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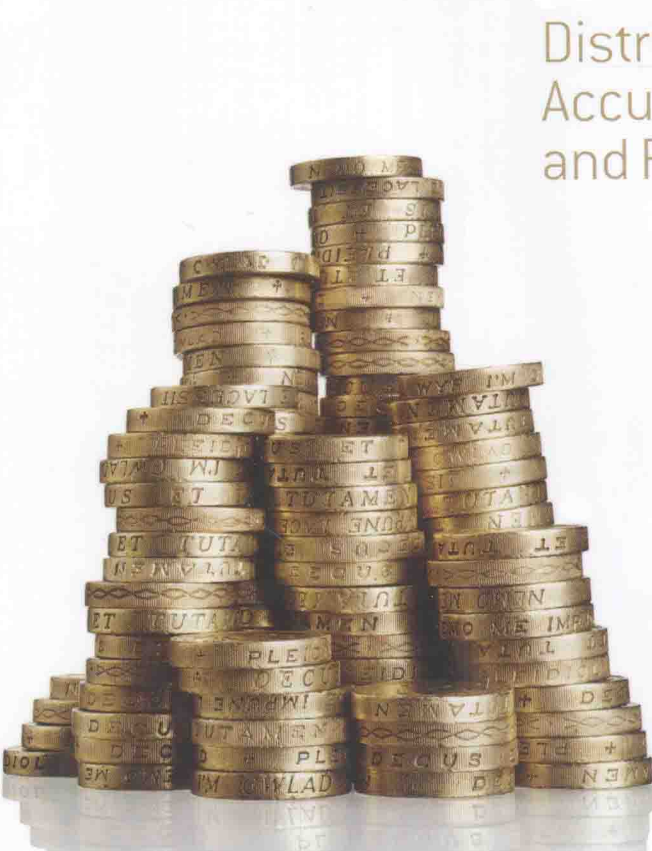
WEALTH in the UK

Distribution, Accumulation, and Policy



JOHN HILLS | FRANCESCA BASTAGLI | FRANK COWELL
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Wealth in the UK

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Centre for Analysis of Social Exclusion
London School of Economics
August 2012

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Part I

Wealth and Distribution

1

Introduction

John Hills

Wealth, as the late Douglas Adams once remarked of Space, is big, really big. The most comprehensive survey ever carried out on wealth in Britain—barring perhaps the Domesday Book—the Office for National Statistics' Wealth and Assets Survey put a value of £5.5 trillion on the total value of personal wealth in the wave of the survey carried out between 2008 and 2010. This was nearly four times annual national income at the time. Adding in the value of people's rights to pensions from employers and other private sources—generally of most importance to people higher up the wealth distribution—the total was even higher, £10 trillion, and if rights to state pensions were included, the number would be higher still.

Of that total, £3.4 trillion was accounted for by the value of houses and other property, net of mortgages, £1.1 trillion by net financial assets, and £1.0 trillion by what ONS counts as 'physical wealth'. The latter includes consumer durables, the contents of people's homes, and vehicles. It even includes an astonishing £1.8 billion for the value people put on their personalized vehicle number plates.[1]

To put that in more accessible terms, median net household wealth—the level where half of households have more and half have less—was £145,000 if private pension rights were not included, or £232,000 if they were. This compares with about £23,000 per year for median gross full-time earnings in 2008, or around £20,000 for median net household income.[2] In other words, median household wealth is between seven and twelve times the value of median annual household income. In the decade from 1995 one measure of

[1] An average of £1300 for 5.7 per cent of households (Black, 2011, ch. 3, tables 5 and 6).

[2] After income tax and National Insurance Contributions, and adjusted for family size to give the amount that would give an equivalent spending power to a couple without children. Figures from Hills *et al.* (2010, ch. 2).

median net household wealth rose in real terms by an amount equivalent to more than three years' worth of individual annual pre-tax earnings.[3]

Who has that wealth, how it is distributed between them, and who is affected by changes in its value can therefore have even larger implications than similar features of the distributions of income and of earnings. Yet, in thinking about social and taxation policies and about the distribution of economic resources across the population, far more attention is paid to the flow of income to individuals and households than to their stock of assets (or debts).

In part that is because day-to-day economic life is dominated by income. Much wealth does not generate an immediate flow of cash, and the increases in its value may not be immediately apparent. In the middle of a house price boom, people who own a house sometimes remark that their home 'earned more' than they did last year, but actually spending that capital gain is as not straightforward as spending cash that arrives in a bank account. Equally, the increase in the effective value of someone's promised pension rights as we revise upwards prospective life expectancies is often not readily appreciated.

Despite the complexity of the issues involved, the distribution of wealth has profound impacts on society. 'Equality of opportunity' is an aim said to be central by both the New Labour government that lost office in 2010 and the Conservative-Liberal Democrat coalition that replaced it. But access to wealth can determine whether parents can afford to buy a house in the catchment area of the most popular state primary and secondary schools. A small amount of savings early in someone's career can allow them to take unpaid work for experience, take risks, or pump-prime an enterprise. Parents trading down their own property can help children get on or move up the housing ladder, and to live in parts of the country where there are most work opportunities. The prospects for the quality and security of life in retirement are hugely different between those who have accumulated savings and pension rights and those who have not. While it is not necessarily a main causal factor—as opposed to reflecting the accumulation of other advantages—wealth in the first wave of the English Longitudinal Survey of Ageing turned out to be a better single predictor of whether those aged over 50 survived the next six years than factors such as occupational social class or education.[4] A quarter of the men with the lowest fifth of household wealth had died within the six-year period, compared to a tenth of those with the highest fifth of wealth. And each year around one adult in forty benefits from an inheritance with an

[3] From £37,000 to £110,000 at 2005 prices (see table 2.6). Figures include net financial and housing wealth only.

[4] Nazroo, Zaninotto, and Gjonca (2008, p. 267).

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