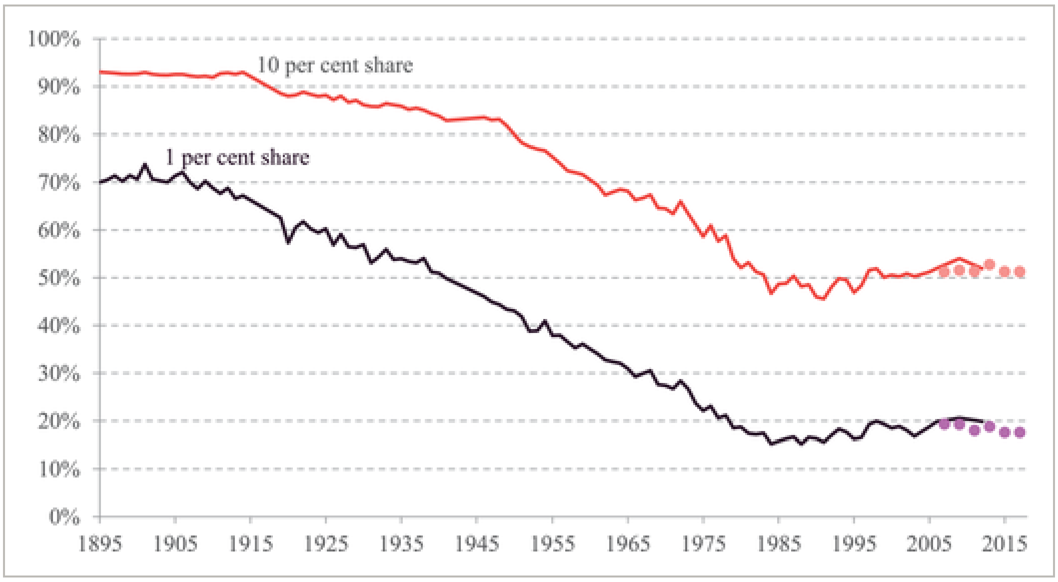
Inequality of Wealth: Is a wealth tax the answer?

The Government has scrapped the City bonus cap. The cap was introduced by the EU and came into force in 2014. Banker bonuses were capped at two times their annual salaries. It covered bonuses in the form of both cash and shares.[1] Wealth, in the form of stocks and shares, property, pensions and savings, now plays a much more important part in determining people's living standards than it used to. Since 2008 household incomes have increased by 6%, while household wealth has increased by 18%. It is also much harder than in the past to earn your way to high wealth by setting aside savings over your working life – what matters most now is the wealth you inherit or marry into.[2]



The chart[3] shows that the share of personal wealth fell significantly during the early and middle years of the 20th century. The share of wealth going to the wealthiest 1 per cent and 10 per cent of UK individuals remained relatively stable at around 70 per cent and just over 90% respectively. The shares began to fall after 1914 and the decline continued apace until around 1980, by which time it had decreased to around 16 per cent and 48%. Since then top wealth shares have remained fairly stable and even increased slightly.[4] As measured by the Gini coefficient wealth inequality since the 1980s has remained around 0.6 almost twice as high as that of income inequality.

Median household wealth in Britain is just over £300,000 which is a 20% increase since 2008. The wealth of the richest 1% of households is more than £3.6 million compared with £15,400 or less for the least wealthy 10%. The wealthiest 10% of households hold 43% of all the wealth in Britain, while the bottom 50% holds only 9%. Household median wealth was highest in the South East at £503,400 having risen 43% since 2006, and lowest in the North East at £168,500 [5] However these figures do not include business wealth. There is also substantial under-recording since the very wealthy do not tend to respond to surveys especially perhaps those by the Office for National Statistics. It is estimated that total household wealth in the UK is underestimated in the figures by about 8%.[6]

The question of whether the UK should have a wealth tax was last raised seriously in the Labour Party's manifesto of 1974. The intention was to introduce "*an annual tax on wealth* *above £100,000".* [7] Unfortunately it was never implemented. Britain does have other taxes however that relate to wealth - inheritance tax is a tax on transfers of wealth between individuals, capital gains tax is a tax on increases in the value of certain personal possessions and shares and council tax. Only a few countries currently have an annual wealth tax, for example Norway, Switzerland and Spain. Spain is one of the very few countries to have a wealth tax as well as capital gains tax and an inheritance tax.[8]

In his book, 'Capital in the Twenty First Century', Thomas Picketty suggests that his proposal for an annual wealth tax could be varied according to how wealthy people are. The less wealthy, that is those who have assets below 200,000 euros would pay a 0.1% rate, while a 0.5% rate would apply to those with assets between 200,000 and 1 million euros. Those whose fortunes are between 1 and 5 million euros would be subject to a levy of 1%, while those fortunes in excess of this would attract a levy of 2%. He writes: "*The largest fortunes are to be taxed more heavily and all types of assets are to be included, real estate, financial assets and business assets – no exceptions*." [9]

The Wealth Tax Commission[10] has recently argued against an annual wealth tax mainly because of the administrative costs involved in conducting annual evaluations of people's wealth. Instead they recommend that the government should reform existing taxes such as inheritance tax, capital gains tax, income tax on investment income and council tax. They claim that together these taxes could raise similar amounts of revenues without the additional cost. However if the government and wider society wanted to redistribute wealth in order to reduce inequality, a wealth tax would be necessary – there are limits, they say, to how much redistribution is possible using existing taxes. In the interim they proposed a one-off tax on the top 1% of wealth holders, those with a net wealth of over £2 million. If payable at 1% a year over five years they estimate that this would raise £80 billion over the lifetime of the tax.[11]

Some have suggested that the easiest and most effective way to reduce inequality of wealth would be to limit the availability of credit. Property wealth, which makes up 36% of total household wealth, is driven by the supply of credit. Limiting the amount of credit available can be done by governments and central banks and will "*gradually bring the tendencies towards inequality under control*." [12]

Sources

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