Briefing note: March 2015

Wealth equality

Our wealth tax on the top 1% will help fund public services and reduce inequality.

UK households have, on average, the 13th highest income in the OECD group of advanced economies, but that income is unequally divided among its population.

The UK is the 7th most unequal country among the 34 members of the OECD[1]. The bottom 20% of the British population – over 12 million people – are poorer than their counterparts in 15 other OECD countries. Yet Britain's richest 20% come 9th (see Annex).

The living standards of the poorest 20% of the British population are actually much closer to those of Slovenia and the Czech Republic than they are to those experienced by people living in the North-West European countries we typically compare ourselves to.

Yet Britain's inequality problem is not just a matter of excessive earnings at the top and insufficient wages at the bottom. Wealth (such as land, property or company shares) and the unearned income it provides is even more unequally divided than income.

In May 2014, the Office for National Statistics' "Wealth in Great Britain" survey revealed that the richest 1% of British households have the same amount of wealth as the 55% poorest in the population (see Table 1). The amount of wealth held by the top 0.1% has risen by 57% in the 2012-10 survey compared to the 2006-08 survey (though the top 0.1% are not necessarily the same people in both surveys) whereas the total UK household wealth has only risen 12% over the same period.

Wealth: the missing link

There are a variety of progressive policies that would help to reduce the gap in earnings between those at the top and those at the bottom. The Scottish Green Party supports:

- A £10 minimum wage by 2020 – to increase the wages of those at the bottom.
- Linking the highest paid to the lowest paid – for example a maximum pay ratio of 10:1 to ensure the CEO of a company gets no more than 10 times the salary of the lowest paid employee.
- A progressive income tax – those who can afford it should pay more tax.

Yet even with progressive policies to tackle the disparities in income from work excessive wealth at the top would remain.

In *Capital in the Twenty-First Century*, Thomas Piketty argues that income from wealth becomes an increasingly important component of overall income as economic growth slows. We are now 6 years on from the financial crisis and economic growth remains well below post WWII trends that existed prior to 2008[2]. If this is a "new normal" then without policy intervention we would expect the greater inequality of wealth to drive an increase in the inequality of living standards.

Further, to reverse cuts in public expenditure in the absence of growth new revenue streams need to be found, and the asset holdings of the very wealthy represent a taxable resource that should be considered.

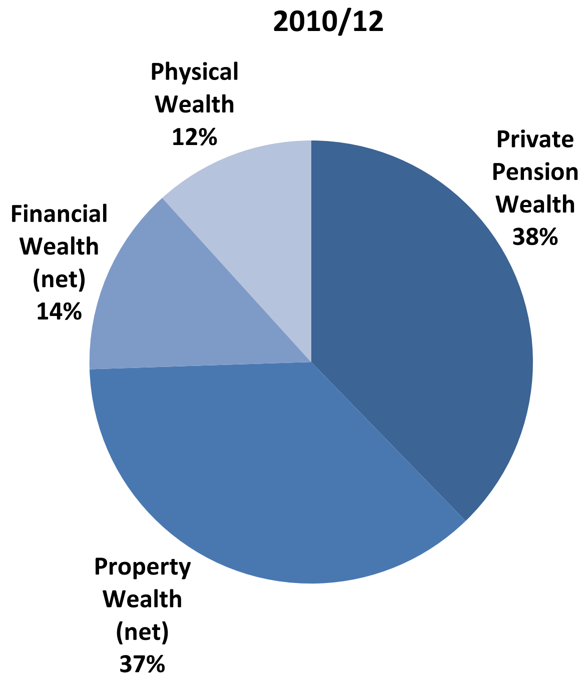


Chart 1: ONS Wealth in Great Britain survey 2012-10

Wealth held by individuals in households comes in four main forms: property, financial, physical, and private pension wealth.

- 'Property' is mainly houses. It is net wealth that we should count – the value of the house less the mortgage.
- 'Financial' is stocks, shares and bank deposits etc.
- 'Physical' is other assets such as cars and household belongings.
- 'Pensions' refers to the capital value of the pension, not the annual income.

As the chart above illustrates, property and pensions each account for almost 40% of total wealth.

The total wealth of households in Great Britain was £8.4 trillion in 2006/08, £9.0 trillion in 2008/10 and £9.5 trillion in 2010/12 at then current prices.

The SGP already has policies, like the introduction of a Land Value Tax that would tackle excessive concentration in property wealth. This briefing proposes to implement policies that tackle, in addition, the huge inequalities that exist in financial wealth (including pension wealth).

How wealth generates income

Wealth generates income. For example dividends are paid on stocks and shares while their value may go up, yielding an income when they are sold. Property can yield both a rental income and, normally, a capital gain as prices rise. Interest is paid on bank deposits. In the case of pensions, the income is held within the pension fund before retirement, but the accumulated income and capital is paid out of the pension during retirement.

For example, with assets of £3 million and assuming a 5% rate of return, you could derive an income of £150,000 per annum without depleting your £3 million pot of assets.

An annual wealth tax on the top 1%

In 2010/12 the wealthiest 10% of households owned 44% of total wealth. The cut-off for being in the top 10% of households comes at around £925,000.

As the table below illustrates there is a huge gulf between the top 1% and the remainder of the top 10%. The super-wealthy 1% have assets of around £2.5 million or more.

What should the rate be?

Most of the precedents for an annual tax are in the range 0-2%, with a clustering around 1%. France has a progressive system set between 0% and 1.8% which raised €4.4bn in 2013[3]. France, Spain, Iceland, the Netherlands, Norway and Switzerland all levy wealth taxes of different kinds. And as we see from Annex 1, many of these countries outperform the UK on average incomes, and all outperform the UK on inequality.

We favour a 1% or 2% tax on individual assets of £2.5 million and above. An individual with assets of £3 million would pay between £30,000 and £60,000 a year as a result of our Wealth Tax. Most people with assets at this level will have sufficient income to pay the wealth tax from their current income. A very few people will have perhaps a very low income and a single rather illiquid asset, such as a house. Arrangements could be made in such cases to pay any accumulated wealth tax when the house is eventually sold, usually on the death of the owner.

Table 1: The distribution of total household wealth in 2012-10 from ONS's Wealth in Great Britain Survey 2014

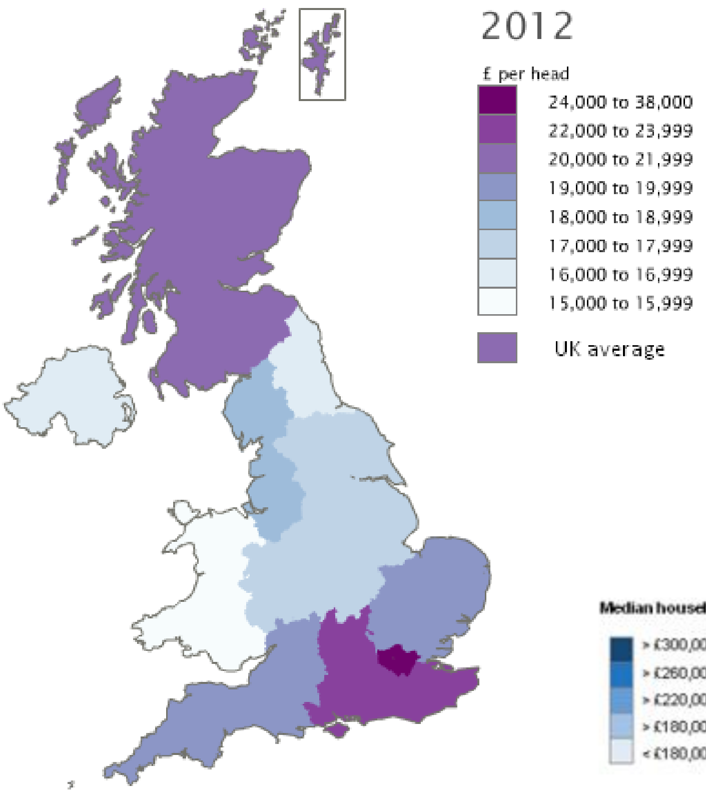
	Wealth Share	Total Amount £bn	Entry wealth £		Share of bottom of distribution with same wealth
Top 1%	13%	1,200	2,475,000	Top 1%	55%
1% - 2%	6%	525	1,925,000	Top 2%	62%
2% - 3%	5%	425	1,650,000	Top 3%	67%
3% - 4%	4%	375	1,425,000	Top 4%	71%
4% - 5%	3%	325	1,300,000	Top 5%	74%
5% - 6%	3%	300	1,200,000	Top 6%	77%
6% - 7%	3%	275	1,100,000	Top 7%	79%
7% - 8%	3%	250	1,025,000	Top 8%	81%
8% - 9%	3%	250	975,000	Top 9%	82%
9% - 10%	2%	225	925,000	Top 10%	84%
Top 10%	44%	4,225			

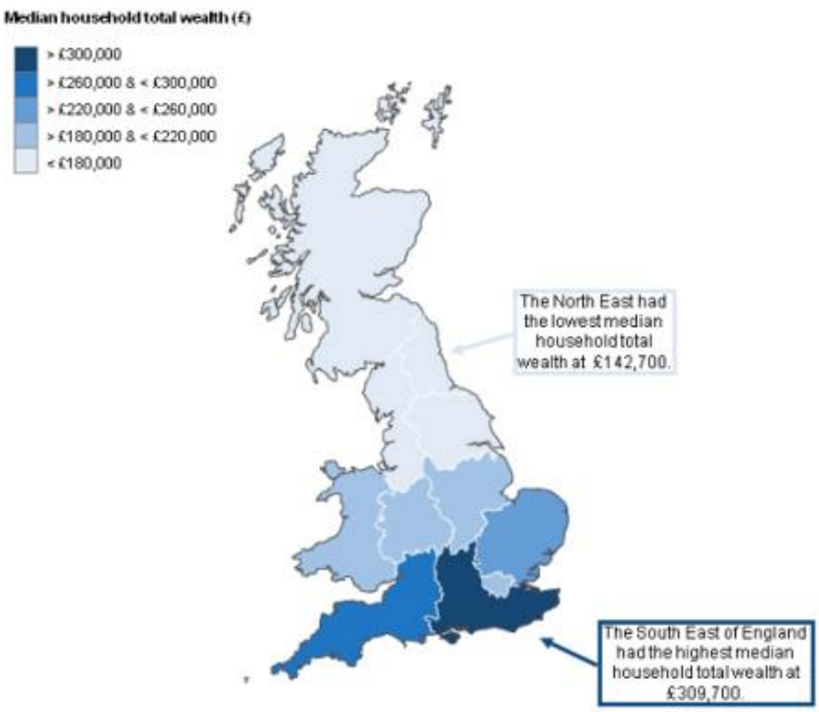
A wealth tax for Scotland within the UK

A wealth tax levied at the UK level, with the proceeds fairly distributed around the UK, would compensate Scotland for the current mismatch between the location of productive assets and the location of the owners of these assets. Scotland's economy is as productive as the UK average, but Scotland's average household wealth is below the UK average.

See the maps below which show ONS figures for Regional GVA per head (productivity)[4] and Median household total wealth, by region[5].

These figures imply that more assets in Scotland are owned by those outside Scotland, than are assets outside Scotland owned by Scottish residents. Repatriating tax income from these assets is fair and would boost the Scottish economy.





For more information:
www.scottishgreens.org.uk
08700 772 207
Scottish Green Party, Bonnington Mill,
72 Newhaven Road, Edinburgh, EH6 5QG

This briefing was adapted from the Green Party England and Wales by David Comerford for the Scottish Green Party.

Annex 1: Comparison of ‘Household net adjusted disposable income’ for OECD Countries from OECD’s Better Life Index 2014

Rank	Bottom 20%	Income of Bottom 20% as % of UK figure	Average	Top 20%
1	Luxembourg	170%	United States	United States
2	Norway	157%	Luxembourg	Luxembourg
3	Germany	140%	Norway	Australia
4	Austria	139%	Australia	Canada
5	Switzerland	135%	Switzerland	Switzerland
6	Finland	134%	Germany	Germany
7	France	133%	Canada	France
8	Belgium	130%	France	Norway
9	Denmark	128%	Austria	United Kingdom
10	Sweden	127%	Belgium	Austria
11	Canada	118%	Sweden	Japan
12	Netherlands	118%	Finland	Sweden
13	Australia	117%	United Kingdom	Belgium
14	Iceland	114%	Netherlands	Netherlands
15	United States	114%	Denmark	Italy
16	United Kingdom	100%	Japan	Ireland
17	Slovenia	96%	Italy	Finland
18	Ireland	95%	Ireland	Spain
19	Italy	90%	Spain	Denmark
20	New Zealand	89%	Iceland	Israel
21	Czech Republic	88%	New Zealand	New Zealand
22	Japan	85%	Israel	Portugal
23	Slovak Republic	82%	Slovenia	Chile
24	Spain	75%	Greece	Greece
25	Hungary	72%	Portugal	Iceland
26	Portugal	72%	Korea	Korea
27	Poland	67%	Czech Republic	Slovenia
28	Greece	67%	Slovak Republic	Mexico
29	Korea	63%	Poland	Turkey
30	Israel	59%	Hungary	Poland
31	Estonia	55%	Estonia	Czech Republic
32	Turkey	41%	Turkey	Slovak Republic
33	Chile	31%	Chile	Estonia
34	Mexico	27%	Mexico	Hungary