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ANTHONY B. ATKINSON

The Concentration of Wealth in Britain

Britain's Inland Revenue figures on the concentration of wealth have proved to be substantially correct. A "wealth tax" may be necessary to reduce inequality further.

The American visitor to Britain may be struck by the evidence of continuing concentration of wealth—conspicuous consumption in the West End and great estates in the country—an impression reinforced in magazines by pictures of the Royal Enclosure at Ascot or of Masters of Foxhounds. On the other hand, the visitor may also note that grouse moors are now owned by pension funds, and that Dukes are forced to take paying guests, and feel that a great levelling must have taken place.

These conflicting impressions are not confined to visitors to Britain; rather they reflect the uncertainty in Britain surrounding the distribution of wealth. Have progressive taxes, inflation, and government controls combined to reduce the great concentrations of wealth? Or do large inequalities in wealth and power remain in the Britain of the 1970s? In recent years these questions have come to be widely discussed and have entered more and more into political debate.

The differing views are seen clearly in the discussions about introducing a wealth tax. In common with the United States, Britain has relied on taxes on the transfer of wealth (on estates and gifts), but the idea of an annual wealth tax has been taken up by those who feel that the existing fiscal system is insufficiently redistributive. In particular, trade union leaders, taking an increasingly wider view of their

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function, have pressed for the introduction of the legislation promised by Mr. Healey in 1974. Those opposed to the tax, however, have argued that the concentration of wealth is in any case ceasing to be significant. On this view, the rich are a vanishing species, more in need of protection than of additional taxation.

Statistics and politics

To resolve these contrary views, one naturally seeks firmer evidence than casual impressions or anecdotal journalism. Can statistical data tell us more reliably what is happening to the distribution of wealth? For many years, the Inland Revenue has published "official" figures of wealth-holding based on records of estates, and these have been developed in the reports of the recent Royal Commission headed by Lord Diamond. In 1975 these showed, for example, that there were 29,000 people worth more than $400,000 (converted at two dollars to the pound), and that the top one percent owned around a quarter of total personal wealth.

These kinds of statistics are used widely on political platforms to justify a wealth tax. At the same time, the opponents of the tax claim that these Inland Revenue figures seriously overstate the concentration of wealth. It is argued that, by leaving out the wealth of small savers, by undervaluing consumer durables, and so on, the official estimates exaggerate the relative shares of top wealth-holders. As a result, "the oft-repeated slogans about the extent of inequalities of wealth are based on partial statistics which provide a false picture of the changing real world" (George Polanyi and John Wood, *How Much Inequality?* Institute of Economic Affairs, 1974).

Statistics on wealth have come for this reason to play a key political role, and they are almost as sensitive an issue as the balance of payments or unemployment figures. This means that it is all the more important that they should be firmly based. We should examine critically the evidence and the assumptions underlying it. How sensitive are the results? Could the true figure for the share of the top one percent be 10 percent rather than 25 percent? (These questions, incidentally, underline the points made in Carolyn Shaw Bell's article in *Challenge*, November/December 1977, on the problems of policy-making in the absence of appropriate data.)

Sources of evidence

There are three main ways of obtaining evidence on the distribution of wealth. The first is through sample surveys. In the United States there is a strong tradition of collecting evidence in this way, dating from the period when the census enumeration included wealth declarations (the 1860 Census records Abraham Lincoln as being worth $17,000). A recent example is the Survey of Financial Characteristics of Consumers. In Britain, such surveys have only been carried out rarely, and the evidence from this source is now very dated. Moreover, even the most successful surveys encountered serious problems of non-response, and about a third of total capital was not recorded.

In view of this, we have to rely on indirect evidence about wealth-holding. This can be obtained either from investment income or from estates. The former approach was much used in Britain by Victorian statisticians and in essence works back from the distribution of investment income to the distribution of wealth. For this purpose, a "yield multiplier" has to be calculated, reflecting the different composition of portfolios at different wealth levels, and yields on different assets.

In our recent study, Alan Harrison and I have applied the investment income method to British data, and have tried to assess its reliability. The central results suggest that the official estimates tend, if anything, to understate the number of large wealth-holdings and their share in total wealth. On the other hand, the range of estimates is quite wide, and the conclusions are sensitive to the precise assumptions made. This applies particularly to the yields assumed for different assets: for example, reducing the return on corporate stocks by one percentage point raises estimated average wealth by a fifth.

This sensitivity of the investment income results led us to conclude that the method employed by the official statisticians—the estate method—is the most reliable as far as the top end of the distribution is concerned. Our main results, of which a selection is given in the table, are based therefore on this source.

The extent of concentration

The estate method starts from the records collected on a person's assets and liabilities when he or she

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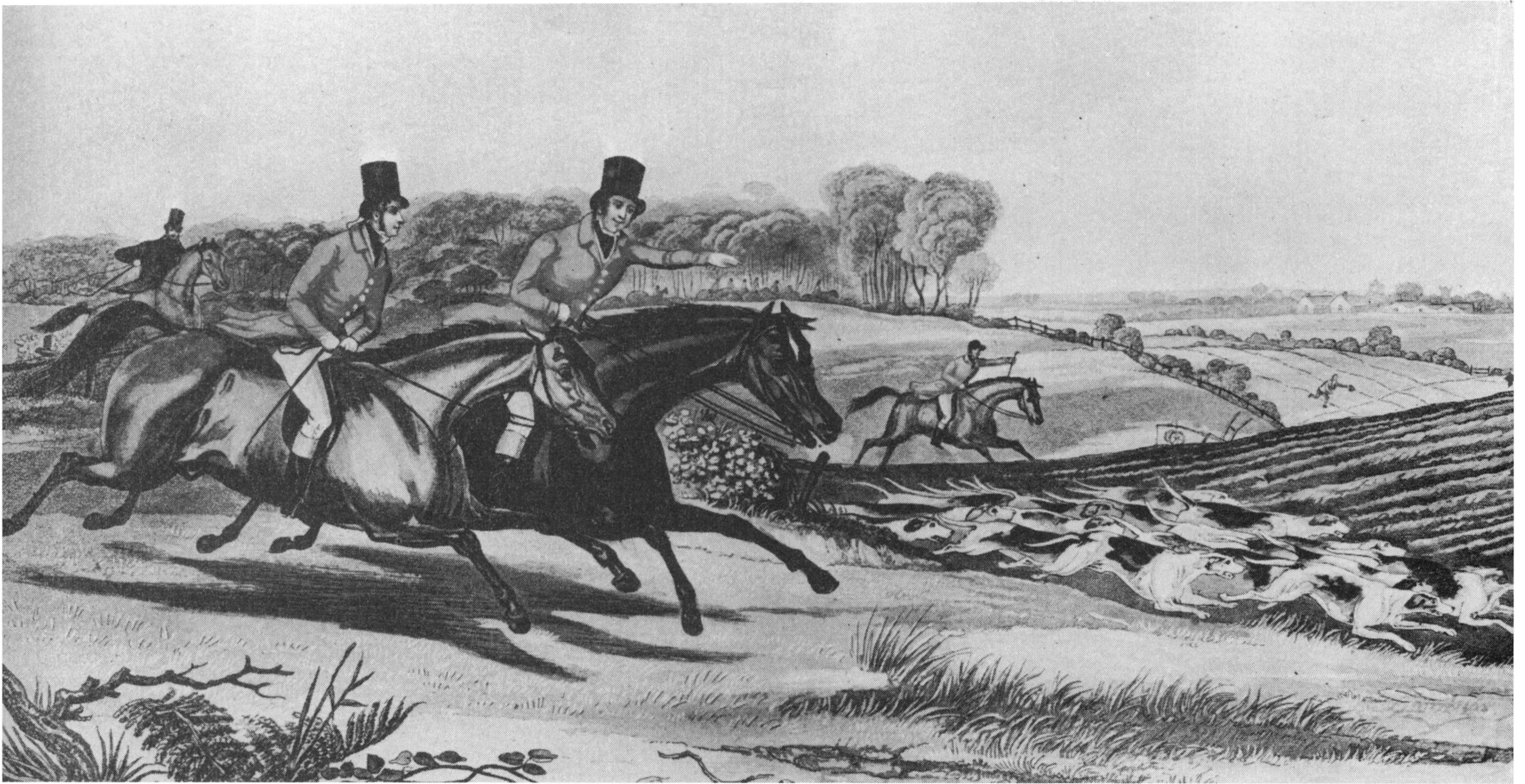

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dies. It then in effect treats these estates as a sample drawn from the living population, and multiplies them by the reciprocal of the appropriate mortality rate. In other words, if one in 1,000 men aged 25 to 34 die each year, then all estates for men of this age are multiplied by 1,000. The method is therefore in principle straightforward, although it is typically refined to allow for the fact that mortality is lower among the wealthy.

This procedure clearly depends on the multipliers applied, and it has been argued that the results are likely to be highly sensitive to the assumptions made. As a first step in our investigation, we therefore examined the consequences of changing the multipliers. From this it appears that *total* wealth may indeed change quite substantially, but that the *relative distribution* is much less significantly affected. Thus, basing the mortality multipliers on life insurance rather than Census data raised estimated total personal wealth in 1968 by 14 percent, but the share of the top one percent in this wealth fell only from 35 to 34 percent.

A second criticism of the estate estimates is that the basic data exclude those not liable to tax. The coverage is much wider than in the United States, but still, about half of all adult wealth-holders are missing from the figures. The picture painted by the critics suggests that this is some kind of record for statistical oversight. However, they have advanced little evidence to prove that this omission makes a major difference to the results.

In order to explore this, we had recourse to the balance sheet approach pioneered by Robert Lampman (*The Share of Top Wealth-Holders in National Wealth,* Princeton, 1962). This uses the known totals of holdings by individuals in bank accounts, government bonds, savings banks, etc., to calculate what the "missing persons" might own. In the same way, the value of consumer durables can be estimated from total purchases, suitably depreciated. By making a range of assumptions to indicate the sensitivity of the results, we have estimated that allowing for the wealth of the omitted small savers decreases the share of the top wealth-holders—but only by a few percent. A figure of 30 percent for the share of the top one percent might be reduced to 28 percent.

One of the main criticisms of the official figures has been that they failed to allow for small savings; our results therefore support the Inland Revenue, in that their estimates do not appear to be dramatically

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in error. Moreover, there is a factor working in the opposite direction—the wealth "missing" because of tax avoidance, through trusts and other devices. Here there have been extravagant claims, and one government minister has argued that the true total of personal wealth could be over three times that recorded by the Inland Revenue.

Once again the balance sheet approach allows us to form a view about the likely total of missing wealth: for example, from special inquiries into the extent of trusts. In our estimates, we have examined the effect of incorporating this missing wealth, making a range of assumptions about its ownership. The central results suggest that the share of top wealth groups would rise, since they own a disproportionate amount of settled and other property, but the effect is measured again in terms of a few percent. For example, in 1968 the share of the top one percent was increased by 2 percent. The resulting total of wealth is nowhere near trebled.

Trends over time

Our study of the evidence leads us to believe, therefore, that the official statistics give a reasonably accurate picture of the shares of top wealth-holders (the top one percent) and certainly do not grossly exaggerate the degree of concentration. It may however be the case that the shares are falling over time—and indeed the table shows some decline since 1960.

Taking a longer view of the experience, from 1923 to 1972, we have estimated that the share of the top one percent has been falling at about four percentage points per decade. Such a reduction is quite considerable and is equivalent to the top one percent losing ground at the rate of some $2 billion a year. Since this is twice the predicted yield from the wealth tax, can we conclude then that the new tax is redundant—that time alone will achieve redistribution? The answer depends on what causes the downward trend, and whether it is certain to continue. There are many factors which could have been responsible. There has been increased saving by the other 99 percent, associated with the spread of home ownership and consumer durables. Estate taxes have had their effect: for example, the Grosvenor family is reported to have had to pay some $40 million on the death of the second Duke of Westminster. Patterns of inheritance may have changed, with estates no longer passing intact from father to eldest son, and with more nearly equal division among children.

In seeking to explain the changes in the distribution, one key feature in the short term is the variation in corporate stock prices. As James Smith and Stephen Franklin have shown in the United States (*American Economic Review,* May 1974), the fortunes of the very wealthy have gone up and down with the stock market. Our own research for Britain suggests that stock prices do have a significant effect, and lead to noticeable year-to-year changes—for example, the rise in 1972 shown in the table. In the more recent period, we have estimated that the stock market collapse of 1973-74 led to a fall in the share of the top one percent from 28 to 24 percent. Conversely, a major stock market boom could reverse this.

In the longer term, there are two forces for equality which, our investigation suggests, may have been at work. The expansion of "popular wealth," notably via the growth of owner occupation of housing from 15 percent in the 1920s to over 50 percent today, may have had the effect of reducing the proportionate share of the rich. On the other hand, this trend is limited in extent and cannot necessarily be extrapolated into the future. The spread of owner occupation is approaching its limit, unless there is a major change in housing policy. The possession of a suburban house, even if a good investment for the small saver, does not put him in the same class as the Grosvenor family, with its acres in Mayfair and Belgravia (including, incidentally, the site of the American Embassy).

The second longer-term factor is the payment of estate duties, and this brings us back to the wealth tax. Over the past fifty years, the estate duty has collected revenue equal to some 0.5 percent of total personal wealth. In 1974 the tax was recast to include gifts, which should have increased the tax base, but there were a variety of concessions on other fronts. As a result, the predicted yield for 1977-78 is only 0.1 percent of total wealth, or less in money terms than was collected ten years earlier. If a wealth tax were introduced, with a yield of some $1 billion, this would still leave the total revenue a smaller proportion of total wealth than it has averaged over the past half century.

To sum up, the share of the top one percent has been falling but it cannot confidently be predicted that this trend will continue inexorably into the future. It certainly cannot be argued that the extinction

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of the wealthy is only a matter of time. For those who would like to see concentration reduced substantially before the end of this century, new measures like the wealth tax have to be considered. They may indeed be necessary to maintain the past downward trend.

Britain and the United States

International league tables are frequently quoted in political speeches, and it is often asserted that Britain is unique in the concentration of wealth. Against this, people point to the United States, and argue that the vast fortunes of the Rockefellers, Fords, and Mellons must outshadow anything in Britain.

To make such comparisons is clearly difficult, since the statistical sources are different, the tax systems vary, and the definitions of wealth are not consistent. The figures given in the table should therefore be treated with caution. They are not fully comparable. We have tried, however, to eliminate the most obvious discrepancies. For example, the statistics usually quoted in the United States are for the top one percent of the total population (men, women, and children); those figures given in the table are for the adult population, and hence comparable with the British estimates.

Distribution of Wealth in Britain and the United States (Percentage share in total personal wealth of top 1% of adult population)

	Great Britain	United States
1960	34.4	—
1962	31.9	23.1
1965	33.3	25.1
1969	31.3	21.3
1971	28.8	—
1972	32.0	22.7

Sources: Great Britain from A. B. Atkinson and A. J. Harrison, *Distribution of Personal Wealth in Britain,* Cambridge University Press, 1978. United States calculated from American estimates, details in A. J. Harrison's unpublished paper, "The Distribution of Wealth in the United States and Canada."
Note: The two series are not fully comparable (see text).

Despite such adjustments, there still remain differences between the estimates. These include the treatment of life insurance, where the differences tend to understate the gap between the two countries, and the date of valuation, which may go the other way. Moreover, the coverage of the estate data in the United States is much smaller than in Britain. Bearing such considerations in mind, it appears nonetheless that the concentration of wealth is indeed greater in Britain. At the beginning of the 1970s, the share of the top one percent in the United States was around two-thirds of the corresponding share in Britain. Since then, the gap may have narrowed, the evidence for the United States suggesting that there is little downward trend, but as we have seen, there is no necessary reason to expect the trend to continue at a rapid rate in Britain.

From these findings one is led to speculate about the impact of the concentration of wealth on Britain's economic performance. One reason why wealth-holding in Britain differs from that in the United States is that inherited wealth is more important and this may in turn affect the quality of management. As Keynes remarked in *Essays in Persuasion,* Britain is "too much dominated by third-generation men." Whether this is true today is an interesting question which might well be explored further.

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