
Second	11	3	25	36	15
Bottom	-3	-0.6	18	27	8

Source: Karagiannaki (2011b), tables 8 and 11, based on British Household Panel Survey. All figures at 2005 prices. Includes only those households with heads aged 25 or older in 1995.

And wealth differentials are the most powerful predictor of differences in life expectancy in later life in the UK

Survival rates after 6 years by wealth group, people aged over 50 (%)

	Men	Women
Highest fifth of wealth	92	95
Lowest fifth of wealth	76	81

Source: English Longitudinal Survey of Ageing

Conclusions

- Wealth inequality in relative terms in the UK may not be unusual internationally, but personal wealth is more important than in countries where the state plays a larger role.
- It may be the *absolute* inequalities in wealth and changes in them (eg in relation to average incomes) that matter, rather than the relative differences and inequality measures
- These have grown considerably in the UK, particularly as house prices rose.
- While some of these are 'paper gains', they still give command over resources to support children and grandchildren during life times and through inheritance.

Papers available at: http://sticerd.lse.ac.uk/case/_new/publications/series.asp?prog=CASE

- Eleni Karagianakki, *Recent trends in the size and the distribution of inherited wealth in the UK*, CASE paper 146.
- Howard Glennerster, *A wealth tax abandoned: The Role of the UK Treasury 1974-6*, CASE paper 147.
- Eleni Karagiannaki, *The impact of inheritance on the distribution of wealth: Evidence from the UK*, CASE paper 148.
- Abigail McKnight, *Estimates of the asset-effect: The search for a causal effect of assets on adult health and employment outcomes*, CASE paper 149.
- Frank Cowell, *Inequality among the wealthy*, CASE paper 150.
- Eleni Karagiannaki, *The magnitude and correlates of inter vivos transfers in the UK*, CASE paper 151.

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