



SHARING OUR GOOD FORTUNE: UNDERSTANDING AND RESPONDING TO WEALTH INEQUALITY

Birmingham Policy Commission on the Distribution of Wealth

The Report
2013



Foreword

by the Chair of the Commission



The University of Birmingham Policy Commission on the Distribution of Wealth focuses on inequalities of wealth, rather than of income.

We report at a time of global economic uncertainty, with a crisis of confidence in those once-staid guardians of wealth, banks and governments. At the same time there are springing up hopeful, local, civic social inclusion initiatives. At each level, the Commission offers policy challenges that engage with fiscal frameworks, asset holding and management, and the complex processes of moving from crippling household debt to wealth accumulation.

Western attitudes to and behaviour about wealth, rooted in the Judaeo-Christian tradition, are well described by Peter Brown in *'Through the Eye of the Needle'*¹. Now, as then, we experience individuals and society swinging back and forth between selfish power, self-denying poverty, sanctified philanthropy and judicious distribution.

Up-to-date research on, and analysis of, wealth in the developed economies at various levels has been made available to the Commission. We are most grateful to all those who have contributed, locally and internationally, from the richest to the poorest: academic colleagues, specialists, activists, and members of the public.

The parable of Jesus, with its memorable phrase, 'I will pull down my barns and build greater,'² criticises not the farmer's successful generation of overflowing wealth, but what he does with it, his relationship with it, and the dire consequences of its misuse.

The debate in which we are engaged affirms the necessary good of wealth. Our questions are: to what extent is the unequal distribution of wealth a help or a hindrance to human flourishing? What can be done to enable more people to prosper?

+ David Urquhart

Rt Revd David Urquhart
Bishop of Birmingham
bishop@birmingham.anglican.org
@David_Urq

¹ Princeton, 2012

² Holy Bible, Luke 12:16-20

Acknowledgments

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Particular thanks are extended to the Commission Chair, the Right Reverend David Urquhart, Lord Bishop of Birmingham, for his deeply insightful and skilful steering of the Commission.

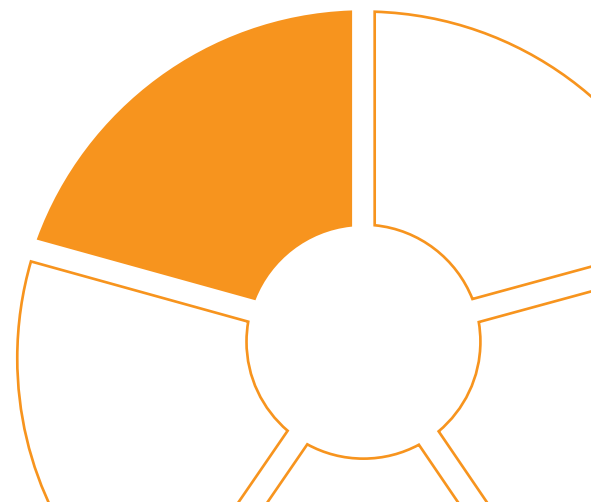
The University would also like to acknowledge and thank all those who contributed by giving evidence and participating in Commission workshops and debates. The varied, and extremely high quality, input received greatly enriched the Commissioners' thinking and the recommendations detailed in this report.

The Commission is especially appreciative of the expertise and commitment given by staff across the University of Birmingham. This includes the conscientiousness and dedication shown by Sonia Large and Audrey Nganwa in their management of the Commission process, and the support of Rebecca Lewis and colleagues in the Stakeholder Relations team. The editing input of Helen Hancock is also greatly appreciated.

Special thanks are extended to Christine Wright, Senior Personal Secretary to the Right Reverend David Urquhart, for all the support that she has provided over the life of the Commission.

The views expressed in this report reflect the discussions of the Policy Commission and the research that informed them. They do not necessarily reflect the personal opinions of the individuals involved.

Professor Karen Rowlingson
Professor Andy Mullineux



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Executive Summary

Introduction

- In October 2012, the University of Birmingham launched the Policy Commission on the Distribution of Wealth. The Commission had three main aims: to review existing knowledge on wealth inequality; to question the extent to which wealth inequality is a problem; and to consider appropriate policy responses to wealth inequality. A broader aim of the Commission was to promote debate around the issue of wealth inequality.
- Competing ideas of wealth were at the heart of the work of this Commission when we set out. The balance of wealth, some argued, appeared to have shifted in a fundamental way, both in terms of a less even distribution of people who were able to share in prosperity and also in terms of a perceived decline of the quality or sustainability of the social, civic and natural environment, just as the reach of financial factors in decision-making was larger than ever.
- There are more forms of wealth/capital than those that are measured in traditional economic terms. One model presents four forms of capital – environmental capital, human capital (including knowledge, skills and health), physical capital and social/organisational capital (including legal, political, community, family, organisational and corporate). Our focus, however, was on personal wealth in the form of housing wealth, pension wealth and savings.
- The distribution of personal wealth is highly unequal with the overall share of the top tenth of the population in 2008/10 being more than 850 times the share of the bottom tenth. The distribution of wealth is much more unequal than the distribution of income. Whereas those at the (top) ninetieth percentile for income or earnings receive four times as much as those at the (bottom) tenth percentile, the ratio for wealth is 77 times.
- Wealth inequalities occur through a number of mechanisms. Some people have higher incomes than others and so have the opportunity to accumulate more wealth. Some people have similar amounts of income but choose to accumulate wealth rather than spend. Some people have wealthy parents and receive higher levels of inheritance/lifetime gifts. And some people have the wisdom or good luck to invest in housing and financial assets just before they increase substantially in value. We may wish to treat these different forms of wealth accumulation differently when designing policy instruments.
- There are many gaps in our knowledge about wealth inequality. Some of these



are empirical: for example we know very little about the 'super rich' as the Office for National Statistics no longer publishes data on this group using the estate multiplier method. And international comparative data is still rather limited. But there are also gaps in our theorising around wealth. What is wealth? How might we distinguish between groups with different levels of wealth? And why does wealth matter?

Does wealth inequality matter?

- Personal wealth has become increasingly important in recent years and will continue to be so as we experience the longest and deepest slump in a century, with social security benefits being cut. Unemployment remains high and average incomes are stagnating, if not falling, while prices rise. Precautionary savings are therefore particularly important as a financial cushion to meet unexpected expenses; yet many people lack even a small cushion of this kind.
- Wealth affects health. There is strong evidence that people with wealth have higher levels of physical and mental well-being than those without, after controlling for other factors. People with debts are likely to have lower levels of mental well-being.
- Wealth affects education and employment opportunities. There is a strong link between parental wealth and children's educational attainment, independent of any income effect. Young people with wealth also do better later in life (eg, in terms of employment).
- The impact of wealth inequality on society and politics more generally are difficult to pin down as accurately as the impact on individuals. But it

has been argued that the wealthy become insulated from the lives of others, leading to social fractures. The ability of the wealthy to gain greater influence in the corridors of power is also a potential threat to democratic processes.

- Wealth and income inequalities are sometimes defended as being important in relation to economic growth, as the opportunity to accumulate high levels of income and wealth may provide incentives for entrepreneurship or high levels of effort and performance. But there is a lack of strong evidence for this.
- Wealth can be accumulated in different ways and these may relate to notions of fairness. Some of them (eg, through hard work and efforts to save from income) may be seen as more 'worthy' than others (eg, receiving a large inheritance).
- Wealth clearly matters. But there is still much more thinking and empirical research to be done on what it is that matters, and for whom. Our report concentrates on three groups: those with very little, no or negative wealth; those 'in the middle' with some assets; and those 'at the top'.

Those with very little, no or negative wealth

- Low levels of income are a concern as they reduce the ability to avoid debt and/or accumulate saving. Ways of raising incomes, for example through a living wage policy, greater worker representation in companies and/or training to raise skill levels need consideration.
- Levels of problem debt have been increasing in recent years and look set to increase still further with the introduction of welfare reforms which

will both reduce the amount of benefit received by various groups and also change the ways in which people receive it. The impact of benefit reform needs careful scrutiny.

- Debt advice is crucial here but there has been a reduction in funding for some forms of debt advice (eg, through Law Centres). Continued, and indeed increasing, support for debt advice is essential to support people, particularly through these difficult economic times.
- Credit Unions are, potentially, an ideal vehicle for supporting people in terms of: money advice; affordable credit; transactional banking services; and savings schemes. Credit Unions are receiving government investment but they need much higher levels, not least because of the low level of interest they (are constrained to) charge.
- The financial services sector also needs to play its part here. Payday lending is currently under the scrutiny of the Competition Commission; and the Parliamentary Commission on Banking Standards has warned the banks to improve the services they provide to people on low incomes. The development of new technologies (mobile banking etc) could also be used to help people manage and save their money.
- People on low incomes receive much less support for saving than those on middle and high incomes. For example, those who are below the income tax thresholds do not benefit from tax-free savings products like Individual Savings Accounts (ISAs). And higher rate tax payers benefit more than standard rate tax payers. The Saving Gateway was a policy designed to provide incentives/rewards to those on low incomes who nevertheless managed to save by providing a match (50p for every pound saved up to a

threshold). Further thought needs to be given to how such a scheme can be funded.

- Other ways of encouraging saving should also be developed including auto-enrolment into savings accounts when people start a new job and 'save the change' savings accounts linked to credit and debit cards. Means tests on savings for workers receiving Universal Credit should also be reviewed as a possible disincentive to save for such groups.
- There is currently no organisation which solely represents the interests of savers and this is something which could be established, for example, using the fees which savers pay to the financial services industry and which are currently used to fund trade bodies and regulators.

Those 'in the middle' with some assets

- Those 'in the middle' of the wealth distribution tend to have some housing and pension wealth or the ability to accumulate some. But there are a number of difficulties facing these groups, not least getting a foot on the housing ladder and the ability of owner-occupiers to access some of their housing wealth to maintain or increase their living standards, particularly in retirement.
- Since the credit crunch it has become much more difficult for people to get a foot on the housing ladder. The government's 'Funding for Lending Scheme' does, more recently, appear to have helped here with mortgage lending increasing in 2012/2013 (though finance to small and medium-sized enterprises is still an issue). However, government support for lending props up the relatively high house prices which are also part of the

problem. Prices, ideally, need to come down, not least by increasing supply. But those with housing wealth may not be enthusiastic about such policies.

- Younger people are increasingly relying on the 'Bank of Mum and Dad' but this reinforces inequalities based on whether or not young people have been born into wealthy families.
- One interesting idea to consider here is to separate – for all forms of accommodation – the cost of housing services from the returns on residential property investment, potentially removing some affordability barriers from owner occupation while enabling renters to benefit from house price appreciation (much as they benefit from savings linked to interest rates) if they wish. This would pave the way for housing policy to focus on providing people with secure and affordable homes of a high standard rather than promoting particular tenure types.
- For those who have accumulated housing wealth, often as the centrepiece of their wealth portfolio, ways of helping them access their equity safely (without adding to unsustainable debts) and cost-effectively (especially in older age) should also be explored. In particular, there is interest in equity release among consumers and the financial services industry but very few people take advantage of such mechanisms, possibly due to the costs and risks involved in such products (on both sides). Some ways to share the risks, perhaps involving government, might be helpful here.
- Pensions are vital to provide decent incomes in later life. In recent decades, governments have sought to encourage private pension provision rather than reliance on state pensions, but this strategy has not, so far, proved



successful for a number of reasons and inequalities in private pension provision are significant.

- Auto enrolment appears to be working well in terms of low opt-out rates and this policy, alongside the single tier pension, has the potential to increase living standards in retirement as the population ages. But small businesses are likely to need more support as the policy is rolled out among them and savers will need to save more than the default rate in order to reach the kind of income levels in retirement that most people aspire to.
- The decline of Defined Benefit pension schemes in favour of Defined Contribution schemes is a particular concern here as savers have little idea of how much money they will receive in retirement. The development of Defined Ambition schemes, which share the risk between saver, employer (and potentially state) could help here but there have been few concrete advances here and employers and the pensions industry appear lukewarm about the idea.

Those 'at the top'

- This Commission is focusing on wealth but a key way in which wealth is accumulated is through saving from earned income. Over the last 30 years income inequality has grown dramatically and those at the very top of the income distribution have seen huge increases in their incomes which have subsequently fed through into wealth inequalities. Those on high incomes are also much more likely to receive an inheritance and/or lifetime gift and much more likely to receive one of high value.
- The 2013 Parliamentary Commission on Banking Standards has proposed 'a radical re-shaping of remuneration' in the finance sector and, more broadly, the UK is giving shareholders a binding say on pay policy and the powers to consider the differentials between the lowest and median paid workers but greater transparency and power for shareholders is vital for ensuring fairer rewards for work.
- Ensuring fair rewards for work, not just 'at the top' but also for those on lower wages, will create a fairer distribution of 'original income' thus reducing any need for redistribution.
- There is often great disagreement about the overall level of income and wealth taxation but, whatever the level, there is then a question about the balance between these two types of taxation (and the balance between these and other forms of taxation). The Mirrlees Review called for a range of reforms of wealth taxation and these should be considered by the government.
- The UK does not currently have an annual wealth tax but council tax plays part of a role here. This tax is over-ripe for reform either whole-sale or through incremental change (eg, the introduction of new bands at the top). The scope for a mansion tax and a land tax also needs more public consideration.
- If earned wealth is generally considered more worthy than unearned wealth, then reform of inheritance tax should be seriously reviewed. Turning this into a capital receipts tax rather than an estate tax, and capturing lifetime gifts in a more comprehensive way would make this a fairer tax though the practical and political challenges should not be underestimated. Further study of Ireland's tax system in this regard could be very fruitful.
- Further reform of Capital Gains Tax (CGT) is called for, potentially including a return to its application at marginal rates of income to reflect the nature of capital gains as an alternative form of income that is available to those with assets to call on when needed.
- Alongside wealth taxation, the wealthy could be encouraged to make increased charitable donations. One way of achieving this could be through further tax incentives but this runs the risk of encouraging tax avoidance. A government review of ways to support philanthropy would be welcome.

Policy recommendations

For those on the lowest incomes

- Funding for debt advice and Credit Unions should be increased
- Regulation of payday lending should be enforced and toughened
- 'Saving Gateway', a matched-savings scheme devised to encourage/reward saving by people on low incomes, should be revived
- Automatic enrolment into a saving account for people starting a new job should be considered
- Means-testing on savings for workers receiving Universal Credit should be reviewed
- A not-for-profit organisation to represent the interests of savers should be established
- Low incomes of those on benefits and in work are at the root of many of the issues raised in this report. Ways of increasing these incomes need to be implemented

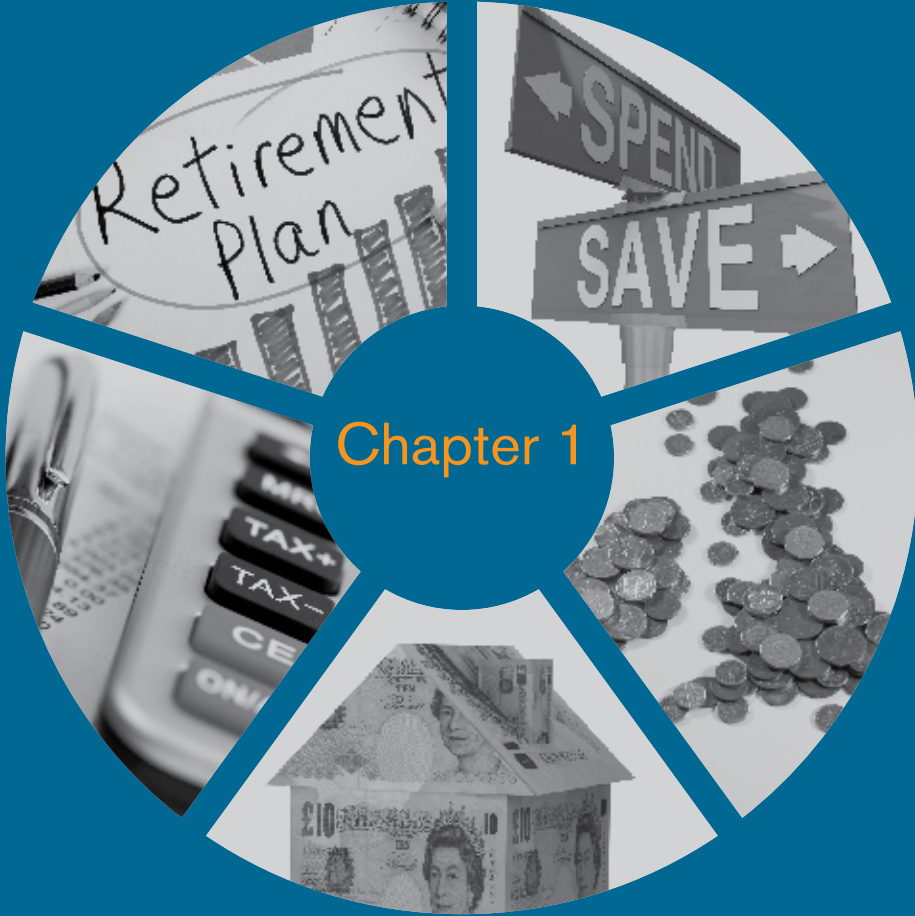
For those 'in the middle', with some assets

- Housing policy needs to be reviewed to ensure supply meets demand and avoids merely propping up house prices
- Innovation in housing finance should be explored to boost affordability and help renters benefit from housing investment returns, though with suitable regulation
- Measures to help people access the equity in their homes should be reviewed to find ways to share the risk between home-owners, lenders and, potentially, government
- Incentives to increase the amount saved in occupational pensions should be investigated for those on low and middle incomes
- Ways of putting into practice the principles of a 'Defined Ambition' pension, which shares the risk between saver, employer and the state, should be identified

For those 'at the top'

- Inheritance tax should be transformed into a capital receipts tax that also captures lifetime gifts
- Shareholders should be given a binding say on pay policy and the power to consider the differentials between the lowest and median paid workers
- Council Tax needs to be reformed – either by a wholesale review or the introduction of new bands at the top
- Fresh consideration should be given to proposals for a mansion tax and/or a land tax
- Parity across the tenure divide in the treatment of returns on savings/investment should be reviewed
- Further reform of Capital Gains Tax is needed to reflect the nature of capital gains as an alternative form of income
- Measures to encourage philanthropic giving (without encouraging tax avoidance) should be brought forward





Chapter 1

Introduction

Background

In October 2012, the University of Birmingham launched a Policy Commission on the Distribution of Wealth. The Commission had three main aims: to review existing knowledge on wealth inequality; to question the extent to which wealth inequality is a problem; and to consider appropriate policy responses to wealth inequality. A broader aim of the Commission was to promote debate around the issue of wealth inequality.

This report summarises key ideas and evidence arising from the work of the Commission which has included evidence-gathering, public debates and opinion polling. The views expressed in this report reflect the discussions of the Commission and the input received but do not necessarily reflect the personal views of the Commissioners or those who contributed evidence. The Commissioners were:

The Right Reverend David Urquhart, Chair of the Commission and Lord Bishop of Birmingham

Professor Karen Rowlingson, Academic Lead and Professor of Social Policy and Director of CHASM, The University of Birmingham

Professor Andy Mullineux, Academic Lead and Professor of Financial Economics, Bournemouth University

Phillip Blond, Director, ResPublica

Dr Paul Cox, Senior Lecturer of Finance, Birmingham Business School, The University of Birmingham

Paul Johnson, Director of the Institute for Fiscal Studies

Professor Ruth Lister CBE, Emeritus Professor of Social Policy, Loughborough University; Baroness Lister of Burtersett

Professor Andy Lymer, Professor of Accounting and Taxation, Birmingham Business School, The University of Birmingham

Ed Mayo, Secretary General of Co-operatives UK

Professor Stephen McKay, Distinguished Professor of Social Research, The University of Lincoln

Sir Brian Pomeroy CBE, Former Chair of the Financial Inclusion Task Force

Professor Susan J. Smith, Honorary Professor of Geography and Mistress of Girton College, Cambridge

The Commission produced an initial paper summarising some of the key facts on the distribution of wealth in December 2012. This paper defined wealth and drew on key sources of data, particularly the Wealth and Assets Survey reports from the Office for National Statistics (ONS 2009; 2012a; 2012b; 2012c). Another key source was the report from the National Equality Panel (NEP 2010).



The paper also leaned heavily on Rowlingson and McKay (2012). Following the publication of this key facts paper, John Hills and colleagues at the London School of Economics have published *Wealth in the UK: Distribution, Accumulation and Policy*, and this is another important source of information and ideas in this area. The Commission also set out a series of questions to explore through evidence-gathering and debates (see Appendix A). A summary of the Commission work programme and evidence gathered is included in Appendix B.

This chapter: discusses the nature of wealth and why it matters; briefly reviews what we know about the distribution of wealth (see Rowlingson 2012 and Hills et al. 2013 for further information); and identifies some key gaps in knowledge. The next chapter discusses the evidence and arguments around whether or not wealth inequality is a problem. The remaining chapters consider appropriate policy responses to wealth inequality.

The nature of wealth

The legend of King Midas dates back to the early days of Greek mythology and tells the story of a King for whom everything that he touched turned to gold. Like all folk stories, the tale can be told in different ways. Aristotle reports that he died of hunger. Other versions say that he was rescued by the gods, when he repented after turning his daughter, Zoe (or 'life') into gold. Here, one story that has lasted over centuries presents the concept and conundrum of wealth. Is wealth the accumulation of money and property that can enable us to do the things that we want to do, or is it those things themselves?

The artist and critic John Ruskin in the nineteenth century declared that there is no wealth but life and in doing so, he was declaring himself for King Midas'

daughter: family, relationships, purpose, meaning, wellbeing – these to Ruskin are the true wealth. But the story of King Midas doesn't necessarily line up so neatly with that. Legends never do. He was, after all, already a King, with kingly possessions and a kingdom's obedience. So, an alternative interpretation is that wealth may be gold – something that is scarce, desired, tradeable – but there are limits to wealth. In wealth, as in life, balance is everything.

These competing ideas of wealth were at the heart of the work of this Commission when we set out. The balance of wealth, some argued, appeared to have shifted in a fundamental way, in terms of a less even distribution of people who were able to share in prosperity. It had shifted also in terms of a perceived decline in the quality or sustainability of the social, civic and natural environment, just as the reach of financial factors in decision-making was larger than ever.

However, as with the legends of old, these are stories that have life that is sometimes unconstrained by the facts and evidence to back them. We all have a tendency to look to stories that confirm our existing beliefs, rather than to keep a genuinely open mind. The Commission, with the open mind and social science track record of the University of Birmingham behind it, is therefore an attempt to explore the facts that lie behind one of the most enduring challenges of our day – how to generate wealth and prosperity in ways that are self-reinforcing rather than self-defeating.

For this task, we have to start with some clearer assumptions. We will assume, to begin with, that there is more to life than Midas' gold. Gold is scarce, famously so, and tradeable, reliably so. It is emblematic of wealth, in the sense that a stock of wealth today is something that we believe will promote a flow of benefits and entitlements tomorrow. The term 'capital'





captures both this sense of wealth and offers an accounting framework for how future benefits may be valued or, if your wealth is in a form akin to a metal that rusts, depreciated. There are, of course, more forms of capital than money or precious metals – we can include, typically, land, labour and physical structures and equipment – but, conventionally, the value of such capital can still be measured in terms of money. It is not gold, but, with a reference price, wealth in this model of capital could in nominal terms be counted into gold coins. What marked out King Midas, though, was not that he had a lot of gold. That is a different legend, the one of Croesus. It was that he loved gold so much that he turned other things, including those that had value of a different form, into gold. In terms of economics, this comes to the heart of the issue of wealth – what forms and combinations of capital combine to increase the flow of benefits and services more widely. How wealth is spent is easier to trace. How wealth is created over time in the most effective way remains, if not a mystery, certainly a conundrum.

There can, for example, be more forms of capital than those that are measured in traditional economic terms. One model of this is to characterise four forms of capital – environmental capital, human capital (including knowledge, skills and health), physical capital and social/organisational capital (including legal, political, community, family, organisation and firms). This feels more encompassing, but, in turn, less likely to be reduced to the calculus of money. Even if there are attempts from time to time to do just that, putting a price, or a shadow price, on what is outside of conventional markets in order to understand or adjust for wealth that can't be counted in gold – there are limits. What price parenthood? What price the butterfly?

There is a long tradition of radical economic thinking that argues that prices established in money terms in the context of a market trade between two or more parties are blind to these wider forms of potential wealth, because they suggest that it is possible or even desirable to cash them in for money. John Ruskin, in the nineteenth century context of the British Industrial Revolution, had a name for this. He distinguished 'wealth', as life giving, and 'illth' as economic activity that created ugliness and unhappiness. One hundred years later, Kennedy sparked a debate that continues today about the measurement of wealth in national accounts – again contrasting what is measured in economic terms as wealth as measuring all but that which makes life worthwhile. The Nobel Prize economist Herbert Simon argued that most wealth was created on the back of a common inheritance from previous generations. A more recent prize winner, the late Elinor Ostrom, focused on wealth outside of the market, in the form of commons.

The challenges these perspective throw up are more than the issues of unconsidered costs, which might lead you to consider such 'externalities', or narrow measurement, which might tell you to broaden your national accounts or indicators of progress. The crunch issue is the extent to which we can draw down one form of capital in order to build another. After all, it has been a hallmark of modern economic development that it draws into the market those activities that were previously outside of the field of monetary exchange, whether household work or subsistence farming. Some forms of capital, though, cannot simply be cashed in. Some environmental assets, such as the diversity of species, may have a value beyond a narrow market price (that is, in turn, 'discounted' over time, leading inexorably to a short-term view of what may be long-run assets). But they may also be critical to our survival, in

which case no amount of monetary gain will capture quite what we are doing. This is the argument of Herman Daly, a pioneer in the field of ecological economics. What we take for economic growth is, in his words, uneconomic growth.

In short, then, to assume that wealth is narrowly financial is as impoverished an account of economic life as assumptions of poverty that start and end with income and expenditure. It is important, but far from the whole story – and in turn may be a framing that becomes problematic, for example if today's economics rights and rents are at odds with a climate constrained world tomorrow. Today's wealth may not be that of tomorrow.

A project to explore the relationships, synergies and trade-offs between different forms of capital would have many merits, but it was not in fact our chosen remit. We chose to start with financial wealth, in a more or less traditional economic sense, because this itself is a neglected field of study and understanding. We recognise the limits, but by taking a narrower remit, we were aiming both to be of more practical policy use and potentially to offer findings that would make for greater consensus.

So, with these caveats in mind, what in fact is wealth?

1. We start with people. Household wealth is the stock of assets 'owned' by individuals or households. The assets may be financial or physical eg, houses. Individuals invest or save by purchasing financial claims on banks (deposits) and other financial instruments (bonds and shares). The issuers of these claims and instruments enter into contracts requiring them to pay a return (interest on deposits, 'coupons' on bonds and dividends on shares). Such financial assets (or instruments or claims) are often issued to raise funds for investment in a business or enterprise, often in pursuit

of profit, but not exclusively so (eg, co-operatives, other mutuals and ethical investments).

2. Saving is expected to generate an income and/or capital gain to compensate for abstention from the immediate consumption of goods and services using the income stream from which it is saved. Saving is therefore a means of providing for future consumption by the savers, or perhaps their children if it can be transferred to them. The income generated through saving is generally liable for income tax, though sometimes this is waived to encourage saving.
3. If the financial assets held in investors' (savers') portfolios appreciate in value because their prices rise on financial markets, then there is gain in their capital value and, when the assets are sold, a capital gains tax (CGT) is due. In order to incentivise investment, CGT is commonly levied at a lower rate than the higher rates of income tax, or corporation tax (on profits made by enterprises through producing and selling goods and services).
4. Household investments in residential property other than household's principal residence are liable to CGT. Home ownership is the main form of wealth holding for many households, although shareholding, especially vicariously through pension fund holdings, can exceed their housing wealth where pension entitlements are relatively large. The wealth value of a house to a household is its equity or net worth, which is the difference between its potential sale price and the associated debt (mortgage or home loan) outstanding. Net worth is a commonly used term for net wealth (wealth net of debt).
5. The value of wealth depends not just on the underlying asset prices, but also on the prices of the goods and services that could be purchased with it. Real wealth, in the economic sense, is thus the value of wealth, or 'what

someone is worth', and is thus the nominal or measured wealth at prevailing market prices deflated by an index of prices of good and services (the consumer or retail price index being the most pertinent one for households) to determine what the money will buy.

6. Growth in real wealth, or wealth accumulation, is the difference between the growth in nominal wealth and the rate on inflation, or the rise in the price index over a period of time. Wealth accumulation can thus result from either a rise in the price of the underlying assets that is faster than inflation or from the creation of new wealth. Asset price inflation in excess of consumer price inflation can reflect an imbalance between the demand and supply of the underlying assets eg, housing, where supply is slow to rise in response to increased demand for a number of reasons. It might alternatively reflect speculative investment.

If this is wealth, at least in a traditional sense, then how is it created? This in essence is the question at the heart of all debates around economic policy. This Commission sidesteps some of these issues, as important as they are, again for the reason that they are ones better and more comprehensively dealt with elsewhere. We do recognise that these are assumptions that can be questioned. If you took a broader conception of wealth, to include family, community and the environment, then you would define who are wealth creators differently and promote a different model of wealth creation.

In simple terms though, the greater the genuine real wealth creation, the faster and more sustainably an economy can grow. Workers and entrepreneurs ('risk takers') should be fairly remunerated, or incentivised, and those who work harder (or are born with special talents) will earn

more income. They can then choose to spend it, or save it to accumulate wealth.

That choice is one that is important to unpack: what after all is the motive for wealth accumulation? Why save, rather than spend, spend, spend? The Victorian view was that this was about responsibility. The recently refurbished Birmingham TSB (formerly Municipal) Bank, has around the rim of its domed ceiling a number of aphorisms such as: 'saving radiates happiness'; and 'saving is the mother of riches'. Today, credit unions, which are saving and loans co-operatives, encourage potential borrowers to build up a track record of saving, however small, as a means of demonstrating that they can live off less than their income and hence can repay loans. The message is that even the relatively poor can save and should be encouraged do so to build up personal wealth, however meagre.

Wealth, or savings, can help smooth consumption in the face of irregular income streams. Saving is thus a form of self-insurance. Further, over the life cycle, savings can provide income in retirement, above and beyond any state provision through compulsory 'National Insurance' contributions/taxes. In addition younger households may need to save to put down a deposit when buying a house.

The possession of wealth also increases access to credit since lenders generally prefer to lend to those that have wealth to post as collateral. Those who accumulate the most wealth, whether through higher income or inheritance, enjoy not just a higher standard of living, but in theory have more opportunities than the non-wealthy. They can invest in the best education for their children, building their human capital (and networks and connections) and generally improving their life chances.

Wealth matters.





The distribution of wealth

Wealth, in this paper, refers to a stock of money compared with income which is a flow. We focus in this paper on wealth in the form of personal assets, particularly private pension wealth, housing wealth, financial wealth and personal possessions.

Wealth can be accumulated from: savings from income; gifts/inheritances; and increases in asset values (eg, property or share prices). Income sources include employment, self-employment, social security payments and interest from savings. The sources of income and wealth may be important in terms of policy responses. Wealth accumulated by people saving money from earned income might be treated differently, for example, to that accumulated through 'unearned' inheritances. Wealth accumulated through 'normal' rises in share or property prices might also be treated differently to that accumulated through 'super' returns on shares or property values.

The distribution of wealth is highly unequal with the overall share of the top tenth of the population in 2008–10 being more than 850 times the share of the bottom tenth (Hills et al 2013). The distribution of wealth is much more unequal than the distribution of income. Whereas those at the (top) 90th percentile for income or earnings receive four times as much as those at the (bottom) tenth percentile, the ratio for wealth is seventy-seven times (Hills et al. 2013)

These figures include all types of household wealth, including private pensions, housing and personal possessions. But if we just focus on financial wealth ('liquid' savings, stocks, shares etc) then the picture is even more

unequal. A quarter of the population have negative net financial wealth (ie, debts) while just over 10 per cent have net financial wealth of over £100,000.

Wealth inequalities are linked to age and we would expect that older people have had more time to accumulate assets than younger people. Those in the 55–64 year old age group had the highest levels of total wealth of all age groups in 2006/8, with a median of £416,000. However, there is also considerable inequality within this age group. One in ten had less than £28,000 of total wealth compared with the top one in ten who had more than £1.3 million.

Some groups have particularly low levels of wealth. For example, one in ten social tenant households aged 55–64 had net assets of no more than £3000 in 2006/8 including personal possessions such as furniture. A tenth of manual worker households had less than £8000 assets at the same age. At the top end, median wealth for professional households exceeded £900,000 (including private and occupational pension rights) (National Equality Panel 2010).

There is also considerable variation by a range of factors including ethnicity, religion, occupation and region. Those from Black African and Bangladeshi groups have particularly low levels of wealth, as do Muslims. Those in more professional occupations have much

higher levels of wealth. Those living in the South East and London having particularly high rates of wealth, not least housing wealth. It is difficult, conceptually and practically, to distinguish between men and women's wealth in couples. The picture is also complex if we look at single person families as the mean level of single men's wealth is higher than single women's but the top 30 per cent of single women had higher wealth than the top 30 per cent of single men. Lone parents, mostly women, however, have particularly low levels of wealth.

Wealth inequalities occur through a number of mechanisms. Some people have higher incomes than others and so have the opportunity to accumulate more wealth. Some people have similar amounts of income but choose to accumulate wealth rather than spend. Some people have wealthy parents and receive higher levels of inheritance/lifetime gifts. And some people have the wisdom or good luck to invest in housing and financial assets just before they increase substantially in value. As mentioned above, we may wish to treat these different forms of wealth accumulation differently when designing policy instruments.

The dramatic increase in very high incomes from the 1980s onwards is likely to be a key factor explaining wealth inequalities. A very small group of earners at the top were then able to accumulate particularly high levels of wealth. In the 1970s, those in the top 1 percentile received six per cent of total income but by the end of the 2000s this had increased to 15 per cent (Bell and van Reenen 2013). And figures released in June 2013 by HMRC suggest that 18,000 people now earn at least

£1m per year – the highest number ever recorded. This compares with 10,000 in 2010/11 and 'only' 4,000 in 1999/2000 (Boffey 2013). Those in higher social classes are also much more likely to receive an inheritance and/or lifetime gift and much more likely to receive one of high value.

There is much more data on trends in income inequality than wealth inequality. The main long-term trend was for income and wealth inequality to fall during most of the twentieth century until the 1980s when inequality began to grow. Between 1995 and 2005, absolute differences in wealth inequality widened considerably due to house price rises (Hills et al. 2013). Those with low or no housing wealth were left further behind the rest. But those with average amounts of wealth became better off relative to those higher

up the wealth distribution and so measures of inequality for society as a whole (eg, the Gini coefficient) fell during this period.

Gaps in evidence

While the new Wealth and Assets Survey (WAS) provides rigorous data on the wealth of a large sample of members of the general public (in 2006/8 and 2008/10), gaps in knowledge still exist. For example, sample surveys, including WAS do not cover the wealthiest people (those within the top one per cent). This is a group that has seen levels of wealth increase most dramatically in recent years and yet the Office for National Statistics appears to have abandoned the long-term series on wealth using the estate multiplier method¹.



¹ This method uses information from the probate or Inheritance Tax process on the wealth held in estates left on death and then grosses up from this using mortality rates to provide estimates of the wealth held by the living.

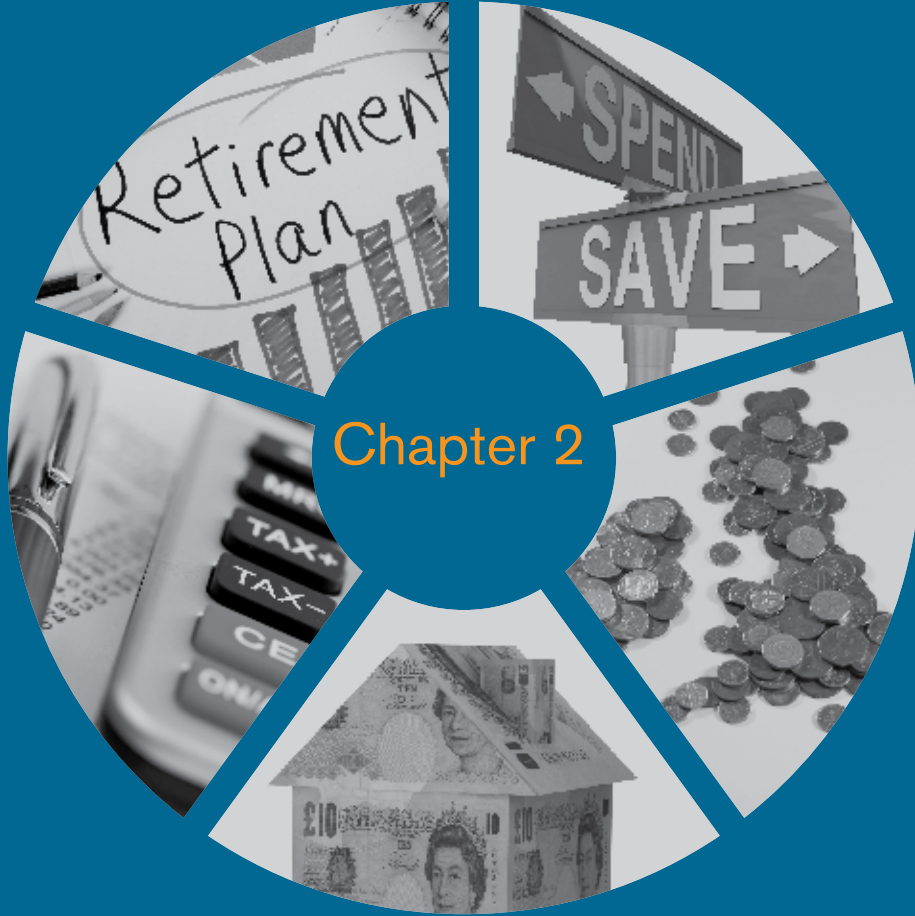
There is also a gap in evidence in relation to international comparisons of wealth inequality. The Luxembourg Wealth Survey provides some data here but analysts have some concerns about how comparable the data actually is and the questions covered are rather limited (see Cowell 2013).

Finally, as well as gaps in terms of evidence, there is also a gap in theorisation about what it means to be wealthy or rich (see Rowlingson and McKay 2011; Scott 1994). Compared to over a century of academic discussion about the conceptualisation, definition and measurement of poverty, there is very little discussion about where a 'wealth line' might be drawn if, indeed, such a concept has value. This issue is discussed further in Chapter 2 when we turn to the question of the extent to which wealth inequality is a problem.



Key points

- In October 2012, the University of Birmingham launched a Policy Commission on the Distribution of Wealth. The Commission had three main aims: to review existing knowledge on wealth inequality; to question the extent to which wealth inequality is a problem; and to consider appropriate policy responses to wealth inequality. A broader aim of the Commission was to promote debate around the issue of wealth inequality.
- Competing ideas of wealth were at the heart of the work of this Commission when we set out. The balance of wealth, some argued, appeared to have shifted in a fundamental way, both in terms of a less even distribution of people who were able to share in prosperity and also in terms of a perceived decline of the quality or sustainability of the social, civic and natural environment, just as the reach of financial factors in decision-making was larger than ever.
- There are many forms of wealth/capital besides those that are measured in traditional economic terms. One model characterises four forms of capital – environmental capital, human capital (including knowledge, skills and health), physical capital and social/organisational capital (including legal, political, community, family, organisation and firms). Our focus, however, is on personal wealth in the form of housing wealth, pension wealth and savings.
- The distribution of personal wealth is highly unequal with the overall share of the top tenth of the population in 2008–10 being more than 850 times the share of the bottom tenth. The distribution of wealth is much more unequal than the distribution of income. Whereas those at the (top) ninetieth percentile for income or earnings receive four times as much as those at the (bottom) tenth percentile, the ratio for wealth is 77 times.
- Wealth inequalities occur through a number of mechanisms. Some people have higher incomes than others and so have the opportunity to accumulate more wealth. Some people have similar amounts of income but choose to accumulate wealth rather than spend. Some people have wealthy parents and receive higher levels of inheritance/lifetime gifts. And some people have the wisdom or good luck to invest in housing and financial assets just before they increase substantially in value. We may wish to treat these different forms of wealth accumulation differently when designing policy instruments.
- There are many gaps in our knowledge about wealth inequality. Some of these are empirical: for example we know very little about the super rich as the Office for National Statistics no longer publishes data on this group using the estate multiplier method. And international comparative data is still rather limited. But there are also gaps in our theorising around wealth: What is wealth? How might we distinguish between groups with different levels of wealth? And why does it matter?



Chapter 2

Does wealth inequality matter?

Wealth inequality is clearly at a much higher level than income inequality. But does this matter? There has been remarkably little research on this topic and so the Commission set out a range of questions to help focus the gathering of evidence (see Appendix A). This chapter reviews a range of arguments and evidence.

The growing importance of personal wealth

Personal wealth, in the form of savings, private pensions and housing wealth has become increasingly important in recent years and will continue to be so as we experience the longest and deepest slump in a century and the social security system is cut.

Unemployment remains high and average incomes are stagnating, if not falling, while prices rise. Precautionary savings are therefore particularly important as a financial cushion to meet unexpected expenses and yet many people lack even a small cushion of this kind. Rowlingson and McKay (2013) found that one in five of the British population in 2013 would not be able to meet an unexpected expense of just £200 without resorting to borrowing.

This can mean that people turn to high-cost borrowing such as payday lenders or doorstep credit which, in turn, can lead to a spiral of debt. Long-term saving for insurance purposes, eg, through private pensions, is also increasingly important as people are living longer and defined benefit schemes are closing. And it is becoming increasingly difficult to become a homeowner due to the persistence of high

property prices relative to earnings. As collective forms of wealth decline, personal forms of wealth have become more important but less equally distributed. This has an impact on many areas of people's lives.

Health and well-being

As mentioned above, wealth affects financial wellbeing/outlook because assets provide a cushion for people, a way to smooth income/spending and they may also help people look long term and take risks (see Khan 2010, Sherraden 1991). But wealth also affects more general levels of wellbeing. For example, Wilkinson and Pickett (2009) argue that inequality leads to material differences which increase status competition and feelings of inferiority and superiority. Their focus was on income inequality but their theory about 'status anxiety' would equally apply to wealth inequality. Their evidence suggests that developed countries with high levels of income inequality also have lower life expectancy and social mobility alongside higher rates of infant mortality, murder, teenage pregnancy, obesity, mental health problems and so on. There is much discussion on the correlations and causal links involved here (see Rowlingson 2011 for a discussion) but the arguments about income inequality

would be similarly applicable to wealth inequality and Nowatzki (2012) does indeed directly analyse the links between health and wealth inequality in 14 countries (using OECD data for 2000). This analysis shows the strongest links between female life expectancy, infant mortality and wealth inequality. Nowatzki (2012) argues that consideration of wealth inequality may also explain some of the anomalies seen in previous analysis of income inequality and health. For example, Denmark has relatively low level of income inequality but also relatively low life expectancy. However, it has extremely high wealth inequality which might explain the relatively low life expectancy. Another possibility, however, (and one acknowledged by Nowatzki in the article) is that there may be problems with the measurement of wealth in Denmark.

Another study (Kan and Laurie 2010) analyses the British Household Panel Survey to explore the relationship between assets and psychological wellbeing. They found that both men's and women's well-being (as measured by the GHQ12) increases when they themselves have savings and women's well-being is also linked to whether or not their partner has savings (after controlling for other factors such as income, age, marital status and housing tenure). Well-being is also linked to whether or not people themselves have investments (though it is not linked to their partner's investment status – see also Rowlingson and Joseph 2010). The study does not look at whether the amount of savings/investment is linked with well-being but concentrates solely on whether or not people have any wealth. However, the study also looks at debt and finds that men who have debts have lower well-being scores than those who do not, after controlling for other factors.

McKnight and Karagiannaki (2013) analyse the National Child Development Study and find that adults who own

wealth at the age of 23 are more likely to report having 'excellent' health at ages 33 and 44, after controlling for other factors. They are also much less likely to report mental health problems. These effects of wealth on health could be due to the ability to afford a healthier lifestyle in terms of accommodation, diet, access to sporting activities, holidays and (in terms of mental health) perhaps the greater security of knowing that there will be something to fall back on if money is short.

It seems clear that those without wealth, in an unequal society, have lower levels of health and wellbeing but do those with high levels of wealth continue to see increases in their levels of happiness and life satisfaction as their wealth accumulates still further? There has been much discussion and research on the links between income and happiness (see, for example, Diener et al. 1993; Layard 2005; Kahneman and Deaton 2010) and once again similar conclusions are likely to apply to wealth and happiness. The general consensus from this research is that other factors, such as health and social relationships are more important for wellbeing than money but income certainly makes a difference, particularly as income rises to bring people out of poverty. However, the love of money for its own sake is not related to high levels of wellbeing so the myth of King Midas, mentioned above, appears to hold true.

Economic efficiency and growth

As well as investigating the impact of inequality on social outcomes, it is also important to explore how inequality affects economic outcomes such as efficiency and growth. It is argued, for example, that entrepreneurs need economic incentives (i.e. the chance to accumulate higher incomes and assets) in order to take risks and start up new businesses which will

create growth. Atkinson (1997) reviews the literature here and finds as many studies linking inequality and growth negatively as positively. Irvin (2008) also points out that there have been periods when the British economy has grown and there has been no increase in inequality (quite the reverse). But there have also been periods of growth at the same time as increasing inequality. So there is no clear link, one way or the other, between inequality and growth.

There is also no agreement about whether performance-related pay schemes improve company performance or not (Gregg et al. 2005; 2010). Certainly, from 2001-2011, chief executive remuneration quadrupled while share prices fell (High Pay Commission 2011), suggesting no direct link. In fact, there seems to be little evidence that top companies need to pay high salaries to recruit the best international talent. Isles (2003) found that 86 per cent of FTSE 250 Chief Executive Officers (CEOs) came from the UK, and that most businesses did not recruit from overseas. A survey for the High Pay Commission (2011) also found that 59 per cent of CEOs in FTSE 100 companies had been employed by the same company for five or more years before becoming the CEO and 33 per cent had been with the company for more than ten years. Another survey for the High Pay Commission found that 77 per cent of CEOs were UK nationals.

There is also little evidence that higher earnings provide incentives to work harder and therefore a more competitive economy. In 2001, a US CEO was paid 31 times an average worker. The equivalent ratio was 25 times in the UK, 15 times in France, 13 in Sweden, 11 in Germany and 10 in Japan (Ramsay, 2005). According to the World Economic Forum's Global Competitiveness Report 2010-11, Sweden comes second in the competitiveness league table, two places ahead of the US.

Equal opportunities

Another set of arguments around the impact of inequality relate to its potential impact on equal opportunities. McKnight and Karagiannaki (2013) review a number of (mainly US) studies which demonstrate a strong link between parental wealth and children's educational attainment, independent of any income effect. This could reflect the fact that wealthier parents can afford to live in more expensive areas in the catchment areas of high-performing state schools. In the UK, Gibbons et al. (2012) suggest that a property in the catchment area of a school at the top of the league tables attracts a property price premium of around 12 per cent relative to one at the bottom. At the time of the research (2006), this was equivalent to £21,000.

Wealth can therefore enable parents to live in catchment areas of high-performing schools and/or it can help pay for private education either through private schooling or extra tuition/activities which enhance their children's education. Larger housing may also provide more space for children to do their homework. Wealth can also pay for extra-curricular activities, IT equipment and so on.

McKnight and Karagiannaki (2013) analyse the British Household Panel Survey and the National Child Development Survey to assess the impact of wealth-holding on a range of outcomes. They find that parental wealth is clearly related to children's educational attainment at degree level and above. This 'asset effect' is additional to any effect from parental education and income. Their analysis also finds that parental wealth has a direct effect on the chances of their children being in employment at age 25. The reverse is also true – the children of parents with low levels of wealth or, indeed, debt, are much less likely to be in employment at age 25.

Wealth held by adults can also, in theory, have an impact on life chances in adulthood as it can help adults attain more highly-paid, secure employment, either through being able to fund additional training/education (including a gap year, unpaid internship etc), spend longer searching for a better job, and move (to a more expensive) location to be closer to a better job. As well as investigating the impact of parental wealth on life chances, McKnight and Karagiannaki (2013) also measure the impact of owning wealth in early adulthood on later outcomes. For example, men who own wealth at age 23 are more likely to be in employment at ages 33 and 42. The picture is more complex for women with those who have more moderate levels of wealth at 23 having higher rates of employment later in life than either women with no/very low wealth or women with high levels. McKnight and Karagiannaki (2013) speculate that perhaps women with no/very low levels are disadvantaged in terms of future employment whereas women

with high levels have greater choice to take time out of employment when they have children.

If some children, and indeed some adults, have greater educational and employment opportunities due to wealth-holding, the question arises as to whether or not this is fair, both within and across different generations. A society might tolerate some difference in opportunities as the price of preserving family life but when the playing field for children is so unequal and life chances are strongly determined from birth, it becomes difficult to defend from a social justice perspective. Inequality between generations is also an issue as middle income 'baby boomers' have done relatively well from housing wealth and the current recession appears to be hitting younger generations more. But politicians appear, so far at least, to be protecting older people from the impact of austerity.





Social cohesion, democracy, freedom and dignity

The impact of wealth inequality on society and politics more generally is difficult to pin down as accurately as the impact on individuals. But it has been argued (Giddens 1998) that the wealthy become insulated from the lives of others, excluding themselves from society. This voluntary exclusion at the top mirrors the forced social exclusion at the bottom of society and so may harm social cohesion.

The socio-economic distance of the top from the rest of society may take a particularly damaging form in relation to the political process. In the US, concerns have arisen at the extent to which the wealthy can buy political power through using their wealth to mount political campaigns for themselves (eg, Ross Perot, Mitt Romney, Steve Forbes) or to support other campaigns with the likelihood that substantial financial support will lead to political influence (Hacker and Pierson (2010)). This has not been considered such an issue in the UK to date but, since 2010, attention has been paid to the number of millionaires in the cabinet (23 out of 29 according to *The Daily Mail* in May 2010). As politicians and policy-makers appear to be increasingly drawn from the ranks of the wealthy, this may also make for poor decisions and policy-making. There was also widespread concern expressed in June 2013 over a number of peers and an MP who agreed to do parliamentary work for financial reward. Such payments are not allowed under current rules but people can, legitimately, donate to political parties and pay for the 'privilege' of dining with members of the cabinet. The ability to influence policy is therefore likely to be linked indirectly, if not directly, to the ability to pay.

The political and socio-economic power of the rich lies in contrast with the lack of freedom of those without wealth. In *The Social Contract*², Rousseau argues that there should be limits to inequality to preserve a degree of personal freedom: 'No citizen should be rich enough to be able to buy another and none so poor that he has to sell himself'. Rousseau argues that a lack of material resources can lead people to the equivalent of slavery.

Fairness and wealth accumulation

Wealth can be accumulated in different ways, for example as a result of saving earnings/income or through inheritance and lifetime gifts (earned and unearned wealth respectively). A third source of wealth is that which is accumulated through increases in stock market or house price values (also generally considered to be unearned wealth). Of course, this last form of wealth accumulation may be due to careful and clever investment decisions and may therefore be the result of 'work' in the form of investment management, but it could equally be due to pure good luck.

While it is possible, in theory, to distinguish between these different sources of wealth it is not so easy, in practice, to identify them empirically. Where people accumulate wealth through hard work or a preference for saving, for example, resulting inequalities might seem fair. Where people accumulate large fortunes through, for example, exploitation or luck, the resulting inequalities are less likely to be considered fair. However, even though most would agree that hard work deserves higher reward, the extent of the rewards to certain kinds of work has increased substantially since the 1980s and is out of line with public attitudes.

As the High Pay Commission (2011) pointed out, the top 0.1 per cent of the income distribution saw their incomes grow by 64.2 per cent between 1996/7 and 2007/8. Median income grew by only 7.2 per cent over the same period. It is difficult to believe that this top income group worked harder by a commensurate amount.

What is it that matters, and for whom?

There are, therefore, a number of arguments and pieces of evidence which suggest that wealth inequality may be harmful at a social, political, economic and individual level (in terms of life chances). But it is not at all clear what type and level of wealth inequality is (most) harmful, and for whom. For example, is it relative or absolute differences of wealth that matter most? Is it the ratio of wealth to purchasing power (eg, ratio of wealth to income) that matters because it determines how much/what wealth can buy someone? Is there a particular level/threshold of wealth inequality which is harmful or is there a linear relationship between wealth inequality and negative outcomes? And is it a greater problem that some people have no/negative wealth or that some have extremely high levels?

The current extent of wealth inequality is considerably greater than we might expect from lifecycle factors and preference for saving rather than spending. Differences in income and inheritance levels play a major role. Karagiannaki and Hills (2013) estimate that between 16 and 28 per cent of personal marketable wealth is the result of inheritance. Lifetime gifts are worth about a tenth of the value of inheritances and so account for about two to three per cent of overall wealth. We might consider some differences in income and

inheritance to be acceptable in response to differences in effort, skill and family support. But the extent of these differences seems difficult to justify, particularly in the light of the very great increases in top incomes since the 1980s (mentioned above) and the very large inheritances received by those at the top.

This begs the question, of course, of where the 'top' is. The super rich have variously been defined as the top one per cent, the top 0.1 per cent, and the top 0.05 per cent, as these groups have experienced a high increase in their levels of income and wealth in recent years. But is this too exclusive a group to focus on? The National Equality Panel (2010) pointed to the extremely high ratio of 75:1 between the ninetieth and tenth percentiles of the wealth distribution. And in June 2013, Ed Balls suggested means testing (or perhaps 'affluence testing' is more appropriate?) winter fuel payments for those pensioners paying top and higher rates of tax. This would affect around five per cent of those currently receiving the payments. One reason why the definition of those at 'the top' matters is precisely in relation to policy reform. Which groups might be taxed more? And which groups might lose (universal) benefits if these were to become means tested? Income tax thresholds might be one way of categorising people but income and assets are different and asset thresholds might also be important to determine alongside income thresholds.

It is clear (see above) that those with no or negative wealth (ie, net debt) are at a much greater disadvantage in life than those with moderate or high amounts of wealth. For example, they have no cushion to fall back on in times of need and certainly no ladder to help them climb the socio-economic scale. In a society with a

² *The Social Contract or Principles of Political Right*. Book II, Chapter XI. The Various Systems of Legislation

liberal welfare state, lack of private wealth puts people at a particular disadvantage and this report will therefore consider what can be done to help those at the bottom of the wealth distribution.

Finally, there are those 'in the middle' of the wealth distribution. This group, again variously defined, has become more prominent in political debate with the term 'squeezed middle' which is used extensively by Ed Miliband, though pertaining to the middle of the income distribution rather than the wealth distribution. The 'squeezed middle' in terms of assets might be a group with some housing and pension assets, or some hope of accumulating such assets in the future but perhaps not the highest levels.

In terms of policy reform, there is a question about which group should receive most attention and support. Those at the bottom are the group with the greatest need of help. Policies designed to help them might not affect the overall level of wealth inequality much but might make a big difference to their lives. Those in the middle are the most numerous and will include the powerful 'median voter' whom politicians from the main parties seek to attract. And those at the top have the most power to influence policy.

Of course, within each of these groups there are particular segments of the population of interest (including different age groups, genders, ethnicities and so on). This report does not go into detail about these groups but young people are a particular concern given that young people today are likely to be worse off compared with previous generations – the first time this has happened since data has been available on living standards.

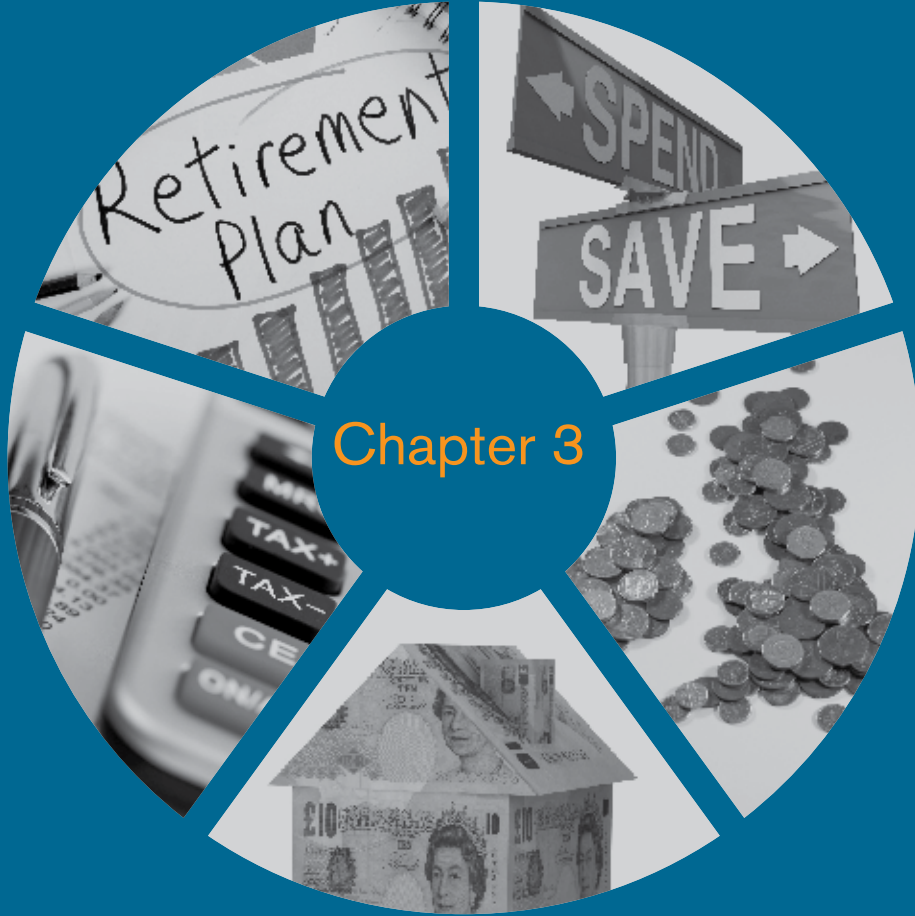
As well as there being a need to consider how policy might respond to different groups (as we do in the next three chapters), there is also an over-arching issue about the complexities and contradictions of government policies towards assets. Hills et al. (2013: 204), following on from the Mirrlees review, argue that wealth taxation, for example, is an 'illogical and inequitable mess.' Hills et al. (2013) carried out a comprehensive and incisive review of a wide range of wealth-related policies and we do not seek to repeat many of the excellent points made in that book. We therefore concentrate, here, on the three groups of particular interest to the Commission and outline some potential areas for reform.





Key points

- Personal wealth has become increasingly important in recent years and will continue to do so as we experience the longest and deepest slump in a century and social security benefits are cut. Unemployment remains high and average incomes are stagnating, if not falling, while prices rise. Precautionary savings are therefore particularly important as a financial cushion to meet unexpected expenses and yet many people lack even a small cushion of this kind.
- Wealth affects health. There is strong evidence that people with wealth have higher levels of physical and mental well-being than those without, after controlling for other factors. People with debts are likely to have lower levels of mental well-being.
- Wealth affects education and employment opportunities. There is a strong link between parental wealth and children's educational attainment, independent of any income effect. Young people with wealth also do better later in life (eg, in terms of employment).
- The impact of wealth inequality on society and politics more generally are difficult to pin down as accurately as the impact on individuals. But it has been argued that the wealthy become insulated from the lives of others, leading to social fractures. The ability of the wealthy to gain greater influence in the corridors of power is also a potential threat to democratic processes.
- Wealth and income inequalities are sometimes defended as being important in relation to economic growth, as the opportunity to accumulate high levels of income and wealth might provide incentives for entrepreneurship or high levels of effort and performance. But there is a lack of strong evidence for this.
- Wealth can be accumulated in different ways and this may relate to notions of fairness. Some of these (eg, through hard work and efforts to save from income) may be seen as more worthy than others (eg, receiving a large inheritance).
- Wealth clearly matters. But there is still much more thinking and empirical research to be done on what it is that matters, and for whom. Our report concentrates on three groups: those with very little, no or negative wealth; those in the middle with some assets; and those at the top.



Chapter 3

Those with very little, no or negative wealth

Some people in the lower deciles of the wealth distribution have very little, if any wealth. And some have negative wealth (higher levels of debts than assets). Part of the underlying explanation for this is the low level of income for many people as incomes have stagnated, if not fallen, in the last decade. Low incomes reduce the ability to avoid debt and/or accumulate saving. Ways of raising incomes, for example through a living wage policy, greater worker representation in companies and/or training to raise skill levels therefore need consideration. But this chapter focuses more particularly on wealth-related policies.

Dealing with, and preventing, problem debt

Some forms of negative wealth may not necessarily be problematic if they represent investments likely to lead to greater wealth in the future. For example, if a student loan enables someone to gain an education which leads to a higher paid job, then this should be seen positively.

Similarly, if someone takes on a 100 (or even 110) per cent mortgage at a time when house prices are rising considerably, then this could also be seen as an investment rather than a problem debt. But even in these cases, a level of risk is being taken (that the education will lead to higher pay; that the value of the house will rise, or that interest rates will not). In other cases, debt may have little investment potential but is acquired to meet particular needs that cannot be met through saving. And where the cost of any loan is high, it can indeed lead to debt spirals which cause further problems. The policy issue here is how to reduce and then prevent further accumulation of problem debt.

Levels of problem debt appear to have been increasing even before the full impact of the recession might have been expected. The proportion of people who found their unsecured credit commitments a heavy burden increased from 16.2 per cent in 2006/8 to 18 per cent in 2008/10 (Rowlingson and McKay 2013). There is also evidence of an increase between 2006 and 2008/9 in the proportion of households where repayments on unsecured borrowing were more than 25 per cent of income (from three to eight per cent of households). More recently, evictions from rented properties have been increasing since 2010, to around 10,000 claims for possession in 2013.

Recent welfare reforms which will not only reduce the amount of benefit paid to various groups but also change the nature of the payment (paying all benefits together – including housing benefit – in a single lump sum once every four months under Universal Credit) are widely predicted to increase problem debt still further as people struggle to manage.

Money advice, particularly debt advice, is crucial here, though it can be a very long-term and therefore expensive process to reduce debt for people with serious problems (Orton 2010). Debt advice has been funded by the government in recent years though the Financial Inclusion Fund and now the Money Advice Service (MAS). But one of the most important funding streams, provided by the Legal Services Commission (LSC) to aid consumers in need of labour-intensive debt help, was withdrawn in April 2013. This will put a great deal of pressure on the MAS annual budget for face-to-face debt advice, which stands at £27m for 2012 / 2013.

This budget funds 150,000 advice sessions across 16 different projects managed through six lead organisations, including Citizens Advice. The MAS's own research (2012), however, estimates that there were 6.6 million 'over-indebted' households in the UK in 2012 that perceived debt as a heavy burden or had arrears of three months or more. Of these, the MAS estimates that:

- 2.1 million will actively seek debt advice
- 2.2 million would benefit from debt advice
- 1.0 million could benefit from broader money advice, and
- 1.3 million are unlikely to ever seek debt advice.

Current levels of funding are clearly insufficient to meet this need.

In terms of debt prevention, increased levels of saving would clearly help to avoid the need to borrow. Saving is clearly difficult for those on very low incomes but if people can afford to repay a loan, this suggests that they could afford to save (see below also). Credit Unions sometimes work on this basis, and when they give loans to people they include a small amount which is saved into a savings account at the same time as the loan is being repaid. When the loan comes to an end, saving is continued at the same level as the loan repayments to build up a reserve for the future (see Kempson and Collard 2013a). However, Credit Unions are still not as widely known about or used, leaving people to rely on the more heavily marketed and much more expensive lenders such as payday lenders and home collected credit. The government is investing £35.6m from 2013 in an attempt to double membership of credit unions to two million over the next five years. This is helpful investment but will still leave credit unions a small player in the market at a time when use

of payday lenders and doorstep credit is expanding. The Public Accounts Committee recently drew on National Audit Office research to criticise the Office for Fair Trading's weakness in regulating payday lenders and the OFT referred the industry to the Competition Commission in June 2013. The Financial Conduct Authority will be taking over responsibility for this from April 2014 and could consider introducing tougher measures such as an interest rate cap, disclosure of information on default rates, a ban (or restrictions) on advertising and stronger enforcement/penalties.

As mentioned above, another cause of problem debt is difficulty managing on a low income. This looks likely to increase with the introduction of Universal Credit which will pay people their benefits (including Housing Benefit) in one lump sum, monthly in arrears. Such payments will no doubt cause budgeting difficulties, particularly for people without bank accounts. And while the number of people who are 'unbanked' has fallen, this is still an issue, as is access to appropriate banking products. Some bank accounts charge high fees for bounced payments or unauthorised overdrafts, effectively providing more expensive credit than payday lenders. Some financial products, however, can help people manage their money better. 'Jam jar accounts' are a relatively new development, designed for people on very low incomes (Social Market Finance 2011). They enable people to split their account balance into different categories (jam jars) for spending, saving and bill payment. There is provision for 'low balance alerts', pre-paid cards, use of standing orders/direct debits, and automatic transfer of funds between jam jars. These accounts exist at the moment but charge a fixed monthly fee. This fee could be reduced if taken up at scale, or subsidised. Citysave in Birmingham have recently introduced

one at a fee of 50p per week for the basic account.

Alongside jam jar accounts, new technology could be utilised, particularly for younger people perhaps, for example in the form of 'mobile wallets/purses' (Kempson and Collard 2013b). O2 has developed a mobile wallet which enables people to receive electronic payments (including social security payments) into a stored value account; access these funds using a virtual Visa card for online transactions and a linked physical Visa card; set up standing orders; and transfer money to family/friends. One advantage of this account is that it is not possible to get overdrawn. But there are up-front fees for loading money into the account and for the physical Visa card and for money transfers. So while those with the greatest resources enjoy free banking, those with least are charged. And it would be essential to ensure that any new, innovative products are effectively regulated.

Promoting savings

Another means of avoiding problem debt is to accumulate savings. The Saving Gateway was a flagship matched-savings scheme designed to encourage/reward people on low incomes to save but it was scrapped by the incoming Coalition government in 2010 on grounds of cost. A number of new policy ideas have been proposed in its place, not least the suggestion from the Institute for Public Policy Research (IPPR) for a 'New Lifecourse' savings account to help people save through easy access to the account to make deposits and withdrawals (possibly through supermarkets) (Dolphin 2011). Two specific products would be included in the account: a Lifetime Bonus Savings Account, aimed at encouraging saving, particularly to help families cope with

emergencies, and a 'Long-term Investment' account. The IPPR argued that the government should pay a bonus into accounts on a sliding scale, dependent on the average balance held in the account over the preceding three years. Only four withdrawals a year would be allowed before this bonus is lost, in order to encourage people to retain savings in the account. Savings in this account should be exempt from asset testing for welfare benefits, including Universal Credit. This could mean placing a cap on the size of the account, perhaps at £10,000. Funding for the scheme could come from replacing the cash Individual Savings Account (ISA) scheme. This is likely to be unpopular with those on middle and high incomes, and older people, but would re-balance the current incentives to save, which largely miss those on the lowest incomes.

Another option with this, or similar saving scheme, would be to introduce auto-enrolment. For example, when people join an employer, as well as being enrolled into NEST (the National Employment Savings Trust pension scheme), or another form of occupational pension, they could also be enrolled into a savings scheme. Dolphin (2011) argued that his research with young people suggested that they did not want such auto enrolment for savings accounts. They were willing to have an account opened for them but not for an automatic amount of money to be set aside from their pay. But perhaps even the opening of an account might trigger people to make some savings, particularly if there was a bonus payment to be paid.

If people on low incomes are encouraged to save then it will be vital to review the existence of means tests for social security benefits which include financial assets. Housing assets are not taken into account for means testing except



in relation to social care and there have been recent changes to reduce the thresholds here. The issue of means tests on savings for benefits is actually becoming more problematic under Universal Credit as there are no capital limits at the moment with working people claiming tax credits but these will be, effectively, under Universal Credit.

Other ways of encouraging people to save include innovative products from the private sector such as Lloyds TSB's 'Save the Change' facility. This is designed to overcome inertia around saving because every time someone uses their debit card the amount spent is rounded up and the difference is transferred to a savings

account. Savings accounts could be (and many are) designed to make access more difficult though not impossible (eg, 48 hour notice, withdrawals made in person). This reduces the chance that savings will be drawn on too easily. Accounts could also be specifically geared towards saving for a particular purpose, eg, 'car accounts' with incentives such as offer of free breakdown cover. And other incentives might be product tie-ins/discount vouchers, prize-based savings accounts etc.

Last, but not least, there would be great merit in the suggestion that a not-for-profit organisation be established to represent the interests of savers. A

portion of the fees that savers pay to the financial services industry already fund trade bodies and regulators. If some of these fees could be directed to an organisation to represent savers it might be able to challenge some of the long-standing market imperfections in the industry, not least the high fees and low levels of service which seem unlikely to represent genuine competitive market clearing levels (see Myners 2001 and Sandler 2001).

Credit Unions could play a key role here, as advocated by Justin Welby, the Archbishop of Canterbury in a speech in December 2012³. Credit Unions can provide debt advice, low-cost loans, saving



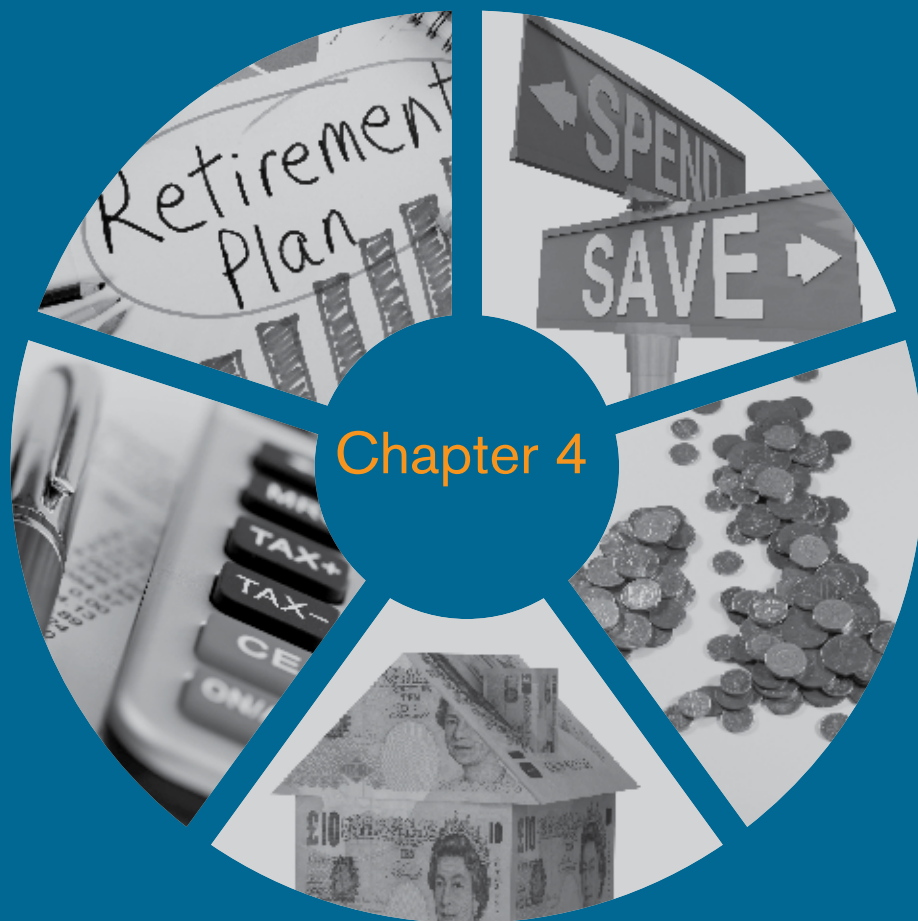
³ <http://www.archbishopofcanterbury.org/articles.php/5005/bishop-justin-welby-speaks-on-credit-unions-in-house-of-lords>

schemes and transactional bank accounts on a not-for-profit basis. They have received considerable government funding under the Modernisation Programme, but this is still insufficient given that they are effectively competing with private sector organisations which can charge interest rates around 5,000 per cent. From April 2014, the interest rate ceiling on credit union loans will rise from two per cent to three per cent a month. Three per cent a month works out at an APR of 42.6 per cent. Credit Unions would not want to charge high rates of interest but, in lending at such low relative APRs to people with high default rates, it is difficult for them to be sustainable without significantly more support.



Key points

- Levels of low income are a concern as they reduce the ability to avoid debt and/or accumulate saving. Ways of raising incomes, for example through a living wage policy, greater worker representation in companies, and/or training to raise skill levels need consideration.
- Levels of problem debt have been increasing in recent years and look set to increase still further with the introduction of welfare reforms which will both reduce the amount of benefit received by various groups and also change the ways in which people receive it. The impact of benefit reform needs careful scrutiny.
- Debt advice is crucial here but there has been a reduction in funding for some forms of debt advice (eg, through Law Centres). Continued, and indeed increasing, support for debt advice is essential to support people, particularly through these difficult economic times.
- Credit Unions are, potentially, an ideal vehicle for supporting people in terms of: money advice; affordable credit; transactional banking services; and savings schemes. Credit Unions are receiving government investment but they need much higher levels, not least because of the low level of interest they (are constrained to) charge.
- The financial services sector also needs to play its part here. Payday lending is currently under the scrutiny of the Competition Commission; and the Parliamentary Commission on Banking Standards has warned the banks to improve the services they provide to people on low incomes. The development of new technologies (mobile banking etc) could also be used to help people manage and save their money.
- People on low incomes receive much less support for saving than those on middle and high incomes. For example, those who are below the income tax thresholds do not benefit from tax-free savings products like ISAs. And higher rate tax payers benefit more than standard rate tax payers. The Saving Gateway was a policy designed to provide incentives/rewards to those on low incomes who nevertheless managed to save by providing a match (50p for every pound saved up to a threshold). Further thought needs to be given to how such a scheme can be funded.
- Other ways of encouraging saving should also be developed including, auto-enrolment into savings accounts when people start a new job and 'save the change' savings accounts linked to credit and debit cards. Means tests on savings for workers receiving Universal Credit should also be reviewed as a possible disincentive to save for such groups.
- There is currently no organisation which solely represents the interests of savers and this is something which could be established, for example, using the fees which savers pay to the financial services industry and which are currently used to fund trade bodies and regulators.



Chapter 4

Those 'in the middle' with some assets

Those in the middle of the wealth distribution tend to have some housing and pension wealth or the ability to accumulate some. But there are a number of issues facing these groups, not least the ability of younger people to get a foot on the housing ladder and the ability to access some of their wealth to maintain or increase their living standards, particularly in retirement.

Housing wealth

We discuss housing wealth in this section of the report but recognise that owner-occupation is widespread in the UK and that many people on very low incomes may be owner-occupiers.

However, since the credit crunch, it has become much more difficult for people on low and even middle incomes to get a foot on the housing ladder. This is due to a combination of rising house prices relative to average earnings (and in particular the earnings of first-time buyers) but also difficulty accessing mortgage funding as lenders require larger deposits (which take much longer to save given earnings stagnation), higher arrangement fees and lower price to earnings ratios for lending. The government's 'Funding for Lending Scheme' does, more recently, appear to have helped here with mortgage lending increasing in 2012/2013 (though finance to small and medium-sized enterprises still an issue). However, there is considerable 'lock-in' to traditional methods of housing finance, and in this context government support for lending effectively props up the relatively high house prices which are also part of the problem. Prices, ideally, need to come down, not least by increasing supply. But those with housing wealth may not be enthusiastic about such policies.

Many younger people are, therefore, increasingly relying on the 'Bank of Mum and Dad' and the private sector is responding to this with a number of innovative schemes (see Smith et al. 2013). For example, Barclays has introduced a 'Springboard' mortgage which allows borrowers to get a mortgage on only a five per cent deposit. A family member, however, would have to put up a further ten per cent of the purchase price into a 'Helpful Start' savings account. Provided all the payments are up-to-date, the family savings will be returned after three years along with any interest earned. Barclays also offer the 'family affordability plan' under which the income of both the property-buyer and their parents count towards the calculation used to determine how much they will lend. All parties are then liable for the monthly payments although the parents do not need to be named on the deeds, which means they can be easily removed by remortgaging later down the line with no equity to transfer. Lloyds have a 'Lend a Hand' three-year mortgage which requires a 20 per cent deposit placed into a linked savings account which is higher than the 'Springboard' mortgage but the repayment rate is lower and if parents agree to using spare equity in their home as additional security, the National Counties Family First mortgage has a relatively low rate of repayments.

There are also government schemes such as the 'FirstBuy' shared equity scheme with borrowers only needing five per cent deposit (with the government and the developer putting up 20 per cent so only a 75 per cent mortgage is needed) and 'NewBuy' where only a 5 per cent deposit is needed and the loan is backed by a special indemnity fund if the homebuyer cannot pay the mortgage. The 'Help-to-Buy' scheme caused controversy in 2013 when George Osborne announced that first-time-buyers could get a mortgage on a 5 per cent deposit with government guaranteeing 15 per cent. But critics suggested that people could use this to buy second homes and so the support would not be going to the right people and the costs could be very high. The Treasury Select Committee has now analysed the main measures and said it is not clear what fee lenders will have to pay to take part in the scheme or how it will be structured to cover potential losses. The

Committee suggest that the Treasury will find it difficult to price the scheme in a way which 'sharply curtails risk' to the taxpayer. So the Treasury could potentially face big losses on loans it has guaranteed if lenders start to act more aggressively and the number of repossessions rise.

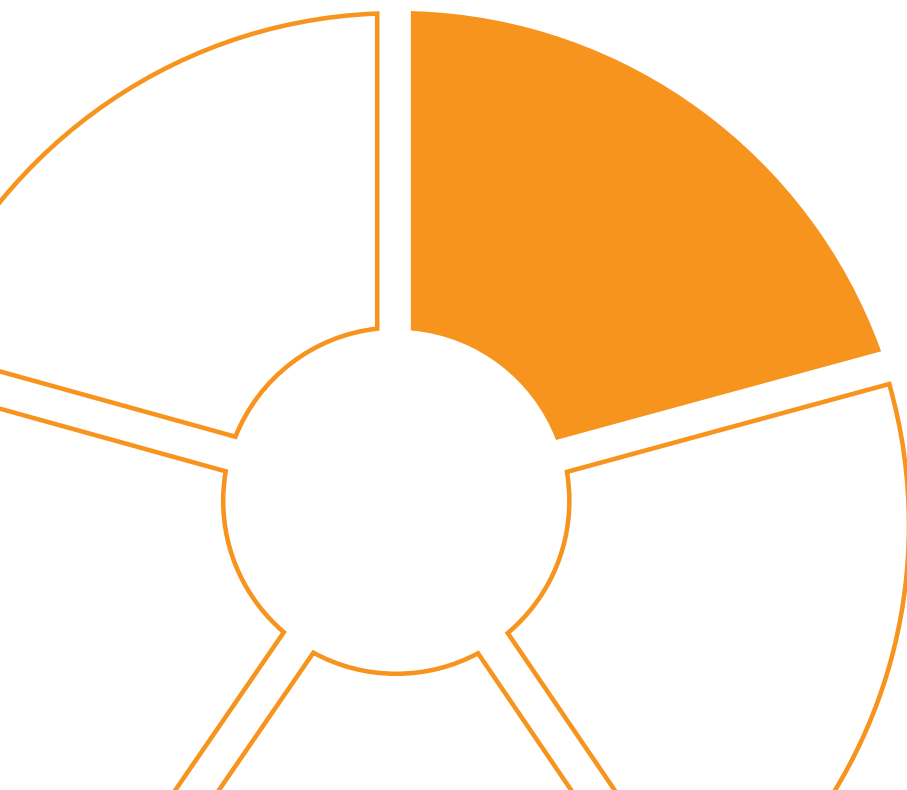
Housing wealth is accumulated for a number of reasons and many people say, in surveys, that they are saving for retirement in their property rather than in a pension. The Pensions Policy Institute (2009) reviewed the role of housing wealth in retirement and made the following key points:

- the main way that housing wealth supports retirement is by reducing living costs for most home owners.
- down-sizing, by moving to a cheaper property is more popular than using an equity release product.
- very few people currently take out equity release products – around 1 per cent of the net housing wealth held by UK pensioner households is released through such products.

However, home ownership is increasing among the retired population so there may be greater scope for equity release products. But those with the highest levels of housing wealth also have the highest levels of pension wealth and those with the lowest levels of housing wealth have too little to be of much help. There are also issues about the interaction with the benefit system as housing wealth does not affect entitlement to means-tested benefits but both cash savings and income do. There are a number of other barriers to using equity release such as attachment to home, the desire to leave a bequest, a lack of mainstream financial providers in the market etc.

- Oxford Economics (2012) estimate that over one million people could be lifted out of poverty each year from 2012 to 2014 if they released equity. This estimate is based on some of the following figures:
- 1.7 million pensioners in 2010/11 had disposable income below 60 per cent median household income and 0.8 million were considered 'materially deprived'.
 - In 2011, 16,095 pensioner households took out equity release products.
 - Survey data on equity release customers' other income suggests up to 60% are below the relative poverty threshold.
 - Customers could select a 'draw-down' product offering £5,000 each year for 12 years and this could potentially raise between 3.8 million and 22.8 million pensioners out of poverty each year from 2012 to 2040.

JustRetirement (2012) have called on the government to establish an industry-wide group to examine how markets for housing equity withdrawal could be encouraged to function more effectively. They point out that 'modern' equity release products are more flexible – like turning on a tap. They also argue for



raising awareness of such schemes through public education as well as the provision of high-quality, trusted, independent professional advice. Local authorities could also be involved in this, given their role in relation to long-term care. Clarity around government policy on long-term care would also be beneficial so that people can plan ahead, financially, with greater confidence about how the system will work in the future.

One innovative idea in relation to housing wealth more generally is to consider the options for complementing traditional debt funding in housing markets with equity finance (Smith et al. 2013). This offers the option to design products that effectively separate the cost of housing services/consumption from housing wealth/equity thus potentially reducing the cost of home purchase (for those willing to sacrifice some proportion of the investment return) and enabling renters (and others) who are not owner-occupiers to hold some part of their wealth portfolio in vehicles whose returns are linked to house prices (rather than, for example, interest rates). Such schemes enable home occupiers to share housing investment risks with other individuals, lenders, investors, landlords, builders and government. A range of innovative products, from shared equity to house-price-linked savings accounts could be developed but would need regulation, and, ideally, partnership between government, the third sector and the private sector. Such products could, helpfully, allow for 'stair-casing down' from whole home ownership as well as 'stair-casing up'. More fruitfully still, they could widen the housing options available for those who prefer the more balanced wealth portfolio that is enabled by a housing system no longer centred on the stark tenure divide between whole ownership and no ownership.

Pensions

Pensions are vital to provide decent incomes in later life. In recent decades, successive governments have sought to encourage private pension provision rather than reliance on state pensions but this strategy has not, so far, proved successful for a number of reasons and inequalities in private pension provision are significant. Following on from the previous Conservative administrations, New Labour put its faith in the market to provide a greater proportion of retirement income for pensioners in the future (DSS 1998). But it soon became clear that employers were moving away from generous pension packages. This reflected changes in the legislation affecting defined benefit schemes, their tax treatment, and the ending of a positive stock market run. All of these contributed to leaving many pension funds with large funding deficits. Increasing longevity also placed a strain on pension funds and the government decided to re-think its strategy with the help of an independent Pensions Commission, largely in order to build a consensus around pensions policy.

The Pensions Commission (2004; 2005; 2006) recommended a rise in the age at which people could first receive state pensions, alongside a renewed role for insurance-based state pensions (through restoring the link between increases in the state retirement pension and earnings) and more support for private saving (not least through the introduction of auto enrolment and NEST – see below). These proposals were received very positively across the political and public spectrum though it is significant that the government of the day stated that restoring the link between the state retirement pension and earnings would be 'subject to affordability'. Despite the recession, the Coalition (2010) agreement accepted the broad thrust of the Pensions Commission recommendations, including restoring the

earnings link for the basic state pension from April 2011 with a 'triple guarantee' that state pensions would rise by whichever was the greatest of earnings, prices or 2.5 per cent. However, it would take many years to make much difference to the pockets of pensioners.

In the meantime, the decline of Defined Benefit pension schemes in favour of Defined Contribution (DC) schemes has continued apace and savers with DC schemes have little idea of how much money they will receive in retirement. The risk of retiring with an insufficient income falls solely, with these schemes, on the employee. For this, and many other reasons, private pension saving has not expanded despite government encouragement over the past few decades and is insufficient to provide most people with a reasonable level of income in retirement.

However, recent reforms following on from the Pensions Commission recommendations aim to change this. For example, the government's recent White Paper and draft Pensions Bill plans to introduce a single-tier pension – of £144 a week at today's prices – paid to every qualifying new pensioner with 35 years of NI contributions from April 2016 at the earliest. Those who qualify for the existing state pension receive payments once in their 60s. The age is being equalised for men and women, 66 for both sexes by 2020, then 67 by 2028. The most a person currently receives in state pension is £107.45 a week. Some also receive the State Second Pension (SSPS), or Serps, an earnings-related additional pension, and Pension Credit tops up income to £142.70 for those below this threshold. The aim of the single-tier pension is to make the system simpler by getting rid of all means-tested benefits for pensioners. This will make it much easier for people to assess their overall retirement situation. By combining a known state pension and a separate private pension forecast

people can more easily read across their different pension entitlements to assist them in making decisions about how much to save through private pensions ie, on top of the state pension, for their retirement years. This is perhaps the single greatest benefit of simplification of the state pension. However, there are a number of potential winners and losers from this reform which requires further evaluation.

Another key reform of pensions is auto enrolment which has been introduced (in stages) from October 2012 for employees between age 22 and State Pension age, earning above £9,440 after April 2013. By April 2017, all such employees will, when they join a new employer, be automatically enrolled into a scheme, meeting minimum standards set by the government, with the right to opt out. The idea is that inertia will act to keep people in the scheme and thus increase private pension saving. The required level of contributions that employers and employees must make into a pension scheme (if employees remain opted in) is being phased in between 2012 and 2018 to reach eight per cent minimum total contributions. This eight per cent will be made up of a minimum three per cent from the employer and the remainder from the employee and the government (through tax relief).

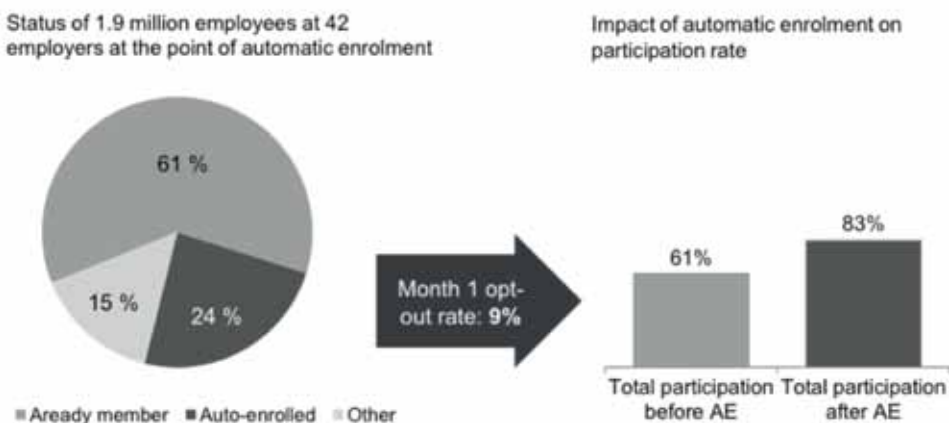
The scale of workplace pension auto enrolment currently underway has no precedent. The millionth worker was auto enrolled into a workplace pension in July 2013 (Wood et al. 2013). About 300,000 employees are currently auto enrolling every month and about nine million British jobholders will eventually be enrolled. Auto enrolment commenced in October 2012 with the UK's largest employers. The opt-out rate is a key measure to determine how auto enrolment is performing against the policy objective of increasing participation in workplace

pension schemes. The results of a study for the Department for Work and Pensions (DWP) on 50 large employers between October 2012 and June 2013 are reported below (see Wood et al. 2013).

Expectations before auto enrolment were that 30 per cent of workers would opt out. For 42 employers representing a combined total workforce of 1.9 million employees, 61 per cent of employees already participated in a pension scheme before auto enrolment came into force. Twenty four per cent of the total workforce was made up of jobholders who were auto enrolled in the first month of auto enrolment. The remaining 15 per cent in the 'other' category include groups such as non-eligible jobholders, individuals who were nominally on the payroll but not currently working, and other workers who could not be categorised by the employer when providing the data. The overall opt out rate was nine per cent in the first month after auto enrolment began. Auto enrolment has therefore increased pension scheme participation rates in these organisations from 61 per cent to 83 per cent.



Figure 1: Impact of auto enrolment on pension participation rate in 42 large employers



Source: Wood et al. (2013)



Six employers provided age-specific opt-out data. The major impact on opt-out rates was age. Opt out rates were eight per cent among staff under 30 years, nine per cent among those aged 30 to 49 years, and 15 per cent among those aged 50+. Other potential influences, for example the level of employer contributions, gender of employees, full-time or part-time hours, and salaries, did not have a significant impact on opt-out in these organisations.

Early indications are therefore very positive about the low level of opting out but there are concerns about a capacity-crunch as smaller employers begin auto enrolment. The resources of the new National Employment Savings Trust (NEST) will be tested in supporting and guiding the smaller employers through the auto enrolment process because commercial providers will not regard them as an attractive business proposition.

The government is also likely to face a challenge convincing people to increase their level of contribution. There is already some limited evidence that opt-out rates are influenced by the level of employee contributions. If contributions levels rise over the coming decade the proportion of jobholders ceasing active membership may also rise.

Another policy proposal being debated at the moment is for the development of 'Defined Ambition' schemes. The aim of these would be to reduce the financial risks currently faced by employers (with Defined Benefit schemes) but not place all the risk on employees (as is the case with Defined Contribution schemes). Defined Ambition Schemes could spread risk between saver, employer (and potentially state) to make such saving more attractive to employees and less risky to employers. The current Minister

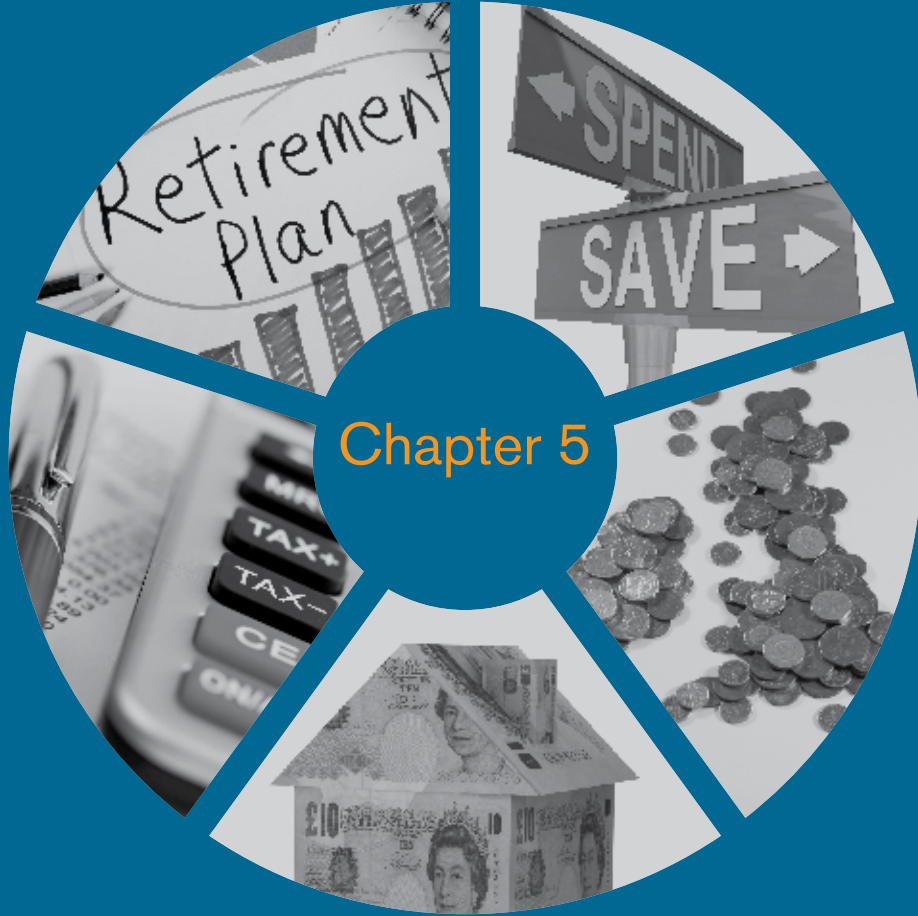
of State for Pensions, Steve Webb, has revived debate here, with a focus on consumer attitudes. He has been insistent that automatic enrolment requires innovative products to meet an untapped desire for greater certainty in individual outcomes. For example, one end of the spectrum could be providing an affordable 'Money Safe' guarantee where the member would get back at least the nominal value of their contributions – individual, employer and tax relief. Another could be offering an investment strategy that reduces the probability of capital loss such as NEST. An extra standard could be to ensure that any pension scheme member when they check their annual benefit statement will always see a number higher than the number seen the previous year.

The industry response has been mixed. In October 2012 the Investment Products for Retirement Savings Working Party published '*Is there a place in the UK Defined Contribution pensions market for a guaranteed savings product?*'. Conclusions to the question posed in the paper's title are that yes, there probably could be, but there are many challenges as to how the guarantee would be provided and who would be the guarantor.

Defined Ambition remains a loose overall concept but in propositional terms has strong intuitive appeal. Reducing some of the investment risk associated with DC should give more confidence to members and employers that their contributions will deliver the intended result. This could result in a number of benefits including increased member contributions and persistency, higher participation rates, and greater trust in financial services.

Key points

- Those 'in the middle' of the wealth distribution tend to have some housing and pension wealth or the ability to accumulate some. But there are a number of issues facing these groups, not least the difficulties people face in getting a foot on the housing ladder and the ability of owner-occupiers to access some of their housing wealth to maintain or increase their living standards, particularly in retirement.
- Since the credit crunch it has become much more difficult for people to get a foot on the housing ladder. The government's 'Funding for Lending Scheme' does, more recently, appear to have helped here with mortgage lending increasing in 2012/2013 (though finance to small and medium-sized enterprises is still an issue). However, government support for lending props up the relatively high house prices which are also part of the problem. Prices, ideally, need to come down, not least by increasing supply. But those with housing wealth may not be enthusiastic about such policies.
- Younger people are increasingly relying on the 'Bank of Mum and Dad' but this reinforces inequalities based on whether or not young people have been born into wealthy families.
- One interesting idea to consider here is to separate – for all forms of accommodation – the cost of housing services from the returns on residential property investment, potentially removing some affordability barriers from owner-occupation while enabling renters to benefit from house price appreciation (much as they benefit from savings linked to interest rates) if they wish. This paves the way for housing policy to focus on providing people with secure and affordable homes of a high standard rather than promoting particular tenure types.
- For those who have accumulated housing wealth, often as the centrepiece of their wealth portfolio, ways of helping them access their equity safely (without adding to unsustainable debts) and cost-effectively (especially in older age) should also be explored. In particular, there is interest in equity release among consumers and the financial services industry but very few people actually take advantage of such mechanisms, possibly due to the costs and risks involved in such products (on both sides). Some ways to share the risks, perhaps involving government, might be helpful here.
- Pensions are vital to provide decent incomes in later life. In recent decades, governments have sought to encourage private pension provision rather than reliance on state pensions but this strategy has not, so far, proved successful for a number of reasons and inequalities in private pension provision are significant.
- Auto enrolment appears to be working well in terms of low opt-out rates and this policy, alongside the single-tier pension, has the potential to increase living standards in retirement as the population ages. But small businesses are likely to need more support as the policy is rolled out among them and savers will need to save more than the default rate in order to reach the kind of income levels in retirement that most people aspire to.
- The decline of Defined Benefit pension schemes in favour of Defined Contribution schemes is a particular concern here as savers have little idea of how much money they will receive in retirement. Development of Defined Ambition schemes, which share the risk between saver, employer (and potentially state) could help here but there have been few concrete developments and employers and the pensions industry appear lukewarm about the idea.



Chapter 5

Those 'at the top'

As discussed above, there is no agreement about where the 'top' of the wealth distribution lies but this chapter nevertheless discusses different policy issues in relation to those with the highest levels of wealth.

High incomes

This Commission is focusing on wealth but a key way in which wealth is accumulated is through saving from earned income.

Over the last 30 years income inequality has grown dramatically and those at the very top of the income distribution have seen huge increases in their incomes which have subsequently fed through into wealth inequalities. The dramatic increase in very high incomes in the 1980s onwards is likely to be a key factor explaining wealth inequalities. A very small group of earners at the top were able to accumulate particularly high levels of wealth. In the 1970s, those in the top one percentile received six per cent of total income but by the end of the 2000s this had increased to 15 per cent (Bell and van Reenen 2013). And figures released in June 2013 by HMRC suggest that 18,000 people now earn at least £1m per year – the highest number ever recorded. This compares with 10,000 in 2010/11 and 'only' 4,000 in 1999/2000 (Boffey 2013). These increases have occurred whilst average earnings have decreased and those in higher social classes are also much more likely to receive an inheritance and/or lifetime gift and much more likely to receive one of high value.

This issue has received some attention in recent years not least with the Hutton Review of Fair Pay in the Public Sector in 2009/10, the High Pay Commission

(2011) and, in 2013, the Parliamentary Commission on Banking Standards (2013: 9) which argued, in relation to high pay in the financial services sector, that:

Many bank staff have been paid too much for doing the wrong things, with bonuses awarded and paid before the long-term consequences become apparent. The potential rewards for fleeting short-term success have sometimes been huge, but the penalties for failure, often manifest only later, have been much smaller or negligible.

The Commission proposed 'a radical re-shaping of remuneration' in the finance sector. The UK is also giving shareholders a binding say on pay policy and the powers to consider the differentials between the lowest and medium paid workers but greater transparency and power for shareholders is vital to ensuring fairer rewards for work.

Alongside changes in remuneration policy, practice and regulation, high incomes could be taxed at a higher rate and the Labour government did, indeed, introduce an income tax rate of 50 per cent for income over £150,000. This has subsequently been reduced to 45 per cent by the Coalition government. Also, in 2009, the government announced that employers would be subject to 50 per cent tax rate on bonuses paid to bankers in excess of £25,000 in 2009/10.





The Treasury expected to raise £550m but in fact raised £2.3bn. Bell and van Reenen (2013) argue that this might be because firms accepted this as a one-off tax. If it were permanent they might pay people in different ways to avoid the tax.

Bell and van Reenen (2012) call for a higher marginal rate of income tax for high earners rather than bonus tax etc. but bonuses have become much more important to high earners in recent years. Their study found that for those outside the top decile, bonuses account for only 2.9 per cent of total pay whereas 83 per cent of workers in the top percentile received a bonus and 35 per cent of total pay for these workers came in the form of bonuses. Top percentile workers in the financial sector received 44 per cent of their total pay in bonuses in 2008. And from 2002 to 2008, *'the entire gain to the top percentile was a result of increased*

bonus payments. Indeed, salaries for this group grew at a slower rate than for workers in the rest of the wage distribution' (page 11). There are various options to deal with this including a tax on bank profits but also a tax on the pool of money used to pay bankers' bonuses. Switzerland has introduced a bonus limit of 1:1 relative to salary which can rise to 2:1 with explicit shareholder approval. And shareholders in Switzerland now have a binding say on executive pay, not just pay policy as has been introduced in the UK recently.

Wealth taxes: an overview

Given high levels of wealth inequality, one option would be to reform wealth taxes to help redistribute wealth (see Mirrlees et al. 2011 and Lawton and Reed 2013). Sandford (2000) identifies the three possible forms that a wealth (or capital)

tax can take. There are taxes relating to the holding of capital or wealth (as in an annual wealth tax, or periodic net worth/net wealth tax as a capital levy); and/or taxes on the transfer of capital or wealth (as in taxes on death, or taxes on gifts); and/or taxes on the appreciation of capital or wealth (as in a capital gains tax, or CGT). Taxes on wealth have never been as popular or widespread as taxes on income and expenditure (which account for the vast majority of tax revenue for most countries). Wealth taxes, where they do exist, account for relatively small amounts of total tax revenue.

For example, in the OECD (whose 34 members are among the richest countries in the world) the combined tax revenue derived by member countries from annual wealth taxes and wealth transfer taxes accounts, on average, for less than one per cent of their total tax revenue (Evans 2013). It is difficult to measure the contribution that the third form of wealth tax – the CGT – makes to total tax revenue as its revenue is generally included in the income tax collections rather than as a separate category. But in the UK revenue from CGT also historically rarely exceeds one per cent of government receipts (according to the budget 2013 forecast it will be 0.8 per cent in 2013/14, albeit rising from an even lower 0.6 per cent in predictions for 2012/13). Most developed countries now have forms of CGT (New Zealand is the notable exception in OECD countries) and CGT has also been – after VAT – the tax most likely to be introduced in developing and transitional countries in the last 30 years or so. But the other two forms of wealth tax (wealth holding taxes and wealth transfer taxes) are not as prevalent as might have been expected. Indeed, taxes on the holding of wealth (such as annual wealth taxes on individuals) have steadily declined in recent decades. In 1990 exactly half of the OECD countries had such taxes. By 2000 the proportion was just over one



third. And by 2010 such taxes only existed, on an ongoing basis, in France, Norway and Switzerland (at the cantonal level) (Evans 2013).

The global financial crisis has caused some countries to re-introduce annual wealth taxes on individuals, on a temporary basis in some cases. Iceland, which had abolished the tax in 2006, reintroduced a wealth tax for a finite period in 2010. Spain also temporarily restored its net wealth tax in September 2011, having abandoned it in 2008. Most recently, and highly controversially, Cyprus had to introduce a capital levy (a distinctive form of tax on the holding of one aspect of wealth, in this case bank savings) as part of its Eurozone bail-out arrangements in 2013. But these examples are exceptions to the more general trend of the decline of wealth taxes on the holding of wealth.

In contrast to wealth holding taxes, the decline in the number of developed countries with wealth transfer taxes (such as death and gift taxes) has been relatively small in recent decades. There has also been something of a shift away from estate-type death duties (where the tax is levied on the estate of the deceased, as in the UK and US) to inheritance-type taxes (where the tax is levied on the beneficiaries – possibly at varying rates depending upon the relationship to the deceased – as in all other OECD countries with wealth transfer taxes). All OECD countries had wealth transfer taxes in the 1960s. By 1999 21 of the 24 member countries had them; and in 2010 23 out of 30 OECD countries used wealth transfer taxes.

There are two main problems when looking to use wealth taxes: disclosure and valuation. The problem of disclosure is obvious: it is easy to hide many forms of holding wealth (bank accounts held outside of the country, money invested in art which is moveable at will, and so

on). Compliance therefore becomes a significant problem as greater use of such taxes is made. Hence inequities begin to arise between honest and dishonest taxpayers; and revenue authorities introduce compromises (such as exempting household articles) which inevitably undermine the efficiency, equity and integrity of the tax. Valuation is also a major problem, especially where no sale of the asset takes place and the real value of the form in which wealth is held cannot be assessed. (Not all forms of holding wealth have markets that reveal their price on a current or regular basis – eg, works of art, jewellery, even houses – so valuation on a regular basis is a significant problem when a tax due computation needs to rely on this value being objectively agreed rather than just approximated. Without this, addressing challenges to valuations will produce significant inefficiencies in the application of such a tax).

However, there are very powerful arguments in favour of wealth taxes, whether on the holding, transfer or appreciation of wealth. Evans (2013) identifies five strong reasons as follows:

- Horizontal equity – the equal treatment of those with the same taxable capacity.
- Vertical equity – the heavier taxation of those with greater taxable capacity, usually interpreted as progressive taxation.
- Efficiency – It is suggested that because a wealth tax imposes a charge on wealth irrespective of the income that derives from the underlying assets, it acts as an encouragement to use the assets more productively. For example, a wealth tax will encourage people to cultivate or develop land or sell it to someone who will use it more productively.
- Administrative, in that such taxes can provide the revenue authority with very useful data that can help check and prevent evasion of other taxes.
- Political signalling – letting those without wealth know that it is not just

they that have to make all the sacrifices in times of financial hardship (when welfare provision is continually being curtailed and incomes are not rising).

Opponents of wealth taxes might argue that those with higher incomes already pay a large proportion of total income tax. In 2012/13 those earning an income of more than £150,000 (the top one per cent of earners in the UK that year) paid 27 per cent of the total tax bill of all income taxpayers and paid more than 35 per cent on average of those earnings in taxation, rising to 45.4 per cent for those on earning of more than £2m – HMRC Rates and Statistics Table 2.5, 2013). As there is a large cross-over from this group to the most wealthy in asset terms, some justification for an additional tax on wealth would need to be given to show how, overall, this group were treated fairly and proportionately. Alternatively, better targeting of asset-rich, but income poor, individuals may be required. This raises political concerns however, as groups falling into such categories would be those with significant housing wealth in their own home, which might then have to be sold, or have charges added to it for future payment on eventual sales. Neither of these options would be likely to go down well with voters.

However, there could be further value in the differentiation between earned and inherited wealth in developing wealth taxation in the UK. Such tax reform could help to make the taxing of the wealthy more fair in public eyes – ie, those who earned their own wealth would be treated differently from those who inherited and were wealthy by luck of birth.

This section has demonstrated the significant difficulties associated with the development of additional or wider wealth taxes. The following three sections review the three options for wealth tax reform in further depth.

Taxing ownership of wealth

The UK does not have an annual wealth tax or a single tax on the ownership of wealth (nor has it had one in modern tax history) but there are a number of related taxes, including council tax. Council tax is paid by renters as well as owner-occupiers but the amount levied is related to the property value. However, there are a number of problems with council tax, not least the fact that it is based on property valuations dating back to 1991. The final Lyons report suggested that, in the medium term, the government should revalue council tax to update the tax base and improve fairness. It also suggested that new bands should be introduced to reduce bills for those in the lowest value properties. This would be paid for by increased bills for those in higher value properties. In the longer term, however, Lyons suggested that future governments could consider more radical reform options such as local income tax or re-localisation of the business rate. There has been no revaluation since the Lyons review other than in Wales where tax bills based on property revaluations were issued in 2005 (using 2003 prices). The increase in house prices over the late 1990s and early 2000s meant that more than a third of properties in Wales moved to a band higher than under the 1991 valuation. Some properties moved up by up to four bands. The Welsh government also introduced a new top band (Band I).

So we do not currently have a property tax as such but could consider introducing one. Indeed, the tax treatment of owner-occupation is certainly anomalous at the moment. It distorts

any move to fairer taxation (as well as impeding the shift to a more balanced housing system overall). Harrop (2013) argues precisely for this to tackle both inter- and intra-generational inequalities. Liability could be rolled up into a charge on the eventual sale of the property if some cannot afford to pay it. Harrop (2013) argues for a debate about housing taxation to restrain (perhaps even reverse?) property price rises (in relation to earnings) and provide funding for house building to help younger generations and those with low levels of wealth more generally.

The Chinese government recently brought in a property tax to stop house prices increasing but as soon as it was announced there was a panic to sell and house prices spiked. According to the *Financial Times*, there has also been a spike in the number of divorces as this was one way of avoiding the tax! This example is perhaps a helpful reminder of the pitfalls of introducing new taxes without considerable planning, and even then, that containing the effects of tax changes on wider behaviour and taxpayer choices is notoriously difficult.

The introduction of a new property tax would be a radical reform and is unlikely to be popular in a country where home ownership, as an institution, verges on the sacred. A 'mansion tax', however, has been widely debated recently and this does appear to be a feasible new tax. This proposes a flat rate tax on properties valued at £2m or more. While this could suffer from the wealth tax valuation problems, District Valuers probably have a good idea how many properties are in this price bracket (estimated to be around 70,000 nationwide). It would not be too difficult to find them (houses are not movable forms of wealth of course, so they are much harder to hide than other forms of wealth) and the government could put a hefty penalty on non-





disclosure to reduce the impact of preferential ownership being obscured by clever legal structures. However, with only a limited number of properties that would fall under this tax, even if potentially high rates were set, the sums of money raised would be relatively small and so such a policy might end up being more about political signalling than significant wealth redistribution in itself. It would be easier, politically, to introduce this than to reform council tax which would affect the population more widely.

A further issue that will need to be considered in introducing a revised council tax valuation policy, however, is the impact of the variation in local property prices. A £2m property in London is not the same as a £2m property in the East Midlands. It might be possible to have different thresholds in different areas (eg, through having a certain multiple of average property prices in each area). However, such a move might also reduce further the number of properties that would be taxable under this policy and would introduce highly unusual local variations in tax rates.

In addition to property taxation, greater taxation of the land on which taxable property sits (land value tax) has received significant political attention in recent years (not a new idea, but one that has been debated since the days of Adam Smith!). Land is a limited resource (the UK isn't getting appreciably bigger) and its use and control is therefore a particularly important asset for management in the national interest. The significance of tranches of land varies not just by size but by potential use as inner/near city land for development differs in economic value significantly from rural or more remote land. Where land is not made available for 'best' use then society is likely to be the poorer collectively. Given land itself is not heavily taxed in the UK, the opportunity exists to use the tax system to encourage

effective and efficient use of land. A land value tax policy might do this by attaching taxes to land that would encourage those owning it to make the most effective use they could of it. Such a tax could be varied to seek particular uses that are to society's maximum benefit (eg, reduction in land taxation where it was given over to affordable housing compared to say, commercial usage). Similarly banking of land, limiting its availability for other use, would be made a more costly activity potentially releasing important tracts of land for development. A number of countries around the world have land value taxes at national or regional levels (Denmark, the US – Pennsylvania, Australia – New South Wales, Singapore and Hong Kong, to name a few). Ireland promised one in 2010, to commence from 2013, but then backed down on this proposal under political pressure. It has also formed part of discussions about funding a post-devolution Scotland, and lessons could perhaps usefully be applied to the UK from these cases as part of a reform of wealth taxation where advocates claim this form of taxation even helps a country improve its recession-proofing (as reduced 'rent seeking' use of wealth links it more closely to productive activity). The IFS Mirrlees Review (2011) also provided specific analysis of the potential for a 'Land Value Tax' in the UK.

Taxing wealth transfers

Wealth transfer taxes are associated with the passing of wealth from one owner to another. As such, the forms of taxation most commonly falling into this category are taxes on death and taxes on giving assets away in life (gift and trust taxes).

Inheritance tax (IHT) is the UK tax under which taxes on death and gift taxes in life are charged. However, it raises very little at present (in the UK it raised less than one per cent of tax receipts in 2012/13 for the government and each year around

95 per cent of all estates pay no IHT). Further, unlike most OECD countries, in the UK IHT is not in fact a tax on inheritance, but a tax on the estate, meaning wealth transfers on death are not taxed in the hands of the recipient at all. It is only based on the wealth of the person passing it on in death. Despite all this, it continues to be strangely unpopular with the public as a form of taxation. Its opponents make claims of it being an unfair double taxation on hard-working citizens who have already paid tax(es) on their wealth in life. While this is in part untrue, for example, it is one of the only times a gain made by owning your own home becomes taxable, not a double tax entirely therefore in many cases, people often feel passionately about the ability to pass down wealth on death to recipients of their choosing – recipients who very rarely include the tax authorities! As such, any suggestions of reform to make this a more important wealth tax meet with significant public concern. Therefore, while there is an argument for root and branch reform, governments have been reluctant to do this.

Other issues with UK IHT include its relative generosity to farmers and business owners compared to others, as these groups get exemptions for larger sums than others. Such a system perhaps helps to reflect a difference in the taxation of earned and unearned wealth (the possible need for more of which was discussed earlier) but does so at best fairly crudely, as it does not differentiate the source of the wealth that exists within the business or that bought the farm.

Further, the richer you are the more likely it is you can avoid IHT through use of trusts (though many such loopholes have been closed recently) or through directly giving wealth away before death. This is because you have less need for all of your wealth to meet your basic needs the richer you are. This points to poor

targeting of this tax, perhaps contributing further to its relative unpopularity.

In response, claims by its supporters are made that this is a once-in-a-lifetime chance to rebalance the distribution of wealth as it passes from one generation to the next. If reform of IHT was to be undertaken, various alternative models exist the government should consider. For example, the Irish Capital Acquisition Tax (CAT) system is a model that seeks to directly address some of the current limitations the UK's IHT arguably suffers from as an effective tax to aid wealth redistribution. The Irish CAT has been in place since the mid 1970s and uses three thresholds, one for each of three receipt sources the donee may receive over their lifetime. These thresholds form the basis for both gift and IHT computations on a year-by-year basis. Once a threshold of gifts/inheritances you can receive from a particular source has been reached, any more from that particular source is subject to a full rate of CAT (currently 33 per cent since December 2012, rising from 31 per cent for the 12 months before this, and 25 per cent before that for some years). As such, this system continues to use a fixed rate of tax (a rate currently lower than higher personal income tax rates in Ireland, as IHT is in the UK) and doesn't vary based on the tax rate of the donee, as a more radical move to a true tax in inheritance might suggest. Where it differs from the current UK system, however, is that the thresholds differ in level based on the relationship you have with the donor, providing constraints on the tax-free receipts from any one source a donee can obtain before tax begins to be due.

We have found little data on the impact of this tax, nor on whether compliance is an issue. At face value however, we suspect that this form of applying a structured wealth tax on inheritance and gifts would help redistribute wealth as it would likely

encourage the spreading of gifts/inheritances more widely (eg, more directly to second generation/more distant relatives or worthy causes rather than just to direct offspring). It also means that where such inheritance spreading does not occur by itself, those who have received the most in the past pay most taxes on future receipts. Further research here would be very interesting.

It seems therefore that various options exist that would address some of the key issues with the use of IHT in the UK at present, making it a more effective tax in achieving wealth distribution impacts. A variety of alternative systems are being applied in other countries. The move to more of a donee-based tax for gifts and inheritances would be following the global trend more than continuing with the UK's current estate/donor-based approach. Politically however, this tax is a difficult one to change given significant public disquiet about it as an 'unfair' double tax despite the facts of its minimal impact on most people's tax contributions over life.

Taxing wealth appreciation

The third area of wealth taxes typically found in developed economies is the taxation of wealth appreciation. This is the key wealth tax category for revenue raising for governments, albeit raising relatively low sums compared to income and consumption taxes. In the UK in 2011/12, for example, the key individual wealth transfer tax – capital gains tax (CGT) – raised £4.3bn (approximately one per cent of taxes received that year). Even as the most significant personal wealth tax, CGT is paid by relatively few individuals. In 2009/10 (the latest figures available), only 164,000 people paid any CGT (compared with almost 31 million who paid at least some income tax). This is due in part to a relatively high threshold at which CGT becomes due in the UK, compared to countries such as Australia, where no

threshold exists, which means that anyone with any gains from selling a chargeable asset has to observe the CT rules and pay over, often small, CGT sums.

CGT is not paid by companies, only individuals. Companies instead pay corporation tax (an income not wealth tax) on any capital gains they make. This means that determining the full wealth appreciation tax receipts the government receives in any year is not straightforward to determine from public sources.

The reason wealth appreciation is taxed at the point of sale, rather than when appreciation occurs over time, is a practical one. Until such time as a sale occurs, the actual gain to be made is uncertain (unrealised). It only therefore makes sense to charge taxation at the point this gain crystallises in a sale and so wealth appreciation taxation tends to be done on this basis in the main. Tax on appreciation in value pre-sale may also require part disposal of the asset (if the asset can be part disposed of) to fund the tax, if alternative sources of income are not available to be used to cover this obligation. This is not likely to be efficient management of the asset base, as the sale is occurring solely for tax reasons. It is also likely to dissuade the holding of assets long term, which would not be a positive step for an economy needing greater distribution of asset ownership to decrease its citizens' reliance on the state.

CGT has been a tax that has undergone significant change in recent years. Currently it is charged at either 18 per cent or 28 per cent (over a threshold of £10,900) based on the level of income tax paid by the asset's owner. As such CGT is in part linked to income tax rules. However, exceptions to these basic rules allow for some variability in rates paid by individuals in practice. For example, in 2007, private equity boss, Nicholas

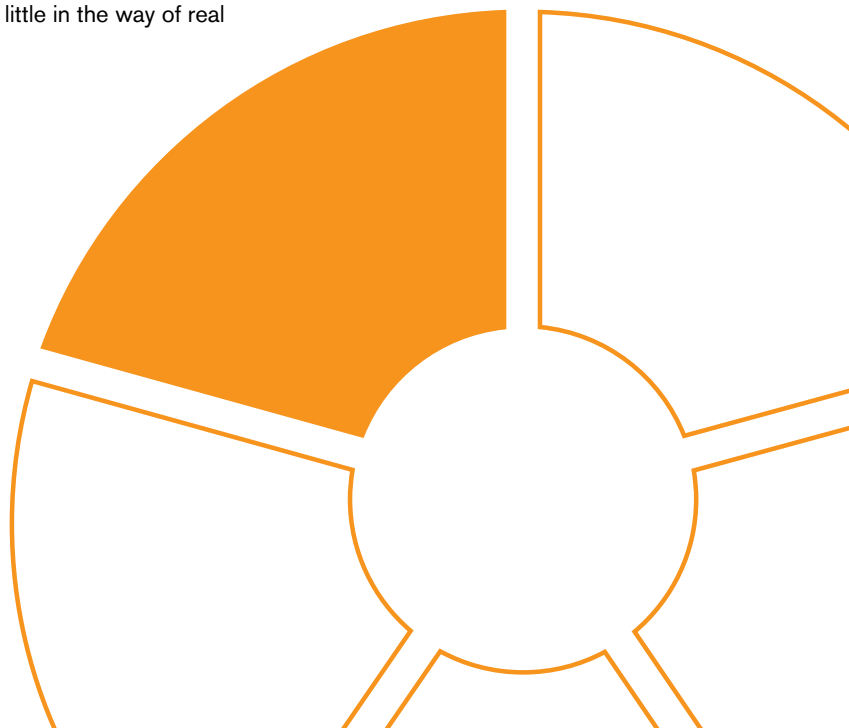
Ferguson of SVG Capital, criticised capital gains tax rules which allowed buy-out firm managers to pay as little as 10 per cent on profits derived from assets held for more than two years. As Mr Ferguson told the Financial Times: *'Any common sense person would say that a highly-paid private equity executive paying less tax than a cleaning lady or other low-paid workers, that can't be right'*.

For these reasons, CGT is therefore a tax that is regularly in the spot-light as needing reform. As those with assets are able to release value stored to provide an alternative to earned income for living on, there is a strong argument that a tax on wealth appreciation is necessary for equity within any developed tax system. Why should those working to earn income be taxed on that income when those who receive similar sums to spend on consumption from selling assets and releasing unearned 'income', not pay tax on it. The 'A buck, is a buck, is a buck' argument! This was, in fact, the cited aim for CGT's introduction in 1965. It was not intended to be a key revenue raiser, as it has proven not to be, but to improve the fairness of the overall tax system. It therefore had little in the way of real

impact on wealth distribution. Despite this, its presence in the future in the tax system is likely to be assured on the overall equity basis.

This is not to say however, that reform is not needed on this tax. Areas for reform may include reassessment of the impact of the fixed rate CGT system introduced relatively recently in the UK, with a possible reversion to the prior system of the use of the marginal rate of income taxation for CGT. This would ensure that, at least for non-exempt or protected asset sales, gains were taxed fully as if they were an income source. This would arguably increase the equity of the system further and reduce the tax advantage to receiving income from a capital gain rather than from earned income for many, particularly higher rate or additional rate (paying 40 per cent or 45 per cent) taxpayers.

However, a wealth appreciation tax, such as CGT, suffers from at least one key issue over earned income that a government must consider how to address – the impact of inflation.





As prices change over time in an inflation impacted society, asset values will alter solely linked with underlying inflation. A government must consider whether the tax system recognises this and only tax 'real' wealth appreciation (that which exceeds the impact of inflation alone), or whether to make this part of the taxable gain. In the UK we used to apply an inflation indexation to expressly recognise the impact of inflation changes. Now, in the name of simplification, the flat rate difference compared to the higher income tax rates is supposed to allow for some adjustment for inflation. However, this is clearly very crude (the rates are not adjusted for the length of ownership of assets so, for example, as much adjustment is made for someone owning an asset only briefly as for someone holding the asset for a long time) and therefore, in effect, the adjustment made for inflation in the UK's system is no longer accurate.

A key exemption that a future government may have to grapple with one day is the family home exemption from CGT. As their home is the largest single asset most people will own in their lifetime, exempting gains made by owning the house you live in is a very significant tax concession. This exemption cost a predicted £10bn in tax revenues foregone in 2012/13, making it currently one of the most expensive tax concessions in the UK's tax system (after the personal allowance, which allows deductions from income tax for personal pension contributions, and does not collect VAT on new house builds). While developed countries around the world similarly do not generally tax gains made on people's homes, an extended period of financial crisis may require some governments to look at this source of possible tax revenue in time, and a wealth appreciation tax may be the chosen route to tax some of this, even if only a small amount or over a large gain threshold.

Philanthropy

Our discussion of wealth inequality, and of taxation to redress inequalities, may come across as overly negative for supporters of a market model of risk and reward who see wealth inequality as an inevitable consequence of encouraging risk taking. Such risk taking is often seen as a crucial activity for which higher expected reward is justifiable. Different propensities to take risk and different abilities to assess and size risk will create an unequal distribution of wealth. There are particular problems, of course, with this approach, such as where the risk is not borne by those who 'earn' the money. Here, tax payers may bear the risk while individuals take the rewards, for example in too-big-to-fail companies and in the bonus culture of executive remuneration in banks.

These and related problems aside, taxation of wealth may become problematic because the wealthy have means and motive to avoid it. Government can be left with a low yielding tax of questionable cost-benefit. Self interest leads to avoidance. Presuming people are motivated by self interest, discussion of ways to encourage a voluntary redistribution of wealth will be fruitful. The challenge for government then becomes one of how to take self interest and align this type of behaviour to benefit others.

There are mechanisms which make charitable giving very straightforward, not least when income is taken at source so the donor never sees the money. 'Payroll Giving' lets a person donate a regular amount directly from salary, through the employer's payroll. The donation is given before tax but after National Insurance is taken off. This simple process is run through the automated payroll but unfortunately those who are self-employed cannot access payroll giving.

There are a number of comparison studies and papers making the case that US giving is twice as great as UK. For example, CAF (2006) found that the amount that individuals give to charity varies from 0.14 per cent of GDP in France to 1.7 per cent in the US, with the UK at 0.73 per cent. Also, different activities are philanthropically funded in each country, a good example being that, in the absence of the NHS and the BBC in the US, there is fundraising for health and public service broadcasting on that side of the Atlantic. European countries generally have higher levels of taxation and more investment in welfare services, hence they require lower levels of charitable donation for key services. The far higher number of billionaires and multi-millionaires in the US may also provide some explanation for the 'philanthropy gap' alongside the higher level of practising religiosity in the US, as all faiths encourage followers to give money to good causes.

Perhaps an even more important explanation lies in the different cultures of philanthropy (see Breeze and Lloyd 2013). In the US, to be known as a philanthropist is an aspirational identity, with graduates of Ivy League universities competing to be the first in their class to donate and have a building named after themselves. And 'The Giving Pledge' involves billionaires (most notably Bill Gates and Warren Buffett) pledging to give half their wealth to charitable causes. In the UK, such activity may attract cynicism and criticism (eg, 'they're not giving enough', 'they're only doing it for the tax break', 'it's just about their ego'). As well as an under-developed giving culture, the UK may also have an under-developed asking culture. Fundraising has only recently become professionalised and is still seen as little more than begging in many quarters – including by the leaders of charities who rely on donations! Fundraising is seen as 'dirty work' done by people who are shameless

in raising the embarrassing issue of money. In the US many university leaders spend a huge percentage of their time actively going out and fundraising. Here VCs are only just starting to understand that supporting their development office is part of the job.

The tax situations in the UK and US are similar due to the raft of legislation that began in the UK's 1986 budget (which introduced Gift Aid), followed by the 2000 Budget (which made all donations made by tax payers eligible for Gift Aid) and other minor changes made in many other budgets (eg, incentives for payroll giving in 2004, incentives to leave charitable legacies in 2012, etc). The one outstanding advantage that US donors enjoy is what they call the Charitable Remainder Trust, which some in the UK are campaigning for as 'lifetime legacies'.

Recent government policy in this area proposed removing tax relief on donations higher than £50,000 or 25 per cent of income, whichever was higher. The aim of this reform was not to discourage philanthropy but to reduce tax avoidance. However, this proposal was subject to a U-turn in May 2012 following opposition to the proposal from charities and wealth donors.

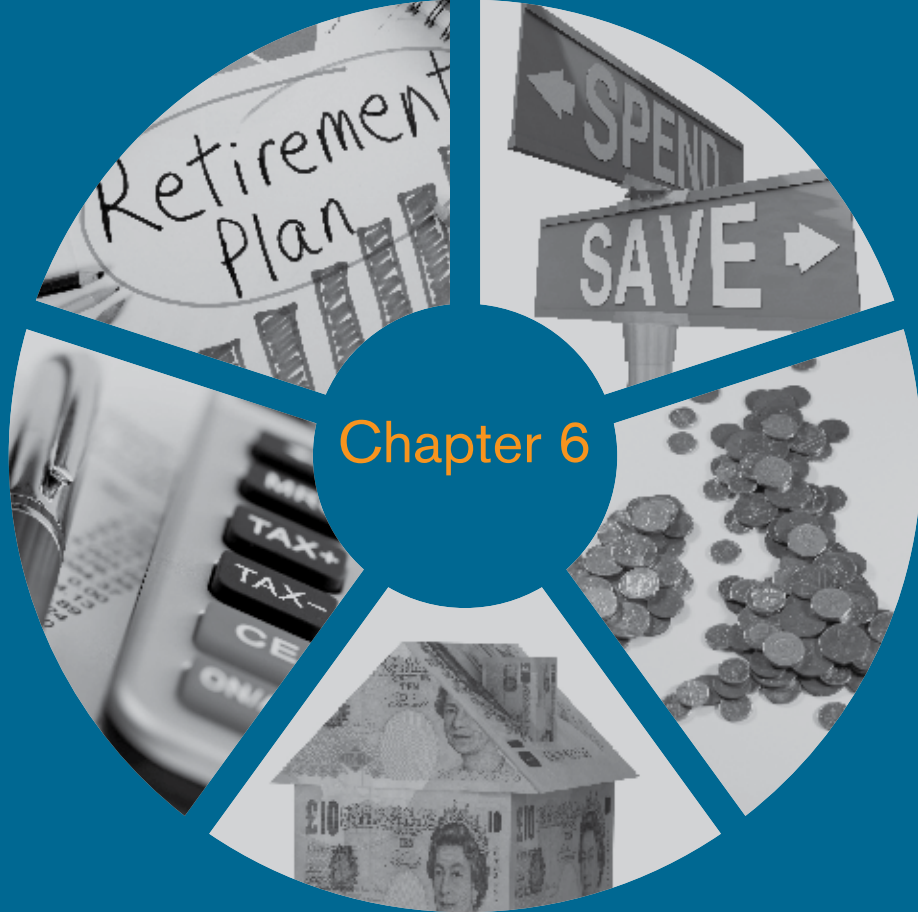
Breeze and Lloyd (2013) argue that the actual role tax plays in encouraging (or discouraging) donations is difficult to calculate, as the act of giving is undermined by admitting any form of self interest. The lack of data from HMRC makes it hard to test the figures, but what data there is indicates no change in giving significantly correlated with changes in tax levels which might serve as a proxy (eg, the recently introduced higher (now gone) and additional rates did not seem to spark more giving, despite being in effect a ten per cent or five per cent increase in the tax break). But insofar as donors recognise the nudge, they tend to say that they appreciate tax breaks because they

make their money go further, so they can give, for example, £600,000 and their favoured cause receives £1m. This is attractive but still costs them £600,000. There is also a practical aspect in that the existence of these reliefs forces the issue to be raised at crucial junctures in people's lives, such as at the point of inheritance or liquidation. Big donors (eg, Tom Hunter) are on record as saying they gave away a lot at that point because an accountant or lawyer pointed out the benefits to them. In such cases they usually put the money into a charitable trust or foundation for distribution at a later date once they have worked out their philanthropic priorities, so there is no immediate impact on front-line charity income in the year such mega-donations occur.

So how can philanthropy be encouraged whilst also reducing tax avoidance? Breeze and Lloyd (2013) provide numerous suggestions. First, they argue that philanthropy can be encouraged by emphasising that it enriches one's life. Breeze surveyed 82 donors and 28 philanthropy experts, with 20 in-depth interviews with donors. The overwhelming finding was that giving made them happy. However, 'enrichment theory' is difficult to use to encourage giving as the fact that it makes people happier and gives life more meaning is not apparent until after the gifts have been given! Other suggestions involve: seeking cross-party consensus to clarify a long-term strategy on philanthropy; exploring the role of 'matched funding' by government possibly, instead of tax relief; encouraging charities to improve efforts in asking for support; improving after-care and stewardship of those who make significant gifts; encouraging philanthropists to talk more openly about giving and therefore act as role models for others.

Key points

- This Commission is focusing on wealth but a key way in which wealth is accumulated, is through saving from earned income. Over the last 30 years income inequality has grown dramatically and those at the very top of the income distribution have seen huge increases in their incomes which have subsequently fed through into wealth inequalities. Those on high incomes are also much more likely to receive an inheritance and/or lifetime gift and much more likely to receive one of high value.
- The 2013 Parliamentary Commission on Banking Standards has proposed '*a radical re-shaping of remuneration*' in the finance sector and, more broadly, the UK is giving shareholders a binding say on pay policy and the powers to consider the differentials between the lowest and median paid workers but greater transparency and power for shareholders is vital to ensuring fairer rewards for work.
- Ensuring fair rewards for work, not just at the top but also for those on lower wages, will create a fairer distribution of 'original income', thus reducing any need for redistribution.
- There is often great disagreement about the overall level of income and wealth taxation but, whatever the level, there is then a question about the balance between these two types of taxation (and the balance between these and other forms of taxation). The Mirrlees Review called for a range of reforms of wealth taxation and these should be considered by the government.
- The UK does not currently have an annual wealth tax but council tax plays part of a role here. This tax is over-ripe for reform either wholesale or through incremental change (eg, the introduction of new bands at the top). The scope for a mansion tax and a land tax also needs more public consideration.
- If earned wealth is generally considered more worthy than unearned wealth, then reform of inheritance tax should be seriously reviewed. Turning this into a capital receipts tax rather than an estate tax, and capturing lifetime gifts in a more comprehensive way would make this a fairer tax though the practical and political challenges should not be underestimated. Further study of Ireland's tax system in this regard could be very fruitful.
- Further reform of CGT is called for, potentially including a return to its application at marginal rates of income to reflect the nature of capital gains as an alternative form of income that is available to those with assets to call on when needed.
- Alongside wealth taxation, the wealthy could be encouraged to make increased charitable donations. One way of achieving this would be through further tax incentives but this runs the risk of encouraging tax avoidance. A government review of ways to support philanthropy would be welcome.



Chapter 6

Conclusion

The distribution of personal wealth in Britain is highly unequal with the overall share of the top tenth of the population in 2008/10 being more than 850 times the share of the bottom tenth.

Levels of wealth ownership affect people's physical and mental health, their education and employment opportunities, their ability to cushion themselves against financial shocks, their level of political power and so on. Wealth ownership is particularly important now, at a time of austerity, when wages are stagnating and social security benefits are being cut. So what should be done, if anything, about wealth inequality?

The broad aim of this Policy Commission was to stimulate debate around this important question. We found significant evidence about the links between wealth and a range of outcomes (as outlined in Chapter 2). But we need further research into what type and level of wealth inequality is (most) harmful, and for whom. For example, is it a greater problem that some people have no/negative wealth or that some have extremely high levels? This begs the question, of course, of what are 'extremely high levels'. Are the 'super rich' the top one per cent, the top 0.1 per cent or the top 0.05 per cent? What criteria might we use to make this judgement? Or should we focus on a broader group, say the top 10 per cent? One reason why the definition of those at 'the top' matters is precisely in relation to policy reform. Which groups might be taxed more? And which groups might

lose (universal) benefits, like child benefit or winter fuel payments, if it was decided to means-test or tax these benefits (further)? Income tax thresholds might be one way of categorising people for such purposes but income and assets are different and asset thresholds might also be important to determine alongside income thresholds.

However we define, and treat, those 'at the top' of the wealth distribution, it is clear (see Chapter 2) that those with no or negative wealth (ie, net debt) are at a much greater disadvantage in life than those with moderate or high amounts of wealth. For example, they have no cushion to fall back on in times of need and certainly no ladder to help them climb up the socio-economic scale. In a society with a liberal welfare state, lack of private wealth puts people at a particular disadvantage and we might therefore argue that those at the bottom are the group with the greatest need of help. Policies designed to help them might not affect the overall level of wealth inequality much (as measured by the Gini coefficient) but might make a major difference to their lives.

Having said that, those 'in the middle', with some assets or the ability to accumulate some, will include the

powerful 'median voter' that politicians from the main parties seek to attract. This group, again variously defined, has become more prominent in political debate with the term 'squeezed middle' used widely though, again, pertaining to the middle of the *income* distribution rather than the wealth distribution.

Of course, within each of these groups there are particular segments of the population (including different age groups, genders, ethnicities and so on). This report does not go into detail about these groups but young people are a particular concern given that young people today are likely to be worse off compared with previous generations, the first time this has happened since data has been available on living standards. This raises issues of inter-generational inequalities and inter-generational transfers of wealth though, data suggests that inequality is much greater within than between generations.

The imperative to do something about wealth inequality may derive from concern about the impact of inequality on a range of outcomes. But it may also derive from concern about fairness and social justice. There are, clearly, widely differing conceptions of fairness and justice, with those prioritising individual freedom

(eg, to own private property) pitted against those prioritising equality (eg, through more collective forms of wealth). Hills et al. (2013) suggest the possibility of some common ground between these two broad political philosophies as those born with no wealth have, effectively, much less freedom than those born into wealthy families. Indeed, the idea of 'capital grants' (giving young people a substantial financial asset at age 18 or perhaps 21) often appeals to people from across the political spectrum as a way of promoting both freedom and equality. Arguments for capital grants or citizen's inheritance go back a long way. In *Agrarian Justice*, Thomas Paine (1795–6) wrote:

In advocating the case of the persons thus dispossessed, it is a right, and not a charity... [Government must] create a national fund, out of which there shall be paid to every person, when arrived at the age of twenty-one years, the sum of fifteen pounds sterling, as a compensation in part, for the loss of his or her natural inheritance, by the introduction of the system of landed property.

Such ideas may appear radical, and would certainly be costly if implemented in a meaningful way but the Child Trust Fund was based at least partly, if also loosely, on such ideas and research on the impact of the Child Trust Fund would help explore the case for such policies.

Discussions of fairness and social justice bring issues of morality into the debate and notions of 'moral economy'. Following on from the work of E.P.Thompson (1971), Karl Polanyi (1968), Andrew Sayer (2000) and others, the idea of a 'moral economy' reminds us that *'the market is a social and political construction that is steadily shaped and re-shaped by social, political and moral struggles.'* (Bolton and Laaser 2013: 514). Collective notions of fairness (or 'lay morality' as Sayer refers to it) are therefore important in balancing economic

factors with ethical norms. Public views therefore matter here and we should therefore turn to, and engage with, public opinion, to consider perceptions of fairness and justice.

It is highly likely that some degree of wealth inequality is generally accepted by the public as fair and socially just. This could be for a number of reasons. For example, older people will have had more time to save than younger people and so their greater level of wealth is simply a reflection of lifecycle factors rather than any systemic injustice. Wealth inequality also occurs because people on similar levels of income will have different preferences for saving as opposed to spending and, again, the resulting inequalities might generally be accepted as fair. We might also accept that some people will earn more than others due to higher levels of skill and effort, and so have greater capacity to save. Some people will also have the wisdom or good luck to invest in housing and financial assets just before they increase substantially in value. And, finally, we might also accept that parents will have different abilities and propensities to pass on wealth to their children, though we might also feel that 'unearned' wealth (through inheritance) is less deserved than 'earned wealth'. The extent of wealth inequality, however, appears to go far beyond what can be explained and justified by these factors.

While this report has focused on wealth inequality, the basic root of these inequalities is income inequality and this needs to be tackled alongside inequalities in wealth. However, if we focus on wealth inequality, then there is much that can be done by a range of actors: central and local government; the financial services sector; the third sector; and individuals themselves. We therefore conclude this report by listing some of the policy ideas discussed in more detail in Chapters 3, 4 and 5.





Policy recommendations

For those with very little, no or negative wealth

- Low incomes (either through social security benefits or wages) need to be increased to reduce levels of problem debt and give people the chance to save.
- Funding for debt advice and Credit Unions is vital to support people to reduce debt, avoid expensive forms of credit and save.
- Payday lending needs tougher regulation and banking services for those on the lowest incomes need to improve.
- People on the lowest incomes need better support to save. Further thought needs to be given to how a 'Saving Gateway' or similar scheme can be funded.
- Other ways of encouraging saving should also be developed, including auto-enrolment into savings accounts when people start a new job and 'save the change' savings accounts linked to credit and debit cards.
- Means tests on savings for workers receiving Universal Credit should also be reviewed as a possible disincentive to save for such groups.
- An organisation which solely represents the interests of savers should be established.

For those 'in the middle' with some assets

- Housing policy and housing finance both need a thorough review to ensure that supply can meet demand. Without increased housing supply, government support for lending merely props up the relatively high house prices which are also part of the problem.
- Innovation in housing finance should be explored. This has the potential to boost affordability by reducing the extent to which owners have to buy into the investment return on their property and to enable both risk and

profit-sharing in relation to house price appreciation (which gives those who do not usually benefit from housing investment returns – eg, renters – the opportunity to do so).

- The government should review ways of helping people to access the equity in their homes. For example, equity borrowing among home buyers of working age is common and can be risky. This needs to be made safer. Equity release for people without earned income (retired cash-poor households) is costly and so some ways to share the risks involved in equity release products, perhaps involving government, might be helpful here.
- Ways to increase the amount saved in occupational pensions (beyond default levels) needs further thought.
- Development of 'Defined Ambition' pension schemes, which share the risk between saver, employer (and potentially state) should be given further consideration.
- Council tax is over-ripe for reform either wholesale or through incremental change (eg, the introduction of new bands at the top). The scope for a mansion tax and a land tax also needs more public consideration.
- Greater consideration should also be given to the idea of taxing the returns on investment for owner occupiers in the same way as they are taxed for any other property (or financial asset) investor. This could be restricted to gains above a certain amount or to gains accrued by people in a certain wealth band. Or governments could decide to make interest on savings for people without housing wealth tax free in the same way as housing investment returns are tax free. Parity across the tenure divide in the treatment of returns on savings/ investments should be reviewed.
- If earned wealth is generally considered more worthy than unearned wealth, then reform of inheritance tax should be seriously reviewed. Turning this into a capital receipts tax rather than an estate tax, and capturing lifetime gifts in a more comprehensive way would make this a fairer tax though the practical and political challenges should not be underestimated. Further study of Ireland's tax system in this regard could be very fruitful.

For those 'at the top'

- Remuneration policies need re-shaping, for example, by giving shareholders a binding say on pay policy and the powers to consider the differentials between the lowest and median paid workers but greater transparency and power for shareholders is vital to ensuring fairer rewards for work.
- Ensuring fair rewards for work, not just at the top but also for those on lower wages will create a fair distribution of 'original income' thus reducing any need for redistribution.
- The Mirrlees Review called for a range of reforms of wealth taxation and these should be considered seriously by the government.
- Further reform of CGT is called for, potentially including a return to its application at marginal rates of income to reflect its nature as an alternative form of income that is available to those with assets to call on when needed.
- Ways to encourage philanthropic giving (without encouraging tax avoidance) should be reviewed.

Appendix A

Key questions

Topic 1: Existing knowledge base

- 1.1 Is there any additional, and in particular more up-to-date, evidence of the extent and nature of wealth inequality (please refer to 'Wealth Inequality: Key Facts' paper)
- 1.2 What gaps in the evidence base remain and how could they be filled?

Topic 2: Is wealth inequality a problem?

- 2.1 Do people have equal/similar opportunities to accumulate wealth? Where there are unequal opportunities, why is this?
- 2.2 Is wealth inequality linked to social mobility? If yes, in what way?
- 2.3 Do assets have an effect on life chances independent of income?
- 2.4 Why do (some) people need/want to forego consumption in order to accumulate (different types of) assets?
- 2.5 What are the barriers to accumulating wealth (eg, housing wealth, savings and private pensions)?
- 2.6 Should wealth accumulated through lifetime gifts/inheritance be seen differently from wealth accumulated through saving from income or through increases in the value of existing wealth?
- 2.7 Is wealth inequality (largely) the result of lifecycle factors and the choices some people make to work harder and save more of their income than others?

- 2.8 Does the opportunity to accumulate large amounts of wealth provide incentives for entrepreneurs, to the benefit of the economy, and society as a whole?
- 2.9 Is wealth inequality damaging to social cohesion and/or democratic processes?
- 2.10 Are some forms of wealth inequality more/less damaging/helpful?

Topic 3: Policy options

- 3.1 How can we spread opportunities to accumulate different kinds of wealth?
- 3.2 How can we help those with moderate amounts of different kinds of wealth to maximise the benefits from wealth-holding?
- 3.3 Can the practical challenges presented by certain kinds of wealth taxes (eg, a lifetime transfer tax or land tax) be overcome?

Appendix B

Policy Commission work programme

The Policy Commission heard and deliberated on evidence from a range of sources, agreed conclusions and recommendations, and explored these further through national and local public events.

Scoping phase of the Commission

Activities included:

- Developing the idea for the Policy Commission with University of Birmingham academics and Commissioners.
- Launching the Policy Commission at the Conservative Party Conference (October 2012) with a debate on 'Wealth: are we all in it together?' chaired by David Urquhart – Bishop of Birmingham and Chair of the Birmingham Policy Commission. Panellists included Mark Florman (Director of the Centre for Social Justice), Robert Hutton (Bloomberg UK Political Correspondent), Fraser Nelson (Editor of *The Spectator*), Matthew Sinclair (Chief Executive of the Taxpayers' Alliance), and Professor Karen Rowlingson (Co-academic lead of the Commission).
- Appointing the Commissioners.
- Commissioner meetings to agree the content and process of the Policy Commission.
- Linking to the work of the Centre for Household Savings and Management (CHASM) and other University of Birmingham research.
- The Birmingham Brief: '*Wealth inequality – are we "one nation", all in it together?*' commenting on the 'one-nation' debate between the Labour and Conservative visions for the future prosperity of Britain <http://www.birmingham.ac.uk/research/impact/thebirminghambrief/items/2012/10/Wealth-inequality---are-we-one-nation,-all-in-it-together.aspx>

Evidence gathering and deliberation phase of the Commission

- Two half-day workshops to hear and deliberate evidence from policy-makers, practitioners and academics:
 - One workshop linked to the London School of Economics' Centre for Analysis of Social Exclusion (CASE), including contributions from John Hills (Professor of Social Policy and Director of CASE), Eleni Karagiannaki (Research Officer, CASE), Dr Abigail McKnight (Toyota Senior Research Fellow, CASE), and Sir Tony Atkinson (Centennial Professor, LSE).
 - The second workshop attracted experts from across the policy spectrum including Danny Dorling (Professor of Public Understanding of Social Science, University of Sheffield), Diane Elson (Chair of Women's Budget Group and Professor of Sociology, University of Essex), Andrew Harrop (Director, Fabian Society), Steve Lowe (Director of External Affairs and Customer Insight, Just Retirement), Nicky Edwards (Head of Public Affairs, Just Retirement), Howard Reed (Director, Landman Economics), and Matthew Sinclair (Taxpayers Alliance).
- Commissioner meetings to reflect on the issues raised at the workshops and to deliberate policy options.
- Meetings with key policy figures including David Hartnett (Permanent Secretary for HMRC, 2005-2012), James Plunkett (Director of Policy and Development at the Resolution Foundation), and Chris Evans (Professor of Taxation, University of New South Wales).

- Public debates including one policy-focused debate in Committee Room 1 of the House of Lords, and one publically-orientated debate at the University of Birmingham's Community Day.
- Exploring broad opinion on the distribution of wealth in the UK through filming 'vox-pops' with members of the public in Birmingham.
- Vice Chancellor's Select Dinner to discuss issues raised in the Commission with national experts including Steve Webb MP, Minister of State with responsibility for Pensions (Department for Work and Pensions).
- Paper by Dr Paul Cox on Pensions and Wealth in the 55-64 age group, for the NEST Annual Forum, 2013.
- Commissioners' meetings to finalise the findings and recommendations.

Contributions to the Policy Commission

To inform its deliberations, the Commission consulted a wide range of experts who contributed to the Commission's work.

- Written submissions and additional references provided to the Commission are available here: <http://www.birmingham.ac.uk/research/impact/policy-commissions/wealth/written-evidence.aspx>
- Summaries of discussions with experts are available here: <http://www.birmingham.ac.uk/research/impact/policy-commissions/wealth/evidence.aspx>

Appendix C

Contributors to the Policy Commission

A number of people contributed in various ways, including through our public events. We would particularly like to acknowledge the contributions from the following:

Sir Tony Atkinson

Centennial Professor, London School of Economics

Beth Breeze

Director, Centre for Philanthropy, School of Social Policy, Sociology and Social Research, University of Kent

Niki Cleal

Director, The Pensions Policy Institute (PPI)

Philippa de Lacy

Policy and Public Affairs Coordinator
Personal Finance Education Group (pfeg)

Danny Dorling

Professor of Public Understanding of Social Science, University of Sheffield

Nicky Edwards

Head of Public Affairs, Just Retirement

Diane Elson

Professor of Social Policy, University of Essex
Chair, Women's Budget Group

Chris Evans

Professor of Taxation, University of New South Wales

Mark Florman

Director, Centre for Social Justice

Andrew Harrop

Director, Fabian Society

David Hartnett

Permanent Secretary for HMRC, 2005–2012

John Hills

Professor of Social Policy and Director of CASE
London School of Economics

Robert Hutton

Bloomberg UK Political Correspondent

Eleni Karagiannaki

Research Officer, CASE
London School of Economics

Omar Khan

Head of Policy Research, Runnymede Trust

Kayte Lawton

Senior Research Fellow, Institute for Public Policy Research (IPPR)

Steve Lowe

Director of External Affairs and Customer Insight, Just Retirement

LSE Centre for Economic Performance

Ruth Martin

Chief Executive, Chartered Institute for Securities and Investment

Abigail McKnight

Toyota Senior Research Fellow, CASE
London School of Economics

David K Mills

The Land Valuation Tax Campaign

Fraser Nelson

Editor, *The Spectator*

National Employment Savings Trust (NEST)

James Plunkett

Director of Policy and Development, Resolution Foundation

Gwilym Pryce

Professor of Urban Economics and Social Statistics, University of Glasgow

Howard Reed

Director, Landman Economics

Nick Silver

Research Fellow, Institute for Economic Affairs

Matthew Sinclair

Chief Executive, Taxpayers' Alliance

Steve Webb MP

Minister of State, Department for Work and Pensions

Richard Wilkinson

Emeritus Professor of Sociology

Geoff Willis

Econodynamics

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Contact

Professor Karen Rowlingson
University of Birmingham
Birmingham
B15 2TT

Email: k.rowlingson@bham.ac.uk

Tel: +44 (0)121 415 8565

www.birmingham.ac.uk/policycommissions

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UNIVERSITY OF
BIRMINGHAM

Edgbaston, Birmingham,
B15 2TT, United Kingdom

www.birmingham.ac.uk