Wealth Distribution - the Evidence.

IPPR, Centre for Asset-based welfare – evidence report

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Executive summary – the key facts

The last few decades have seen wealth created on an unprecedented scale …

- The total value of personal wealth in the UK in 1999 was £2,752 billion.
- In 1979 this figure was under £500 billion.

…. yet not all people are benefiting equally. Wealth inequality has increased …

- 93% of all wealth in 1999 was held by the top 50 per cent of the population.
- In 1999 the top 10% of the population own over half of personal wealth.
- Between 1988 and 1999 the top 1% of the population have increased their share of personal wealth from 17% to 23%, suggesting that wealth inequality is worsening.
- Currently the top 2.4m households own assets worth about £1,300bn, while the bottom 12m households own assets of £150m.

… and <u>asset exclusion</u> – people with no wealth at all – has also increased.

- The number of households without any assets at all has doubled from 5-10% between 1979 and 1996.
- For those aged 20 to 34 the percentage with no assets has doubled from 10% to 20%.
- 31% of households in the lowest income decile have no assets at all.
- Virtually all people in the top half of the income distribution have an asset.
- The number of people with no savings has remained around a third of the population since 1997.

1. Introduction

Most research on inequality focuses on income. While this is important, it should be analysed alongside the distribution of wealth. Wealth is important because it reflects inequalities which have formed over a period of time and because it has a number of positive impacts on people's life chances. Yet, in comparison with data on income, information on the distribution of wealth is scarce. This paper summarises the evidence which is available, and discusses the recent trends that the UK has witnessed. The evidence displayed suggests a recent increase in wealth inequality and, perhaps even more worryingly an increase in the number of people who have no wealth at all – the asset-excluded.

2. Why are we interested in the wealth distribution – the context

The role of assets and wealth in welfare policy has recently become a focus for debate. In April 2001 the Government announced the Child Trust Fund (or baby-bond) and the Saving Gateway. These *asset-based welfare policies* have the aim of allowing *all* people to accumulate a financial asset. The Child Trust Fund will endow all newborn children with a lump sum paid into an individual account by the state. This will then accumulate until the child turns eighteen when they will have access to the fund. On average people will accumulate between three and four thousand pounds.

The Saving Gateway, by contrast will not be targeted at children but instead at low-income adults. It will offer people matched saving – for every pound that the individual deposits the state will also deposit a pound. After five years people will have access to the money and will be able to either keep it invested or spend it.

There are a number of reasons for this recent interest in asset-based approaches to welfare policy. These include the following:

- Evidence that holding assets has effects on welfare outcomes independent of income levels (Bynner, 2001).
- The potential role that wealth can play in enabling people to overcome transitions in their lives – making welfare policy more preventative (Paxton, 2001).
- A desire to give individuals greater control and autonomy over their lives.
- Current support for asset accumulation is regressive. There are incentives, for example tax relief, for people on high incomes and disincentives such as capital limits in the benefit system for people on low incomes.

Another argument, particularly salient for the Left is that the current distribution of wealth is vastly unequal. From Tom Paine to Anthony Crosland the left has been concerned with wealth inequalities. This note concentrates outline the current evidence on the distribution of wealth.

Definitions of wealth

By wealth this paper is referring to either of two different categories. Some of the time we discuss only financial wealth such as deposit accounts, shares, saving vehicles and Bonds. At other times we adopt a broader definition and include all forms of wealth including housing. Unless otherwise stated we referring to financial wealth. It will be made clear where housing is also included.

3. Wealth distribution - the long-term trends

Over the 20th Century the trend has been towards greater equality in wealth distribution. The early half of the century was marked by considerable redistribution from the super-rich to the upper middle classes. This still left considerable inequalities. By 1950 it was still the case that over half personal wealth was in the hands of the most affluent one per cent of the population and 85 per cent was held by the richest ten per cent (Inland Revenue: 2001 – this includes financial and housing wealth).

After WWII, through out the 50's 60's and 70's, the distribution of all wealth became more equal still. By the end of the 1970s the richest one per cent of the population owned a vastly reduced one-fifth of all personal wealth. Unlike before the war the redistribution was not merely from the extremely wealthy to the very wealthy. Instead the middle classes also benefited. The four-fifths of the adult population with the lowest wealth saw their stake in society increase from 8%, in the 1930s to 35% in the 1970s.

Since the late 1970's though this trend has been halted and even possibly reversed.

Table 1. Wealth in the 20th Century

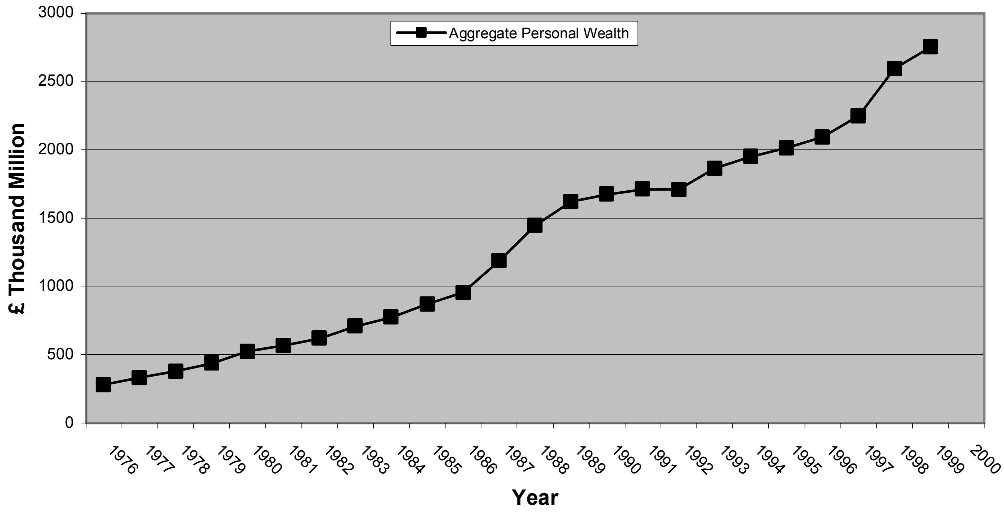
Year	*Percentage of wealth held by Top 1% of the population*	*Percentage of wealth held by Top 10% of the population*	*Percentage of wealth held by Top 50% of the population*
1911	70%		
1914			
1919	66%		
1922			
1926/8	60%		
1936	55%		
1954	43%	80%	
1960			
1966	33%	69%	97%
1971	31%	65%	97%
1976	24%	60%	95%
1980	20%	52%	94%

Source: Inland Revenue www.inlandrevenue.gov.uk - this includes housing and financial wealth.

4. Recent trends in wealth distribution – the last 20 years

The last few decades have seen wealth creation on an unprecedented scale. The overall value of all personal wealth was £2,752 billion in the UK in 1999 .The equivalent figure for 1979 was only 500 billion (Inland Revenue: 2000). Historically this has been an unprecedented increase. Mean household wealth is now £53,000. The chart below demonstrates this dramatic increase.

Chart 1. Aggregate Personal Wealth From 1976 - 1999



Source: Inland Revenue: 2001

It should be noted wealth has increased predominantly because of increased exposure to the stockmarket and rising house prices. In other words it has been due to capital gains rather than saving. Indeed, savings tend to fall as wealth increases, something which has been especially evident in the last three years (Davey 2001).

The fruits of these wealth increases have not been distributed evenly though, something demonstrated by the trends in wealth distribution over the previous twenty years. In 1985, the richest ten per cent of the population owned 49 per cent of the country's marketable wealth. By 1999 this had increased to 54 per cent. The table below confirms that wealth is increasingly concentrated among the wealthy. The gini coefficient, a measure of inequality, has increased from 64 in 1991 to 69 by 1999.

The increased concentration of wealth among the rich has been particularly evident since the early 1990's. Take as an example the percentage of wealth held by the top 5 percent. This was relatively stable from 1985 until 1991 but since then it has been increasing significantly.

Table 2. Personal wealth held by different percentages of the wealthy in the UK

Year	*1%*	*2%*	*5%*	*10%*	*25%*	*50%*	*Gini*
1985	18	24	36	49	73	91	65
1986	18	24	36	50	73	90	64
1987	18	25	37	51	74	91	66
1988	17	23	36	49	71	92	65
1989	17	24	35	48	70	92	65
1990	18	24	35	47	71	93	64
1991	17	24	35	47	71	92	64
1992	18	25	38	50	73	93	66
1993	18	26	38	51	73	93	66
1994	19	27	39	52	74	93	67
1995	19	26	38	50	72	92	65
1996	20	27	40	52	74	93	68
1997	22	30	43	54	75	93	69
1998	23	30	43	55	75	94	69
1999	23	30	43	54	74	94	69

Source: Inland Revenue www.inlandrevenue.gov.uk

5. Wealth inequality – a more detailed breakdown

Other research, which looks only at financial assets confirms that wealth is very unequally distributed. The Institute for Fiscal Studies found that for the lowest wealth decile the median and mean levels of *financial* asset-holding are zero. This includes people in debt. When debt is excluded the median level of wealth is only £100. If you include debt and positive assets, even those who are in the fifth wealth declie only had a median wealth level of £550 in 1997-98. The table below shows the full figures for all individuals.

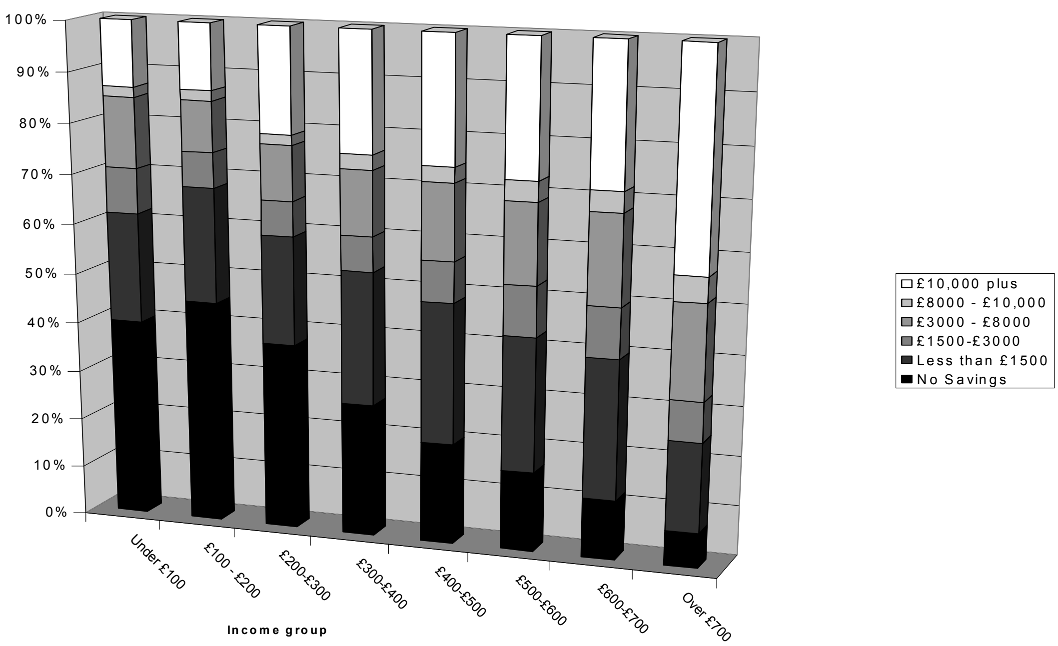
Table 3. Average Financial Wealth Holding by wealth decile (1997-98)

Wealth Decile	*Median*	*Mean*
1 (least wealthy)	0	0
2	0	0
3	0	1
4	100	125
5	550	554
6	1,750	1,405
7	1,850	2,204
8	4,500	5,090
9	11,000	11,422
10 (Most wealthy)	32,500	50,558
All	*750*	*7,136*

Source: IFS analysis of FRS and NOP data

Perhaps not surprisingly when we look across the whole population, wealth is strongly related to income. The chart below demonstrates that people on lower incomes are less likely to have significant levels of savings. Over 40 per cent of people with the lowest weekly income have no savings at all and only approximately 15 per cent have savings of over £10,000, compared with over half of people with the highest weekly incomes.

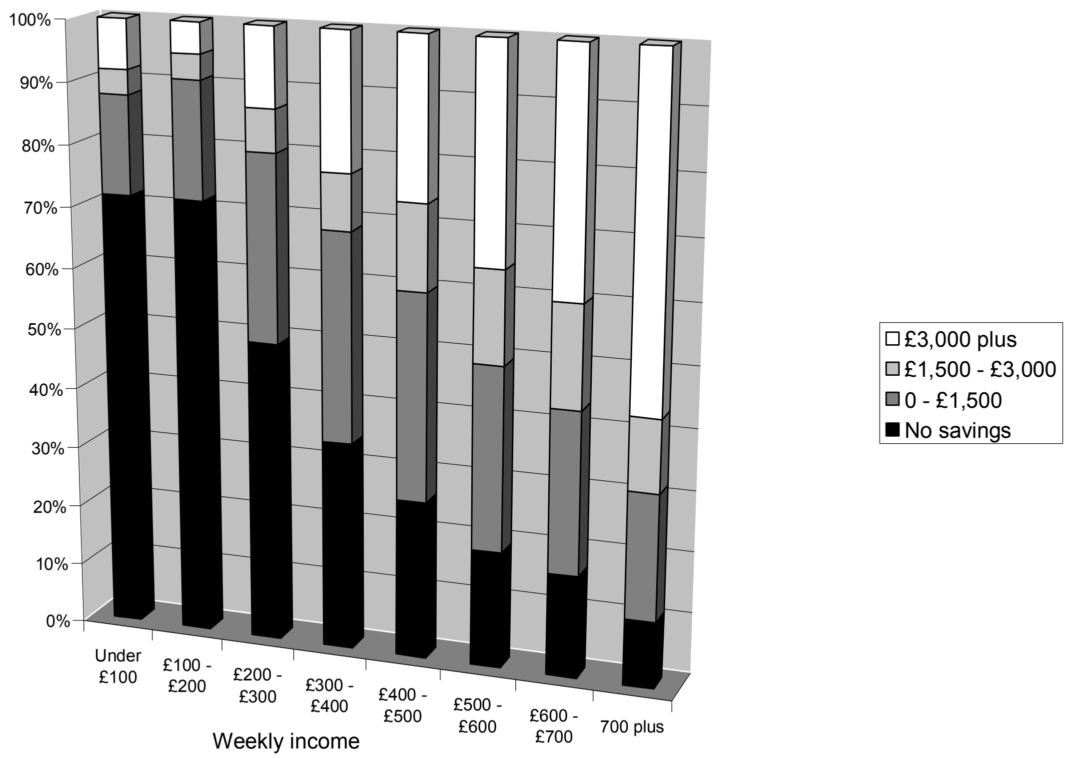
Chart 2. Saving levels of different income groups (2000-2001



Source: Authors analysis of FRS data

It is important to note that some wealth inequality is related, not to income but to age. As people get older they are more likely to have accumulated wealth, be it housing or financial savings. However the life cycle does not explain all wealth inequality. Even among people of the same age there is inequality in wealth. The graph below concentrates on people between 25 and 34. Within this age group the poor are particularly disadvantaged and have fewer saving. The higher the weekly income the more likely they are to have some savings. Indeed only 30 per cent of people on the lowest incomes have any savings at all.

Chart 3. Distribution of savings among 25 - 34 years olds (2000 - 2001)



Source: Authors analysis of FRS data

The Child Trust Fund would have an impact on this graph. It would reduce the number of low-income people who have no assets in their early twenties.

5. The asset-excluded – the growth in exclusion

Above we have focused on the distribution of wealth. Another important issue regards the number of people with no assets – the asset-excluded. This should be of particular concern because evidence suggests even a relatively small asset can have positive impacts on life chances (Bynner: 2001). The charts above have shown that the young and poor are more likely to have no savings. Chart 3 shows that 70 per cent of people between 25 and 34 on low incomes have no savings. Other notable facts about groups without any saving include the following:

- 28 per cent of all households had no savings.

- 43 per cent of households with a weekly income below £100 have no savings.
- 67 per cent of single parents have no savings.
- 8 per cent of the whole population do not even have an account.
- 16 percent of people with weekly incomes below £100 have no account at all.

All figures for 2000/2001 Source: DWP analysis of the FRS

Age has less of an impact on the levels of asset-exclusion than on overall wealth distribution. Table below shows that there is a relatively consistent proportion of different age groups who do not have any savings. We cannot tell if the people with no financial assets in their early twenties are more likely to become people who in their fifties have no savings, though it seems likely given the relative lack of social mobility in the UK.

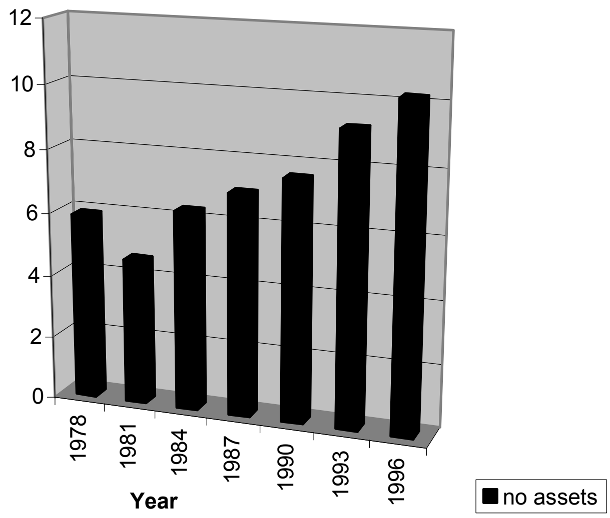
Table 4. Age and numbers with no financial assets

Age	*Percentage with no 'Financial Assets'*
22-29	39
30-39	31
40-49	28
50-59	26
60-69	26
70+	30
All	30

Source Institute Of Fiscal Studies 1999

Savings are not the only form of asset we are concerned with. If we include other assets, including housing then we can assess the number of people with no assets in any form. There are some worrying trends in the number of people who are totally asset-excluded in this way. As the graph below shows there has been a doubling of the percentage of people with no financial assets in the previous two decades.

Chart 4. The Proportion of Households With No Assets, 1978-1996



Source: IFS analysis of FES

What is more the number of people with no assets among 20-34 year olds has increased most. In 1978 one in ten in this age group had no assets, and by 1996 this had doubled to one in five. As we have seen, there are reasons to believe that younger people should have lower levels of asset holding. They will not have had time to accumulate assets and in the previous few decades a number factors may have increased the number of young people holding assets – this includes the access to credit, increased costs of university and the later age of starting families. Yet even accounting for these factors, the trend should be of considerable concern.

Date covering the period since 1997 indicates that levels of asset exclusion have at best remained at similarly high levels. The number of households with no savings is shown in table 5. This figure has stayed relatively constant since the election of the Labour government. Also if we look at specific groups who policy makers could be most concerned about it can be seen that they too have not improved their situation in the previous five years. Young adults continue to be unlikely to hold any savings as do people on low incomes.

Year	*Percentage of people with no savings*	*Percentage of 16 – 24 year olds with no savings*	*Percentage of lowest income groups (under £10,400 p.a.) with no savings*
1996/97	35	56	
1997/98	36	59	
1998/99	35	60	46
1999/00	33	57	44
2000/01	34	56	46

Conclusion

The distribution of wealth matters. Its concentration in the hands of the few can have deletiorous effects on the health of a countries polity. People, as citizens have a right to stake in the wealth of the society in which they live. More practically, access to wealth is also important in opening up opportunities for people. At present it is the privilage of the few to have assets, particularly at important times in their lives such as early adulthood. Without considering the importance of wealth genuine equality of opportunity will not be possible.

The government has stated the ambition of allowing all people to reap the benefits of saving. Gordon Brown stated as early as 1998 that "when half the population have only £200 or less in savings, there is broad agreement that we must do more to encourage savings by everyone." More recently the Prime Minister has stated that the aim of his government was to more than simply lift people out of poverty. "We must transform their horizons, aspirations and hopes as well - through helping people get the skills they need for better jobs, and through giving them chance to save and build up a nest egg. Only in this way will we drive up social mobility, the great force for equality in dynamic market economies."

If these ambitions are to become reality and the worrying trends identified above to be reversed then bold policies are required. For example the Child Trust Fund, which will provide all young adults with a financial asset, will help make people's starting position more equal, and at the very least assure a minimum level of *ownership for all*.

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