Mike Savage February 20th, 2024

Why wealth inequality matters – and what to do about it!

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Despite seismic gaps between rich and poor, policy proposals to redress the balance have so far cut little ice in the UK. More political leverage could be gained, ***Mike Savage*** *argues, by drawing attention to the colossal scale of wealth inequality and the grievous injustices that result from it.*

There is an elephant in the room. Stocks of wealth – assets such as property, savings, and investments that can be given a monetary value – have soared in recent decades. According to the Wealth Inequality Database, average wealth in the UK has doubled from £100k per head in

1985 to £200k per head in 2021. To put this another way, it took several millennia for wealth in Britain to reach the £100k threshold. And then, a mere 36 years later, this stock of wealth had doubled: a bonanza unprecedented in human history.

Yet this dramatic boom in wealth stocks comes at a heavy price, for wealth is incredibly unevenly distributed. Those who have it (especially those who have a lot of it) tend to accumulate more over time – "wealth begets wealth" – with no upper limit on how much any one individual can acquire. But many more are forced to get by with no wealth whatsoever. Hence the current situation, where the top 10% of the UK population hold 57% of the total wealth stocks, while the bottom 50% share less than 5% of the total between them. Around a quarter of the population, meanwhile, have no wealth whatsoever and are left juggling debts. And as wealth builds, so economic divides also intensify. There really is no way that this can be short-circuited or prevented within a market-based capitalist order such as the contemporary UK.

> *The top 10% of the UK population hold 57% of the total wealth stocks while the bottom 50% share less than 5%*

It is not surprising that in this situation, there is a growing campaign to challenge the injustices of extreme inequities in wealth distributions. There are now important proposals, such as from the UK's Wealth Tax

Commission, for taxing wealth or increasing forms of taxation aimed at taxing income from wealth, such as capital gains tax.

However, so far these have cut little ice in shaping the policy agenda. During the Covid pandemic, stamp duty on property transactions was reduced, albeit temporarily. In 2023, the Government caved into pressure from some high earners to remove taxation on pension assets of those in the fortunate position of having over £1 million in their pension funds. Proposals to cut inheritance tax are being floated by Conservative politicians with the assumption that they will garner public support. The Labour Party, meanwhile, has not signed up to pledges to tackle wealth inequality head on. As wealth inequality intensifies, it seems as if policy initiatives to tackle these inequities become more timid, rather than more bold.

One reason for this lack of impetus to address wealth inequality, as I have argued with Katharina Hecht and Kate Summers, is that a narrowly economic perspective on wealth obscures the broader social meanings of wealth. It is these that matter to people in their everyday life. As welfare provision is cut back, so the ability to draw on some kind of wealth resource, even as a rainy-day fund, seems to become even more critical. It follows that for many people, the principle of taxing wealth seems to undermine the very possibility of leading the good life itself. Taxing wealth head-on can be seen to be divisive in targeting small groups of people – successful people – rather than encouraging inclusive and solidaristic solutions.

These points may be true, but they obscure the bigger picture: that wealth inequality is fundamentally dysfunctional across multiple arenas and gives rise to systemic injustices of colossal proportions. More political leverage could be gained by emphasising these wrongs…

Systemic injustices resulting from wealth inequality

In economic terms, wealth inequality encourages rent seeking behaviour, by which investors seek to maximise their returns not by productive, possibly risky, activity but by parking their money in passive ways – buying property being a common example. It is hard to justify the returns that property owners have enjoyed in recent decades by any kind of meritocratic criteria, and surely this money could be invested in more dynamic sectors. Sociologist Lisa Adkins and her colleagues even see this asset price inflation as underpinning contemporary class divisions more generally.

In social terms, wealth inequality intensifies the kinds of structural divides which have been outlawed in discrimination law, notably around race and gender. For instance, the Runnymede Trust has calculated that for every £1 of wealth that a black African or Bangladeshi household has, white British households have £10. LSE academic Liz Mann shows that men tend to own about 40% more wealth than women. Indeed, pretty much every structural inequality is reinforced by wealth accumulation.

Wealth inequality also challenges the meritocratic values that Britons generally support. Those from wealthy families can gain all sorts of boosts which cannot be justified in terms of deservingness or need. These take multiple forms: from support for private education, health care and tutoring through to a helping hand with putting down a deposit to buy a house thanks to the "Bank of Mum and Dad". Most of the time, those using their wealth like this do not feel that they are being divisive, they largely see themselves as supporting their loved ones in the way that people generally will. Nonetheless, as Faiza Shaheen explores in her recent book, the effects are still deeply divisive as access to the best jobs and opportunities becomes increasingly dependent on having some kind of wealth.

But perhaps the most invidious aspect of this systemic failure comes from the attack on democratic values and processes inherent in the proliferation of wealth assets. People without wealth resources feel excluded as politics is run corruptly by those who have the financial resources to make their voices heard. This leads to growing cynicism and a sense that there isn't a level playing field – which indeed, there isn't.

Tackling the issue head-on

It is these systemic problems generated by wealth inequality which need to be the centre of political attention. A book published recently by Liam Byrne, a centrist Labour MP, offers a very important stepping stone. Byrne returns to the old 19th century liberal politics which hinges on whether or not policies operate to "the general advantage of the public". He rightly questions the justice by which the remarkable build-up of wealth assets in recent years can be left entirely in private hands, and calls for a return to collective views of wealth, such as those bound up with sovereign wealth funds and universal basic credit schemes.

This perspective opens up a vital "second front". Alongside the sheer injustice of the scale of wealth inequality which underpins campaigns for redistribution, this second perspective emphasises the public goods which can also be gained. A government initiative to transfer wealth to all young people when they turn 18, for example, would encourage a sense of involvement and inclusion in the name of wealth. As we head into election year, this is a vital argument to make.

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