

Hidden Wealth

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Link to working paper:

http://eprints.lse.ac.uk/102830/1/Cummins_hidden_wealth_wp39.pdf

More on the theme of #LSEWealth

The 20th century's 'Great Equalization' of wealth in Europe and the United States was the result of the decline of the top wealth-shares. In England the wealth-share of the top 1% dropped from over 75%, in 1900, to less than 20% by 1970. Economists believe that new wealth created by the post-war 'Golden Age' of economic growth grew faster than old wealth.

This stylized fact is based primarily upon declared wealth. But the incentive to hide wealth exploded over the 20th century. In 1950s England, the top marginal-rate of estate tax was around 80%. Is the 'Great Equalization' of wealth an illusion? Could elites be hiding their riches?

I use the records of every English death and probate, 1892-1992, to estimate hidden wealth. I define 'hidden' wealth as wealth missing from the perspective of the probate calendars, and therefore the tax authorities. A portion of this will be legal portfolio re-arrangement to tax-exempt trusts, inter-vivos bequests, charitable donations, gifts to non-family members, and a portion will potentially be illegal tax evasion.

The method is a simple accounting exercise that exploits the nominal, individual level data. The key identifying assumption is that wealth declared before 1920 was a more accurate measure of the 'true' wealth of a dynasty than declared wealth after 1920. The incentives suggest that this is reasonable; taxes on wealth before 1920 were a tiny fraction of taxes after 1920.

During the low tax era, 1892-1920, I sum declared wealth at death, by dynasty. I then calculate an expected flow of inherited wealth that should show up in those same dynasties after 1920. For most, wealth after 1920 is in excess of that predicted by the inheritance flow from 1892-1920. This is newly created wealth. However, for certain dynasties, declared wealth is systematically below that expected from inheritance. This is hidden wealth.

At the aggregate, this estimate is lower than observed wealth as new wealth is being created by non-inheriting surname dynasties. However, for the richest English dynasties,

the Victorian Elite of 1892-1920, it is clear that at least 20-32% of all elite wealth is hidden by their descendants, 1950-1992.

At the individual surname level, this hidden wealth estimate, and the proportion of wealth hidden, strongly predict the appearance of a surname in the recent Offshore Leaks Database. This suggests that a proportion of inheritance taxation is potentially being evaded. Further, the richer the dynasty, the greater is the proportion of wealth hidden.

Using the locations of 31 Million UK voters from the electoral roll of 1999, and the complete price paid data for house sales 2017-8, I show that hidden wealth is associated with more expensive postcodes. Hidden wealth boosts contemporary consumption and living standards of hiding dynasties. Further, I show that their children are more likely to attend the elite universities of Oxford and Cambridge, 1990-2016.

Incorporating this elite hidden wealth into a recalculation of the top decile wealth share shows that the decline of the 'true' wealth share is significantly more muted than that for observed wealth. The richest decile hold an extra 10% of the 'true' wealth distribution, equivalent to a 33% reversal of the observed decline.

This paper presents a simple method, combining historical and contemporary data, to estimate hidden wealth at the surname level. This method produces a set of surnames that are potentially hiding a large amount of wealth. Tax authorities could use this information to investigate potential evasion.

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