

## Wealth inequality: the facts

Interest in the subject of wealth inequality has been stimulated by the recent work of economist Thomas Piketty in his best-selling book 'Capital in the Twenty-First Century', with the charity Oxfam having also been very vocal about this issue through their 'Level it Up' campaign. This briefing paper looks at data on wealth inequality from the Office for National Statistics, Thomas Piketty's dataset and the Credit Suisse dataset frequently cited by Oxfam.

It is certainly true that wealth tends to be more unevenly distributed than income (a fact true across all major countries), but the way that this subject is discussed is often misleading.

**Wealth inequality is low in the UK by historical standards, has not been rising rapidly in the UK in recent years, or indeed over the past generation, and is actually lower than in most other developed countries. There remains a debate about the true level of inequality of wealth in the UK, but the trends do not conform to the story of unprecedented or exploding inequality that are frequently implied in the media.**

### Wealth inequality and recent trends in the UK

The ONS's 'Wealth and Assets Survey' provides snapshots of recent distributions of household wealth in the UK for 2006-08, 2008-10 and 2010-12. It calculates household wealth by summing up net property wealth, physical wealth, net financial wealth and private pension wealth from household survey data, allowing us to calculate a host of metrics of inequality commonly cited in public discourse, including the Gini coefficient (see Snowdon 2015 for an explanation) and the wealth share of various groups in the distribution. These are summarised below.

**Table 1: Measures of wealth inequality**

Measure	Year		
	2006/08	2008/10	2010/12
Gini coefficient	0.61	0.61	0.61
Share of top 10%	43.87	43.57	43.65
Share of top 1%	12.64	12.47	12.52
Share of top 0.1%	3.10	3.72	4.35
Share of top 0.01%	0.45	0.83	1.88
Share of bottom 50%	9.50	9.89	9.59

Source: ONS (2014)

As can be seen, the Gini coefficient at 61 is significantly higher than for income – a fact that tends to be true across all major countries (Credit Suisse 2014). This makes sense, not least because of the life-cycle effect (people just entering the labour force tend to have no assets but do have incomes, for example).

What is clear from this data though is that wealth inequality has been remarkably stable over the three waves considered, on almost all measures. The Gini coefficient has been completely flat, the share of total wealth attributable to the top 10 per cent and 1 per cent

have fallen very slightly and are now around 44 per cent and 12.5 per cent, and the share of wealth attributable to the bottom 50 per cent has risen slightly to just over 9.5 per cent.

It's only when you get to the top 0.1 per cent and top 0.01 per cent that you find the shares of total wealth for those at the top have increased, though when you are looking at these groups you are talking about incredibly small numbers of observations (for 2010/12, just 35 and 5) which make the results highly unreliable and perhaps not very meaningful. There is no real evidence that wealth inequality has increased in the very recent past from the ONS figures.

### Longer term trends and Piketty

Thomas Piketty's 'Capital in the Twenty First Century' claims both that wealth inequality is much higher than the ONS figures suggest and that there has been a rise in wealth inequality in the UK since the 1980s (Piketty 2014a).

Figure 1 below shows Piketty's historical series. The raw numbers from which Piketty constructed his series are shown in blue (Giles 2014a). His data shows clearly that wealth inequality (as measured by the share of total wealth attributable to the top 10 per cent or top 1 per cent) fell significantly from the First World War through to the 1970s, and is still much lower today than the vast majority of the period since 1810. It is what has happened since 1970 which is the subject of intense debate (see Piketty 2014b, Giles 2014a, Giles 2014b).

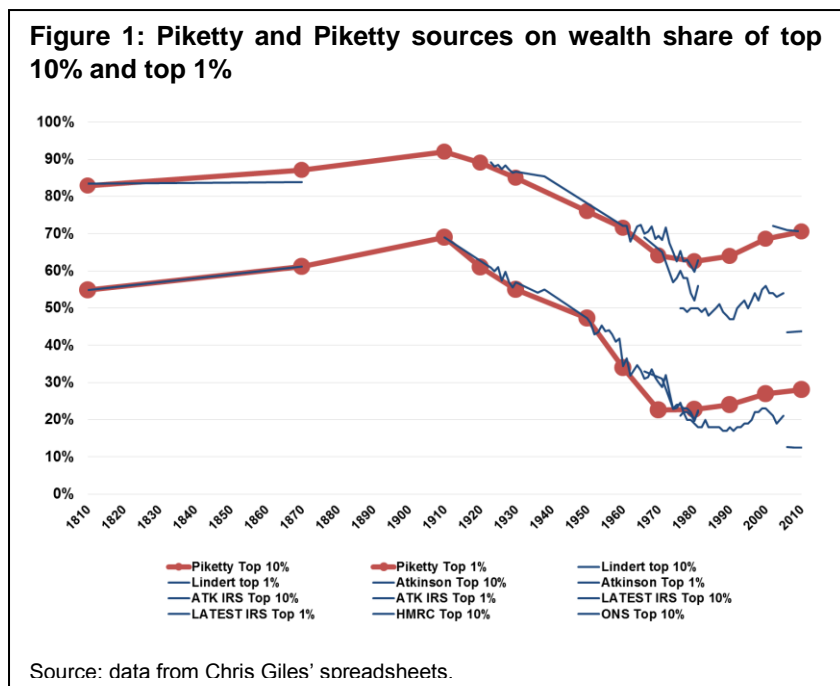
Firstly, Piketty's analysis suggests that the top 10 per cent of the wealth distribution had as much as 70.5 per cent of UK wealth and the top 1 per cent as much as 28 per cent in 2010. These are much higher than the equivalent ONS figures outlined above. Piketty argues that survey data – as used by the ONS – tends to understate significantly the wealth of those at the very top. Thus, he prefers to use the HMRC figures for the 2010 observation, despite this data source being criticised as not suitable for this calculation. Piketty therefore believes (controversially) that the level of inequality as measured by the wealth share of the top 10 per cent is as much as 26 percentage points higher than the UK's main survey data on wealth. Use of this observation allows him to claim that overall inequality has increased since the 1980s.

This conclusion has been criticised in detail by Giles (2014a, 2014b). In particular, there appears to be some major differences between Piketty's series and the data from Piketty's source for the interim period:

1) The source data series together seem to show a significant fall in wealth inequality through the 1970s, whereas Piketty's constructed line shows a very modest fall.

2) In the 1980s, the data from the sources suggest a much lower level of wealth inequality than suggested by Piketty.

The main problem seems to be that there are discontinuities in the data (i.e. when Piketty has to shift from one data source to another which cross over, there are significant differences in the level of inequality for the same year – see Reed 2014). Some have suggested that upward adjustments therefore need to be made to more recent data to make it historically comparable with the older series. These adjustments are calculated to be highly significant - by 2010, as large as 23 percentage points for the top 10 per cent, and 10 percentage points for the top 1 per cent (Reed 2014).

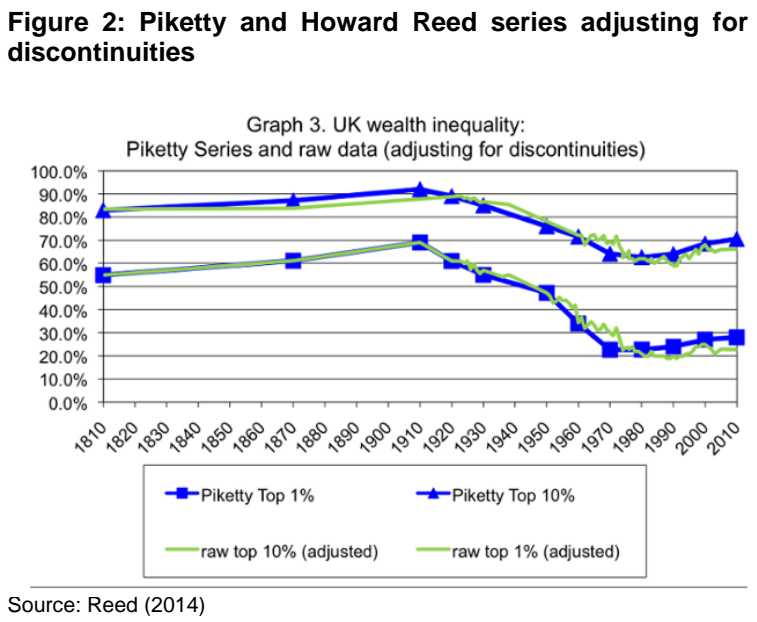


It's unclear why it is more sensible to revise up data to make it comparable with older series rather than revising down the older series. Nor does Piketty explain his series by appealing to discontinuities arising between the datasets. Nevertheless, making these adjustments does lead to results similar to Piketty's (see Figure 2), though this construction implies that wealth inequality is still slightly lower than Piketty suggests and was flat between 2000 and 2010 (the modest increase almost all comes in the 1990s).

Whilst there is a debate about the level of wealth inequality stemming from Piketty's work then, on trends we can pretty much conclude that wealth inequality fell substantially through most of the 20th century, and has risen either very modestly or remained essentially stable overall since the 1980s. In other words, levels of wealth inequality are neither unprecedented nor exploding.

### Net wealth measures

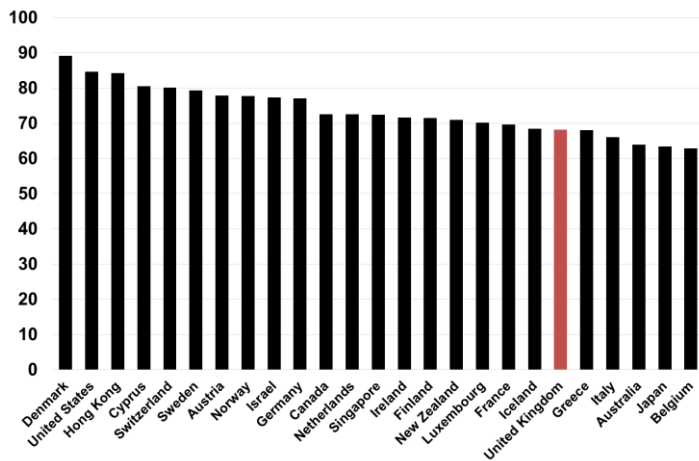
Due to the data difficulties outlined above, it is very difficult to make international comparisons of wealth inequality across countries. Nevertheless, Credit Suisse's Global Wealth Databook attempts to achieve just that. The measure of wealth in this study is slightly different to those above – it is a 'net' wealth measure, 'the marketable value of financial assets plus non-financial assets (principally housing and land) less debts'.



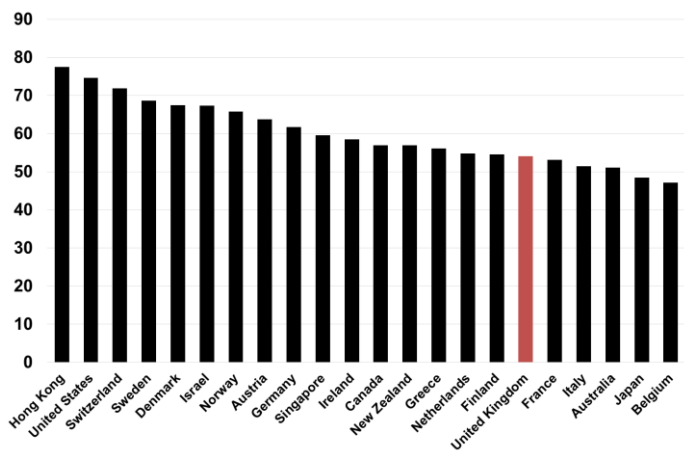
This throws up some perverse and counter-intuitive results in some countries. People with no assets but some debts are regarded as the poorest because of their negative wealth, e.g. someone coming out of a top US university for example with no assets but very large debts. Nevertheless, this dataset is frequently cited by Oxfam and does at least allow comparisons of wealth inequality across a range of developed countries.

The UK's Gini coefficient for net wealth is calculated to be 68.2 - the sixth lowest of 25 countries for which there is data (see Figure 3).

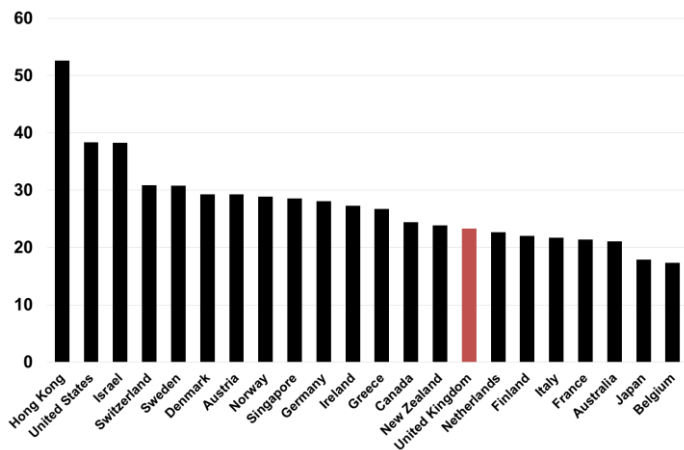
**Figure 3: Gini coefficient for wealth inequality for developed countries with data**



**Figure 4: Net wealth share of the top 10 per cent of the wealth distribution**



**Figure 5: Net wealth share of the top 1 per cent of the wealth distribution**



Source: Credit Suisse (2014)

The net wealth shares for the top 10 per cent and top 1 per cent are 54.1 per cent and 23.3 per cent – meaning the UK is sixth and eighth lowest out of 22 countries for which there is data on these measures (see Figures 4 and 5).

And the UK (at 8.4 per cent of total wealth) has the sixth highest figure for net wealth attributable to the bottom 50 per cent of the distribution of 21 countries for which there is data.

And the UK (at 8.4 per cent of total wealth) has the sixth highest figure for net wealth attributable to the bottom 50 per cent of the distribution of 21 countries for which there is data.

These cross-country statistics showing that the UK's net wealth inequality is not as high as in other countries are barely mentioned when campaigning groups such as Oxfam extract their findings from the Credit Suisse reports. Instead Oxfam highlight the *level* of overall wealth inequality at a *global* level, before looking at *trends* in net wealth inequality in the UK – which, unlike the other wealth figures above, do suggest rising inequality (but still at a much lower level than other countries such as Sweden and the US) (Credit Suisse 2014).

**Wealth is distributed more unequally than income, but the degree of inequality has been fairly flat over the past 30 years, including after the financial crisis, having fallen substantially for much of the 20th century. There is some evidence that 'net wealth' has become more unevenly distributed since the crisis, but, on this same measure, levels of net wealth inequality are much lower in the UK than in most other developed countries to begin with. Wealth distributions are determined by a myriad of factors. There are clearly some policies which would reduce net wealth inequality (one of the reasons the UK has lower net wealth inequality than Sweden for example, is because a less generous safety net means more people are inclined to save here), but it is very rare to find someone who ultimately thinks reducing wealth inequality is of itself desirable without considering other consequences of the policy which achieves that aim.**

Ryan Bourne, 5 March 2015

**References**

Credit Suisse (2014) Global Wealth Databook 2014. Credit Suisse Research Institute. October.  
 Giles, C. (2014a) Data problems with Capital in the 21st Century. Ft.com Money Supply blog.  
 Giles, C. (2014b) Capital in the 21st Century – a response. Ft.com Money Supply blog. 30 May.  
 ONS (2014) Wealth in Great Britain Wave 3, 2010-2012. London: Office for National Statistics.  
 Piketty, T. (2014a) Capital in the Twenty-First Century.  
 Piketty, T. (2014b) Technical appendix of the book. Capital in the twenty first century. Appendix to chapter 10. Inequality of Capital Ownership. Addendum: Response to FT.  
 Reed, H. (2014) Piketty, Chris Giles and wealth inequality: it's all about the discontinuities. Guardian UK News Datablog. 29 May.  
 Snowden, C. (2015) Income Inequality: the facts. IEA briefing paper