

Department of Geography and Environment and Department of Sociology public lecture

Inequality and the 1%: what goes wrong when the rich become too rich

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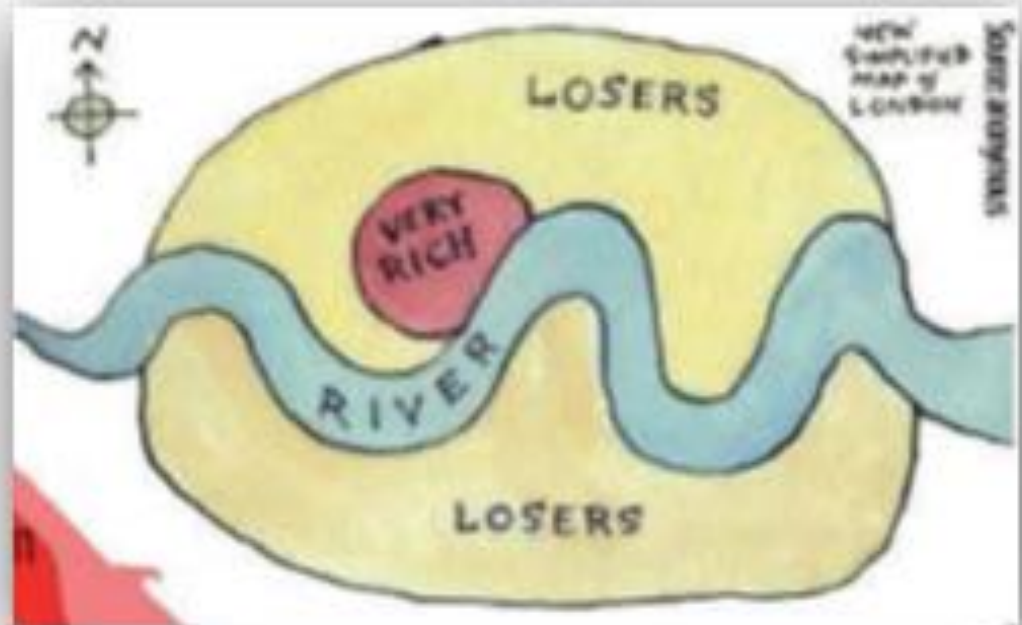
Suggested hashtag for Twitter users: **#LSEinequality**

 LSE events

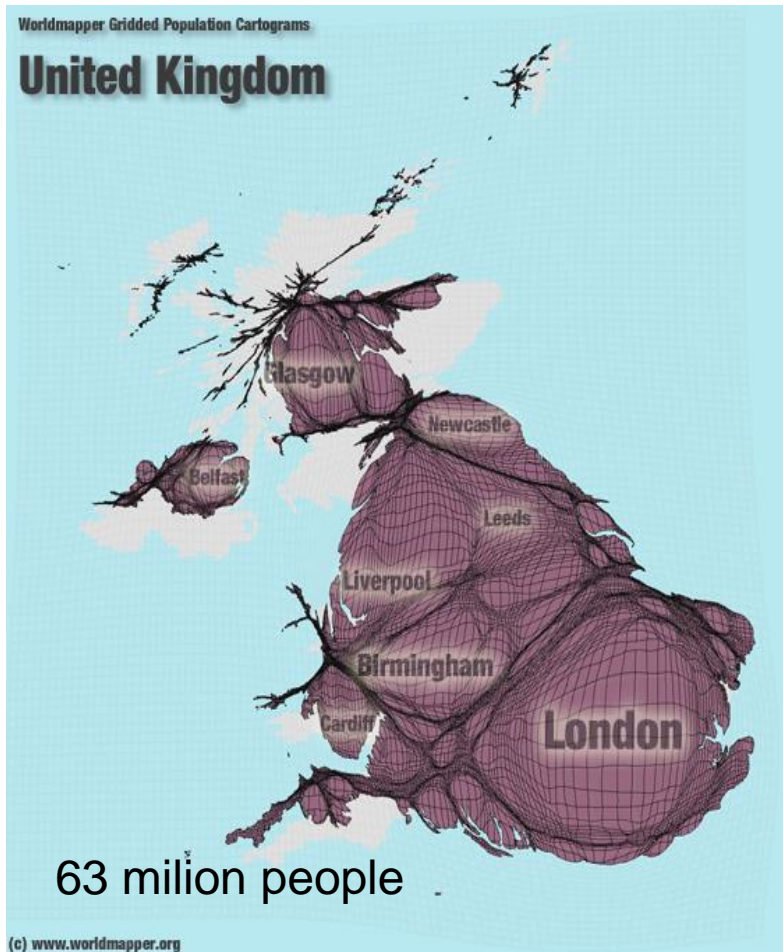
Inequality and the 1%: what goes wrong when the rich become too rich

Danny Dorling
University of Oxford

London School of Economics
Lecture, Oct 7th, 2014

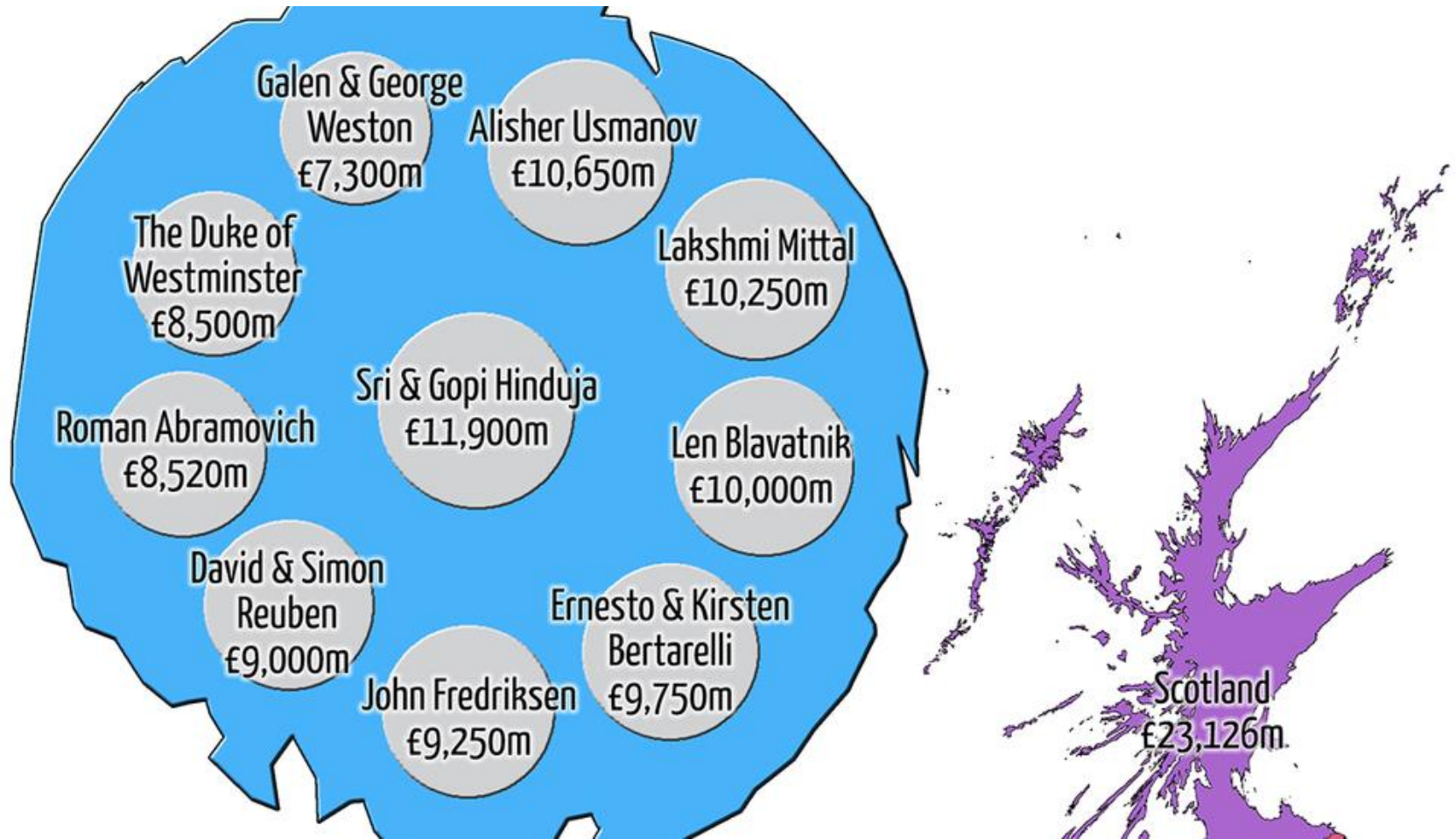


Population Map



It is widely accepted that high rates of inequality are damaging to society, although some skeptics remain to be convinced. Perhaps it is because the most damaging form of economic inequality now appears to occur when the very richest 1% take more and more, even if the other 99% are becoming more equal. So what exactly is it about inequality that causes most harm?

Now redraw the population map to make area = the wealth of the richest



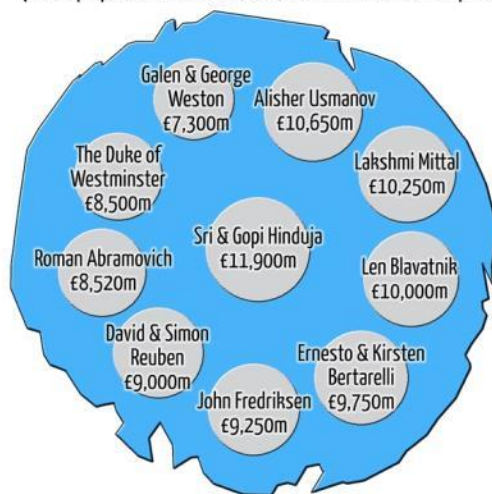
1000 people most of whom are in London... as are all ten of those who have most

Wealth distribution of the richest 1000 on the British Isles

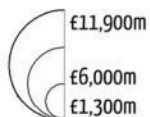
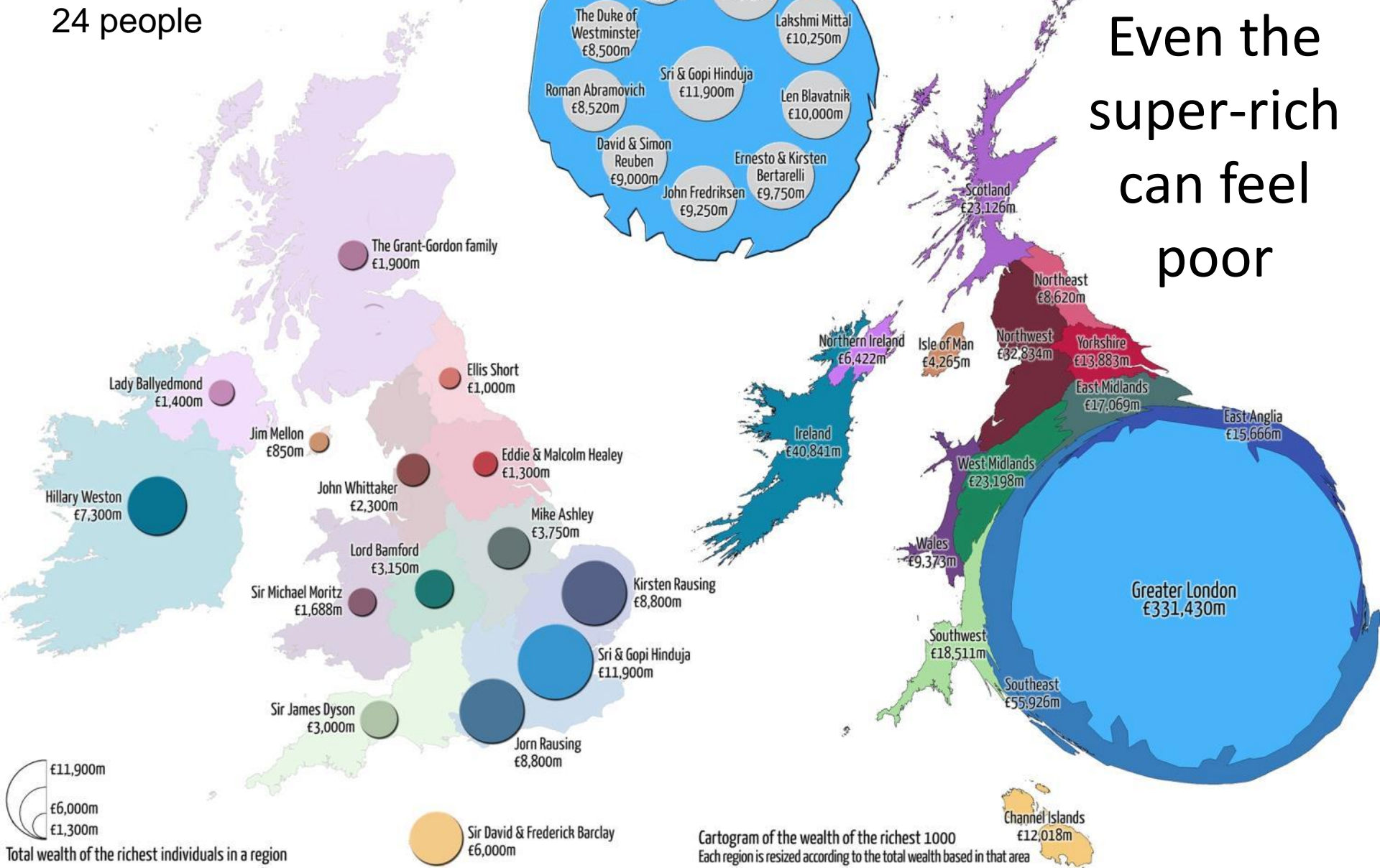
Data Source: The Sunday Times Rich List 2014

24 people

London's super-rich and their estimated wealth
(circles proportional to their wealth, same scale as in the map below)



Even the super-rich can feel poor



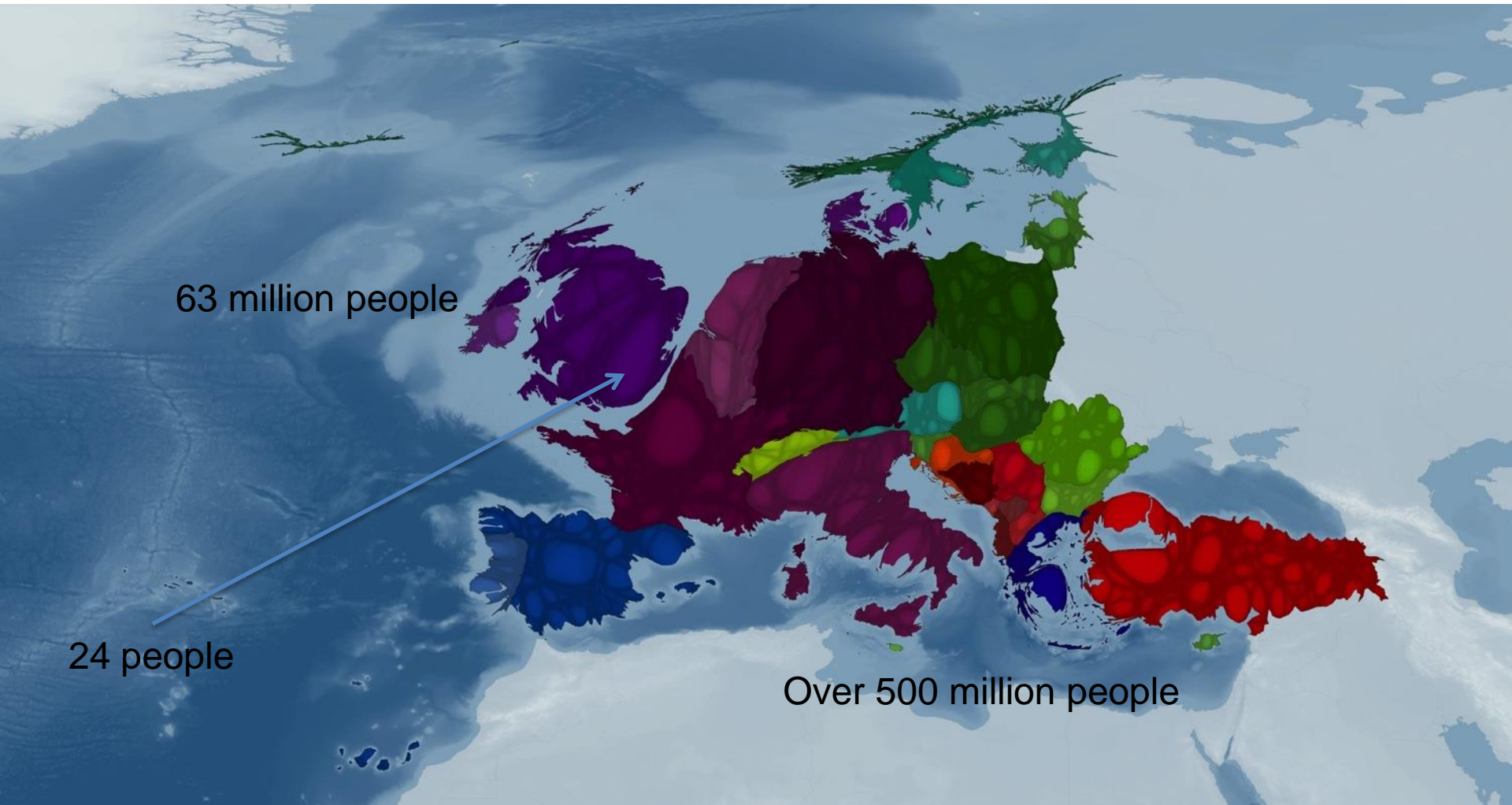
Total wealth of the richest individuals in a region



Cartogram of the wealth of the richest 1000

Each region is resized according to the total wealth based in that area

So, how do our 1% compare?



OTHER LARGE EU COUNTRIES ARE SIMILAR TO EACH OTHER, NOT UK

**Table 1: Summary of Income inequalities in the
five countries 2012 – FOR HOUSEHOLDS**

	1% CUTOFF	Median	Ratio
Germany	€154,000	€36,400	4.2
France	€189,000	€39,000	4.8
Italy	€164,000	€33,400	4.9
Spain	€105,000	€22,700	4.6
UK	€227,000	€36,300	6.3

Source: calculations by Author EU-SILK weighted household sample

This is one image of the UK shaped by the supposed value of homes

“Please don’t ...
‘make me sound
like a prat for
not knowing
how many
houses I’ve
got.’

David Cameron, 2009

THIS SLIDE IS TWO YEARS
OLD. ADD £200bn to the
London circle, based on
£3bn of 2013 sales (Q1
to Q3), out of £5bn of
UK sales – Scotland is
two small circles...

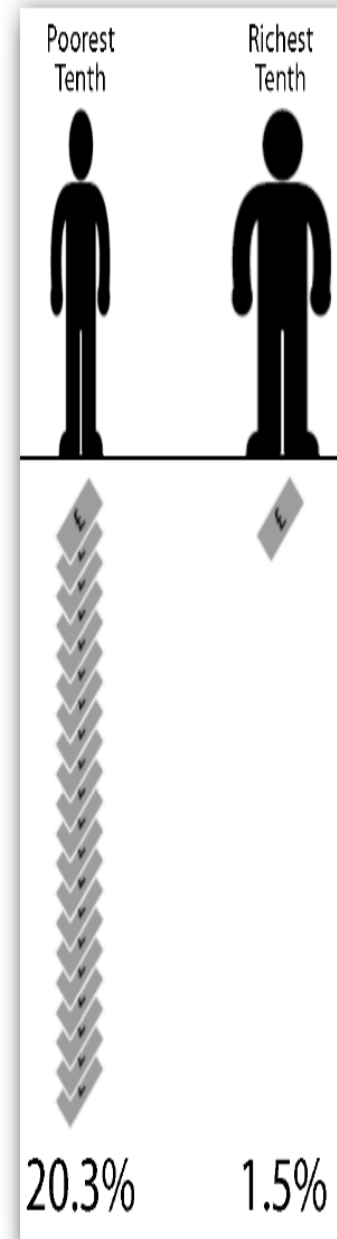


Source: Analysis by Hometrack, areas defined by the State of the Cities Report, reported in: Collinson, P. (2012) House prices: guide to property hotspots, The Guardian, 30th March.

UK Annual Income		(£s)	Gross HH Income (under-estimated in red)
n	Median		30,267
8058	Weighted mean		43,909
	1/10million	104,386,279	ABOUT 3 HHs
	1/million -	32,988,872	ABOUT 30
HHs			
	1/100,000 - ..	10,425,371	ABOUT 300
HHs			
	1/10,000 - ...	3,294,698	...3000 HHs
8	1/1000 - ...	1,041,213	30,000 HH
63	1/100 -0.1%	305,395	300,000
678	The top 9%	116,942	2.7 million
7309	Bottom 90%	32,863	27 million
782	Bottom 10%	7,671	3 million
8058			
ALL the	One Percent	420,648	- mean 1% income
	1%:median	14	- ratio of 1% to median
	0.1%:10%	136	- ratio of top/bottom

Calculations by Author EU-SILK weighted household sample

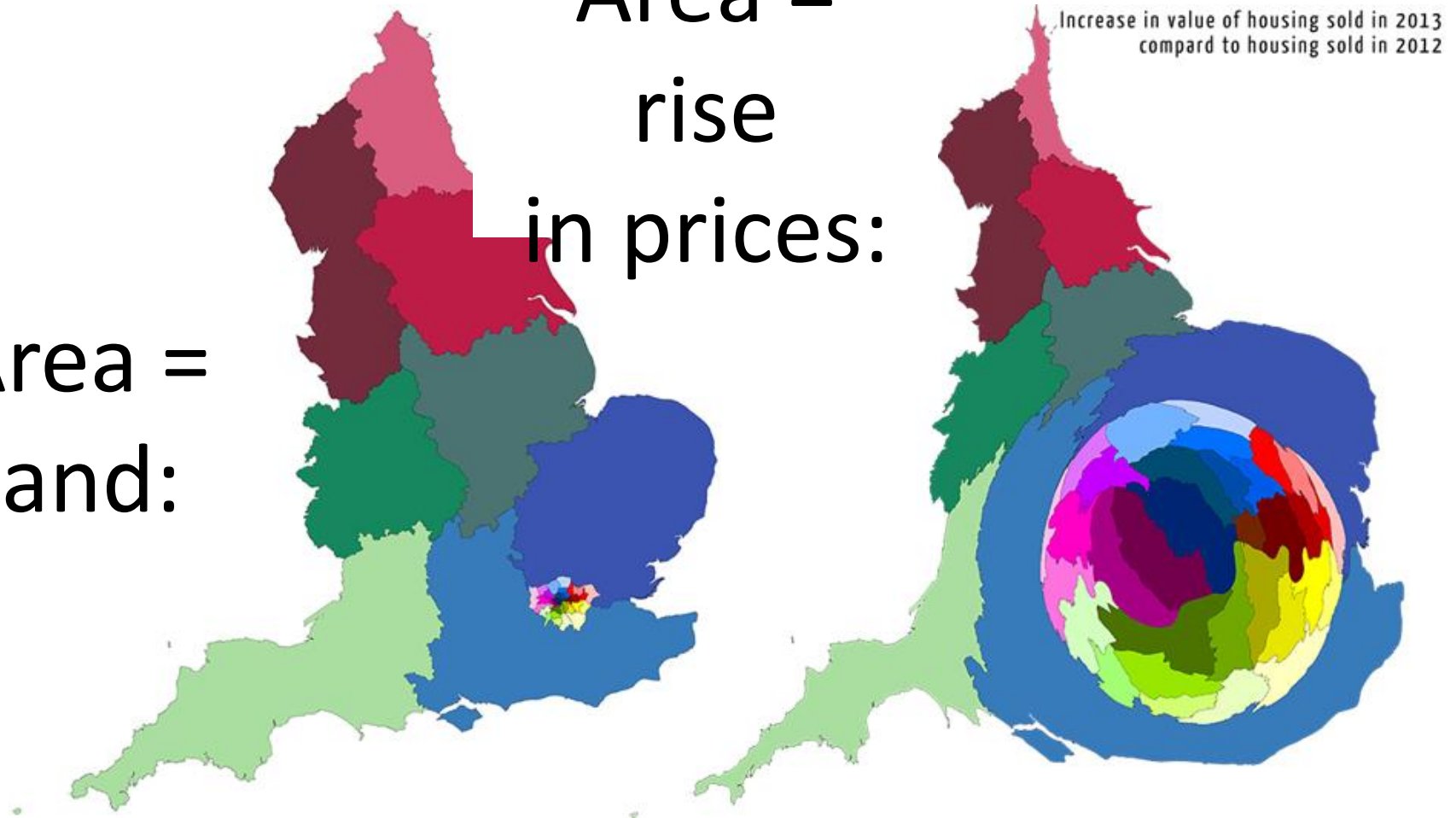
Note: 1/10million is the best off 1 in 10 million households of which there are just three in the country. According to the rich list they did better than this in 2012...



During 2013 housing prices in London rose by around £40,000 for an average flat or house that was sold as compared to the previous year. This brought the cost of a typical London home sold on the market up to just above £475,000. If this rate of change continues the half million pound price barrier will be breached during 2014.

Area =
rise
in prices:

Area =
land:





The Richest 1% receive at least 14 times average household incomes in the UK as compared to 10 times more in France, 8 in Italy, 7 in Germany or 6 in Spain – mean income levels of each group calculated from EU SILC:

Table 3: Summary of Income inequalities in the five countries 2012

€'s	Germany	France	Italy	Spain	UK
1%	257,067	375,063	270,099	126,285	504,778
9%	103,060	110,521	101,336	73,826	140,331
90%	33,466	35,776	31,362	23,558	39,436
bottom10%	7,656	10,695	6,280	3,916	9,206
Median	36,425	38,999	33,389	22,700	36,321
Mean	41,785	45,514	39,862	29,089	52,691
Ratio 1%/median	7	10	8	6	14
Ratio 1%/bot.10%	34	35	43	32	55

Source: Calculations by Author EU-SILK weighted household sample

Scotland is addressing housing, but in England: the bedroom tax, and tenants losing their rights. My book “All that is Solid” ends:

“In January 2014 the Financial Times released an analysis showing that over the course of just the last five years the equity of mortgage holders in Britain had fallen by £169 billion while that of landlords had risen by a massive £245 billion. There is no surer sign of a housing crisis turning into a disaster than this” ... (the estate agent Savills used geographical mortgage data at postcode level to determine this).

Landlords' total equity has more than doubled from £384bn a decade ago to £818bn today. The total equity of homeowners with mortgages has dropped by £169bn because on average buyers now borrow more.

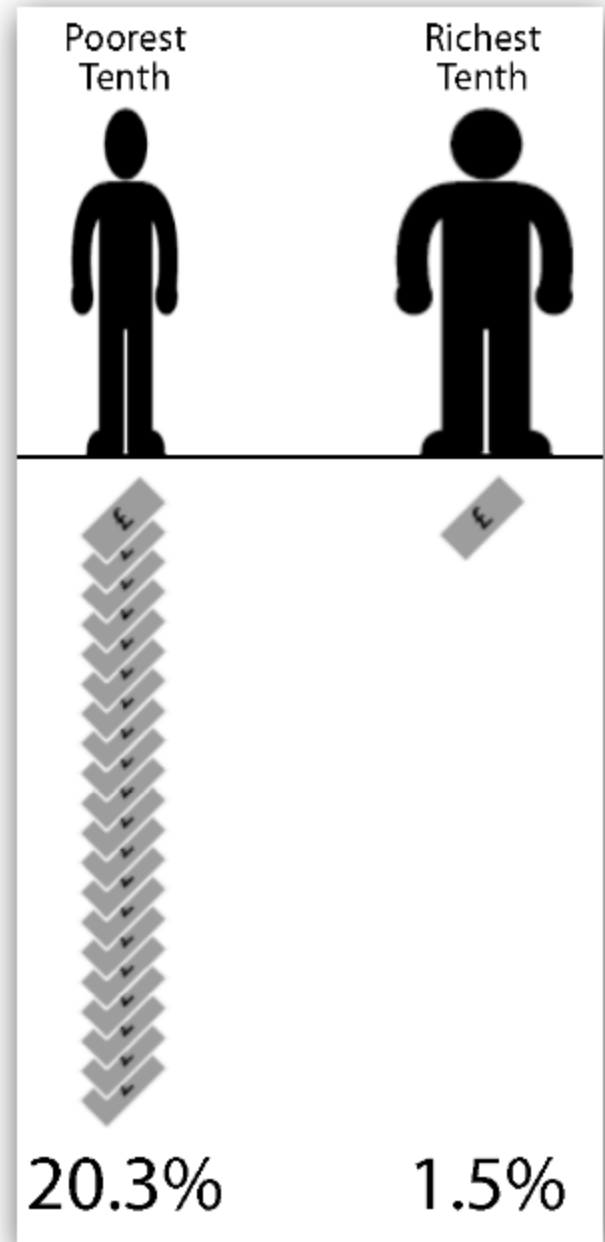
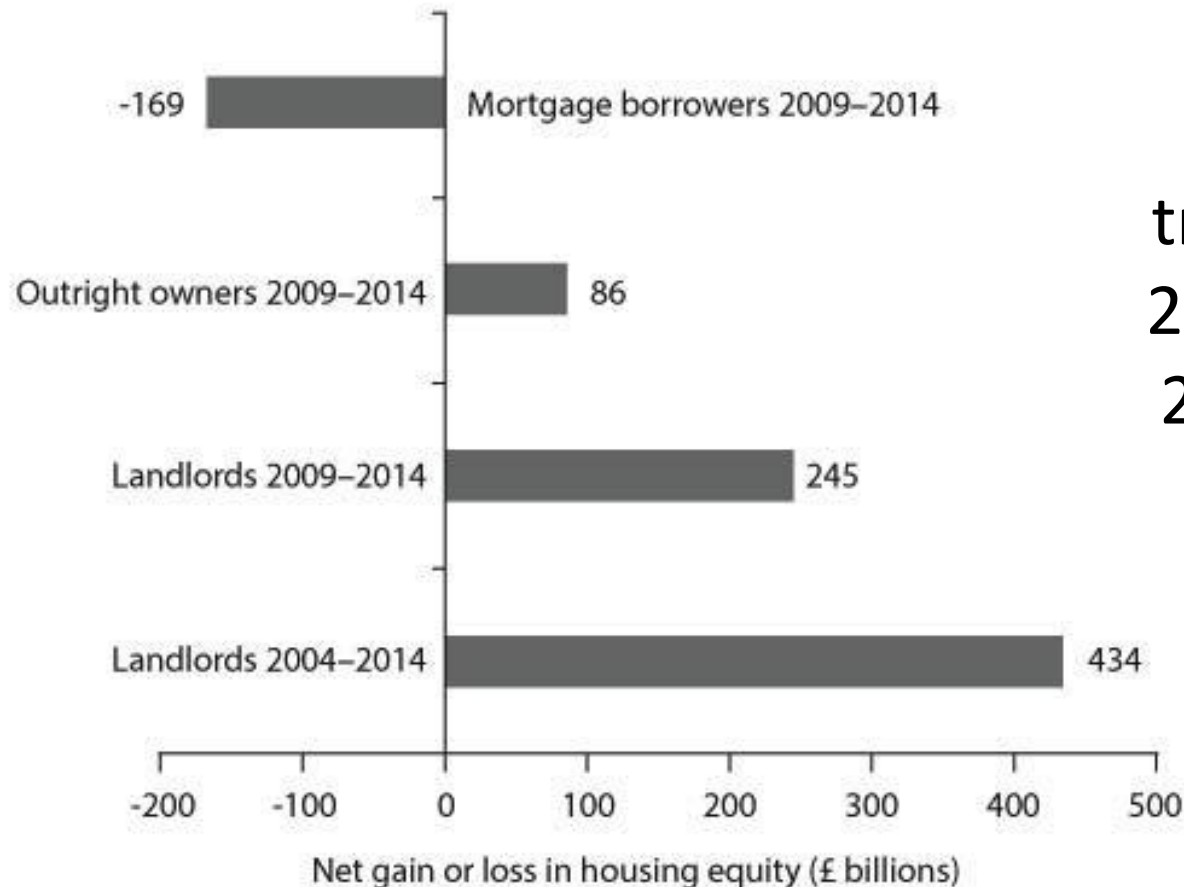


Figure 4.5: Gains and losses in the UK housing market, 2004/2009 to 2014



Source: Based on research carried out by Savills and reported by Kate Allen in the *Financial Times*, 2014 – K. Allen, Home buyers left behind in Britain's two-speed housing market, January 18th.

Wealth
transfers since
2009 and from
2004, to 2014
UK

The net wealth of the UK has fallen since 2009, but the first three bars above suggest an overall increase in wealth. The growing debt of tenants by partly balance this.

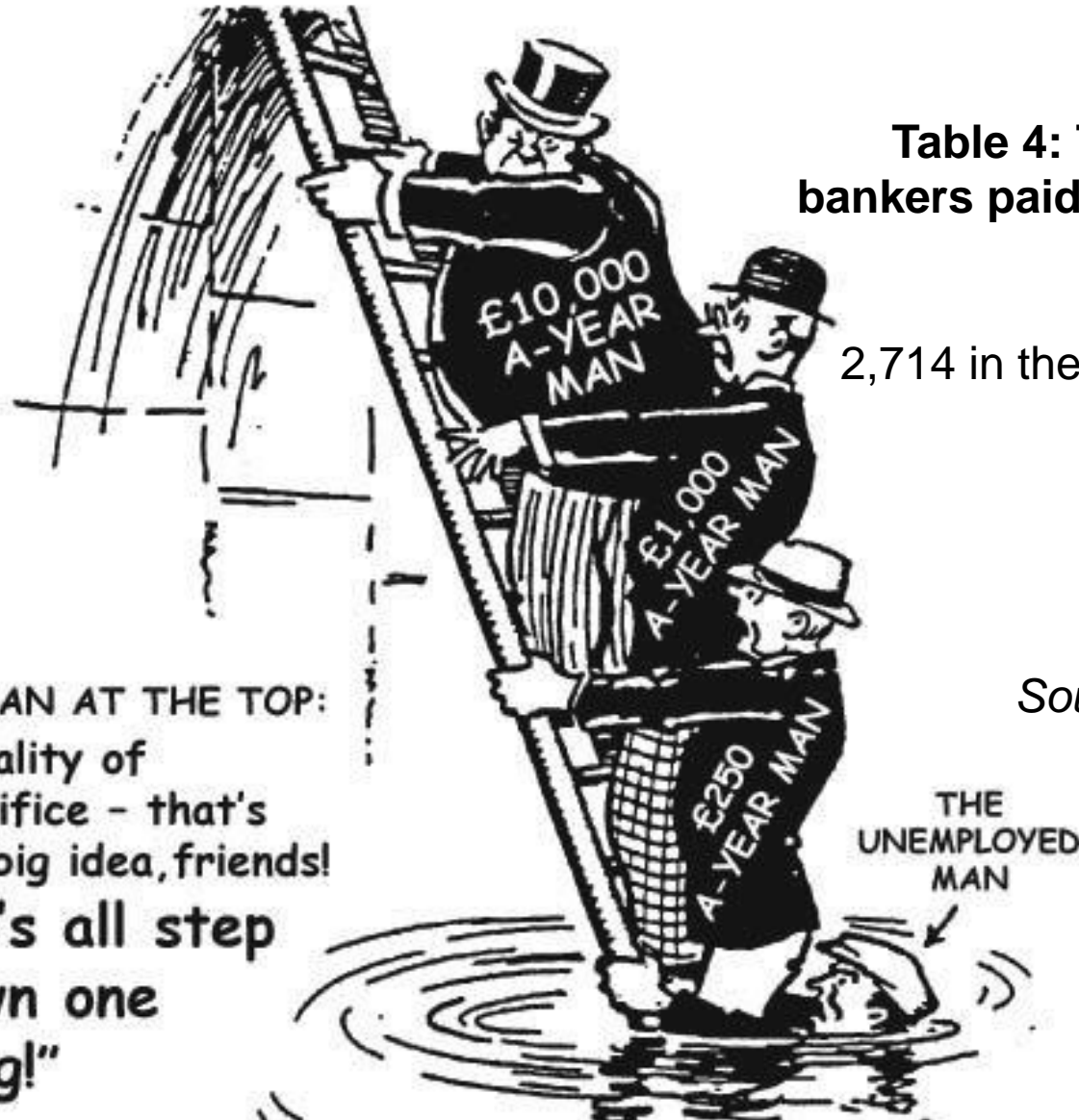
Within the top 10% inequality grows

Table 4: The numbers of bankers paid over €1000,000 in 2012

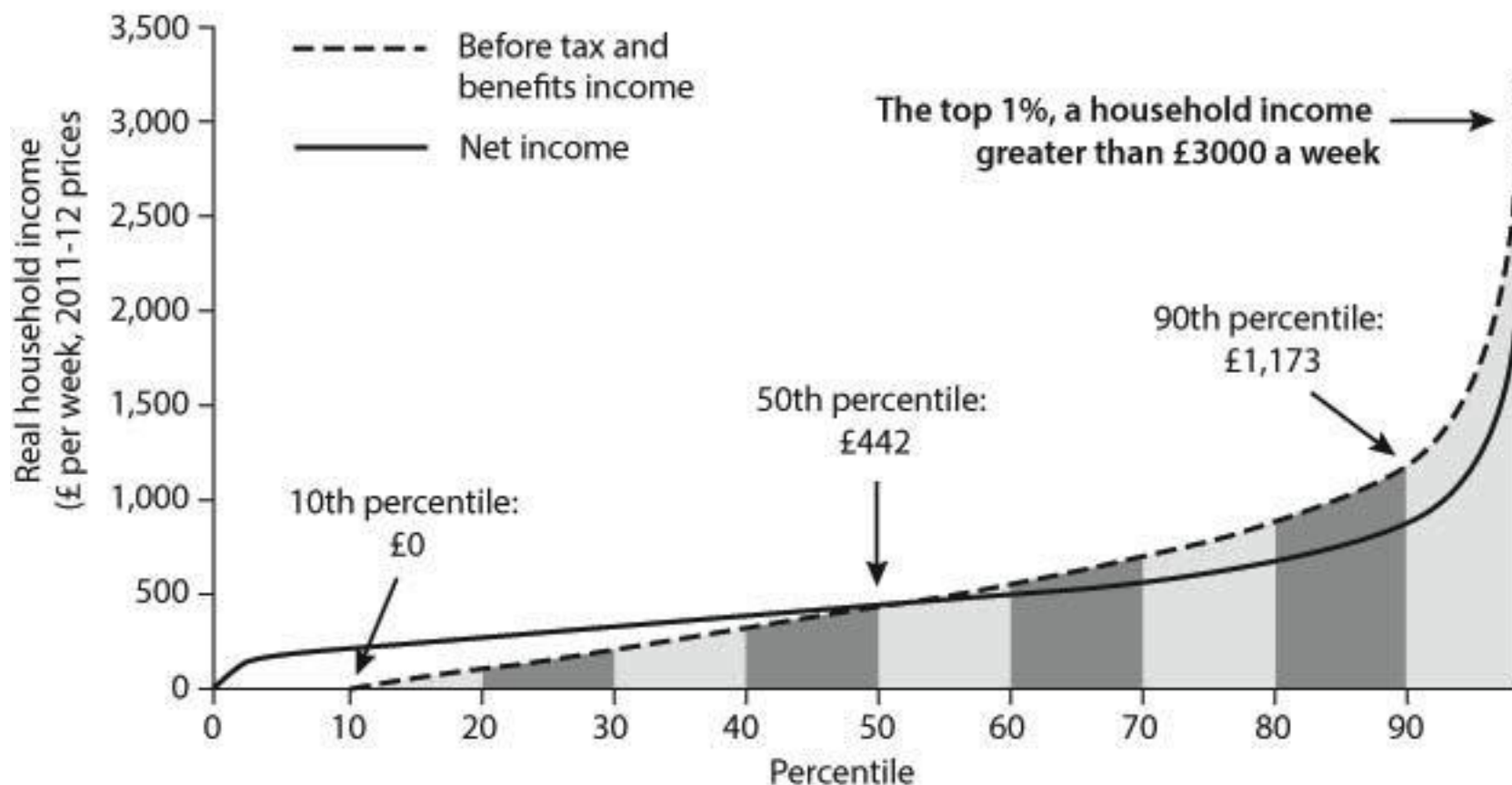
2,714 in the United Kingdom
212 in Germany
177 in France
109 in Italy
100 in Spain

Source: EBA (2013)

THE MAN AT THE TOP:
"Equality of
Sacrifice - that's
the big idea, friends!
Let's all step
down one
rung!"



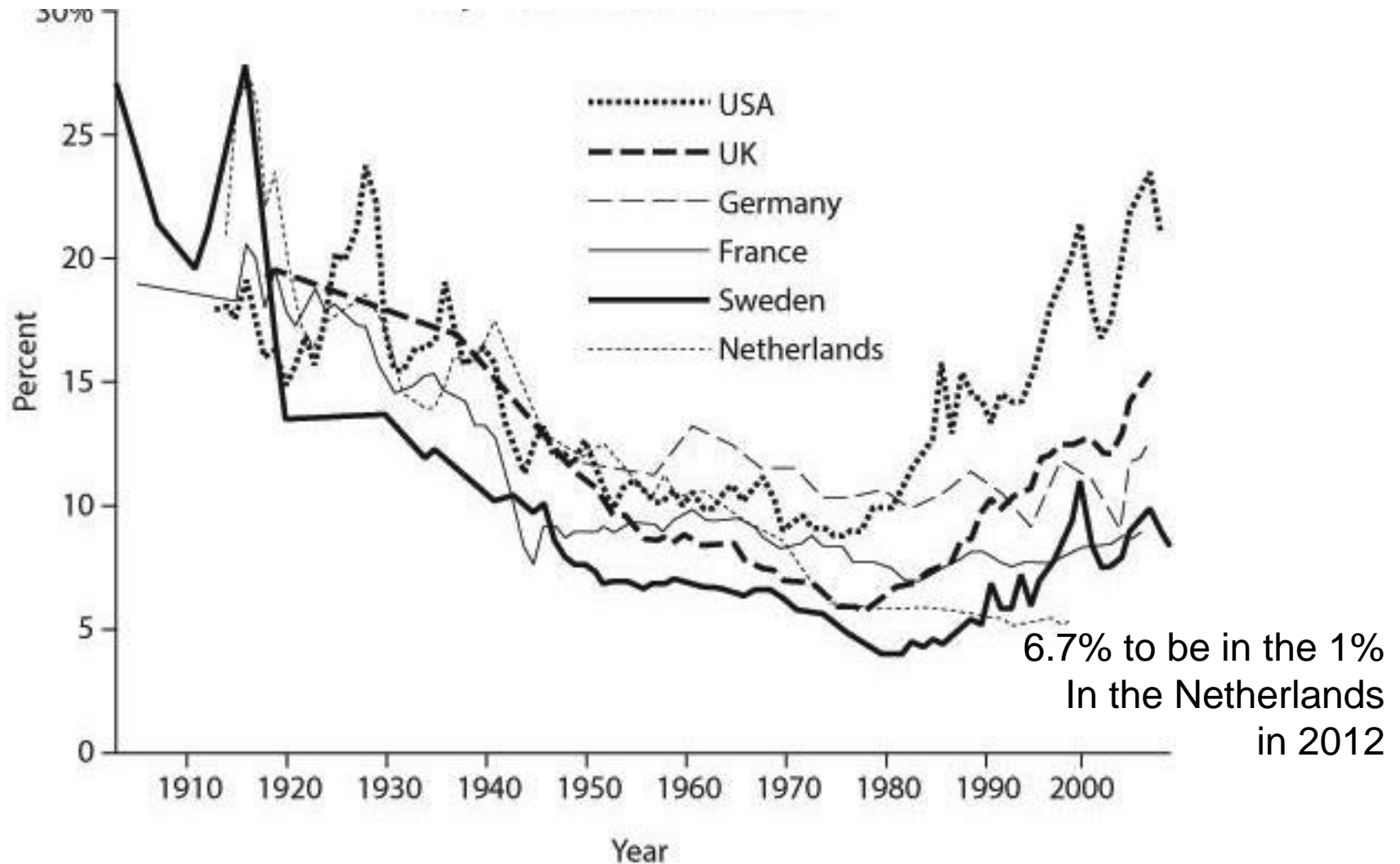
£160,000 a year to be in the 1%



Note: All incomes are expressed in terms of equivalent amounts for a childless couple.

Source: IFS calculations using the Family Resources Survey 2011-12

Entry cost to top 1% varies by area

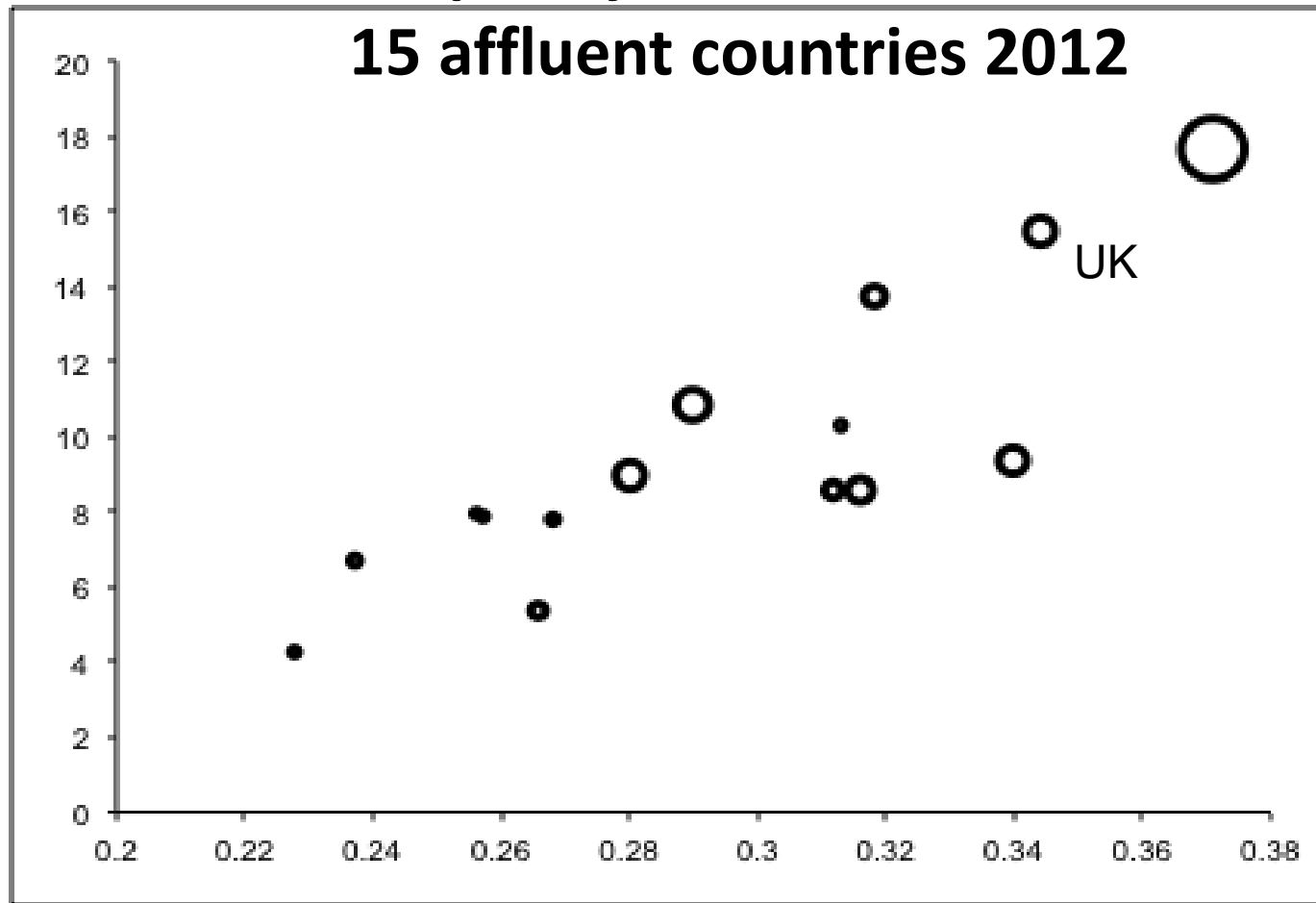


Higher income
inequalities
eventually lead to
higher wealth
inequalities, but
there can be a lag
of a generation...
(the work of Thomas
Piketty makes explaining
all this far easier).



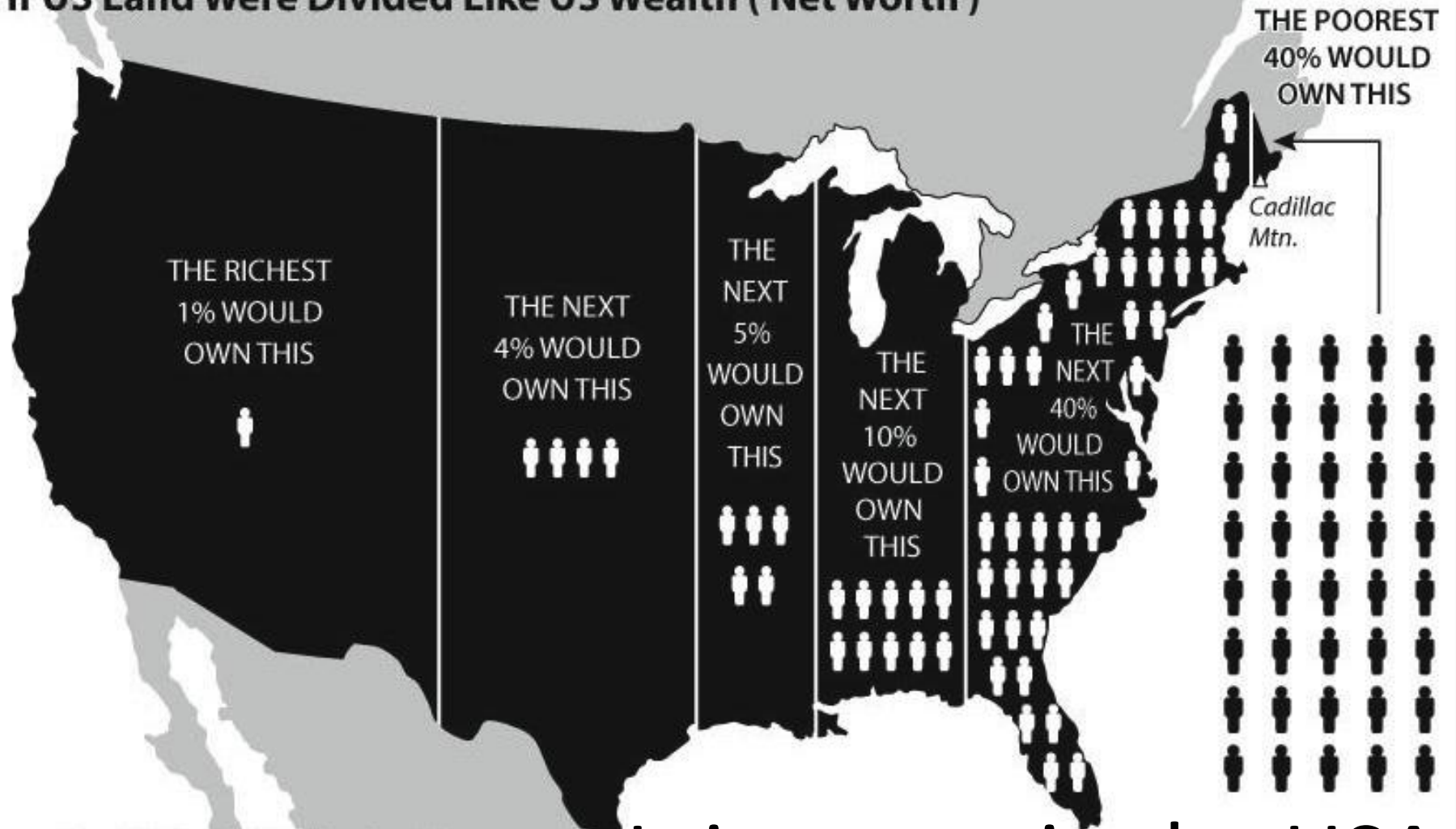
Source: Dorling, D. (2011) Underclass, overclass, ruling class, supernova class. Chapter eight of A. Walker, A. Sinfield and C. Walker, (Eds.) Fighting Poverty, Inequality and Injustice, Bristol: Poverty Press http://www.dannydorling.org/?page_id=2446

Overall Income Inequality and the income share of the 1%, 15 affluent countries 2012



Note: X axis Gini index, Y axis % share of 1%; Circle size: populationSource: Luxembourg income study and Paris top income dataset.

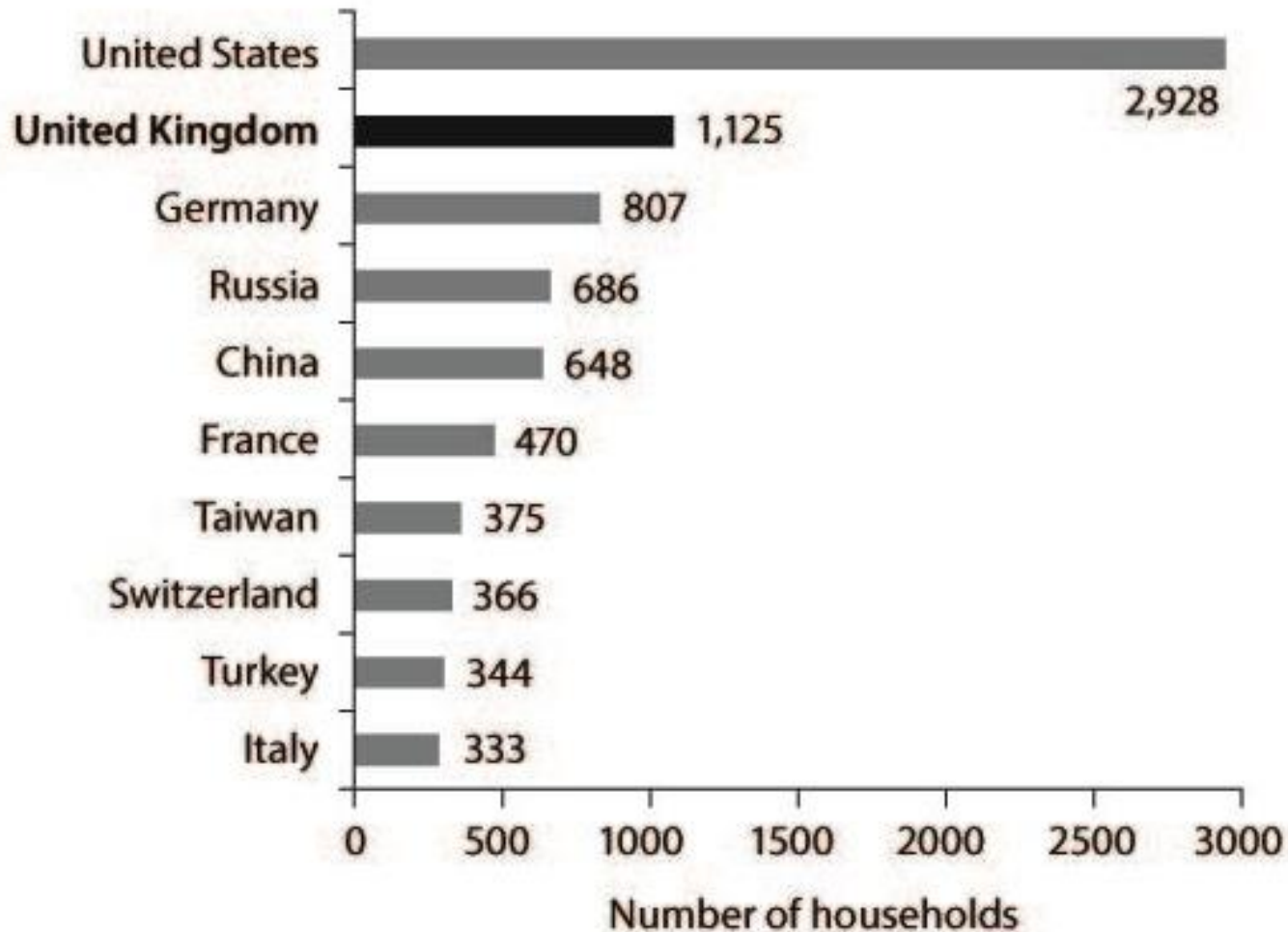
If US Land Were Divided Like US Wealth ('Net Worth')



Source: Edward Wolfe, New York University, 2012
Note: 2007 data (includes home equity); Federal Reserve

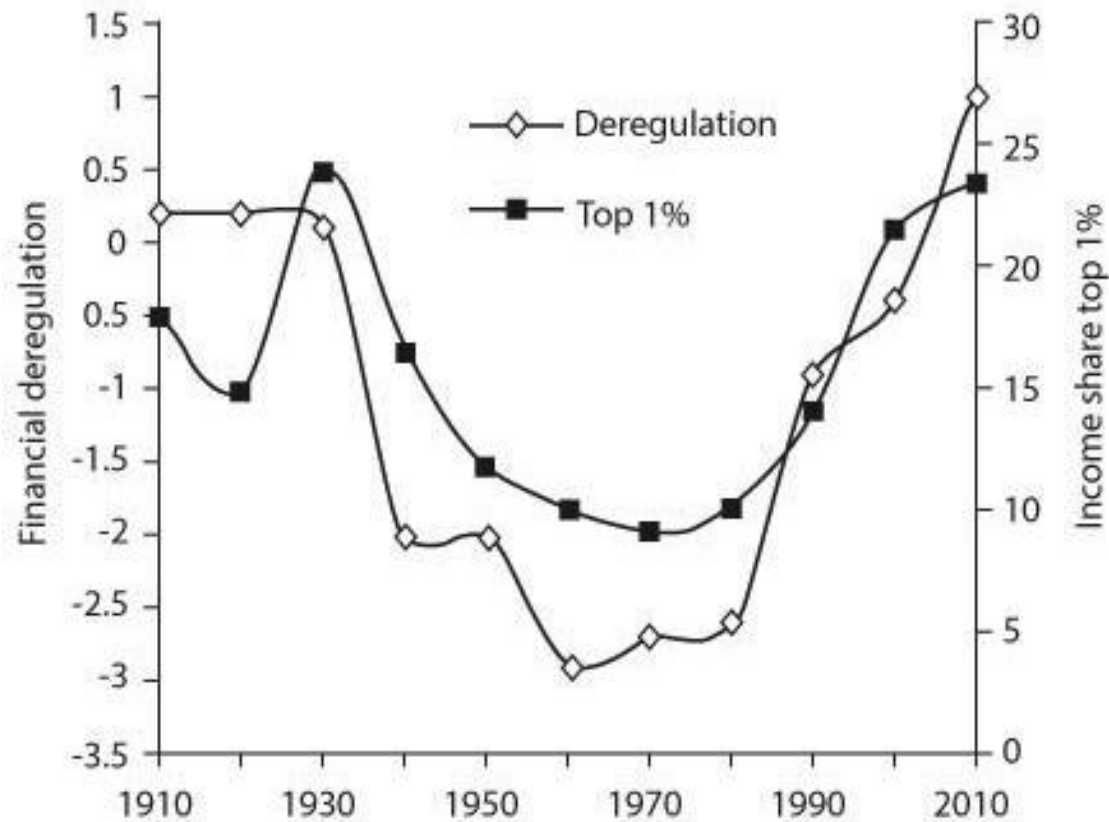
It is worse in the USA

\$100m households by country, 2011, note the UK and USA.



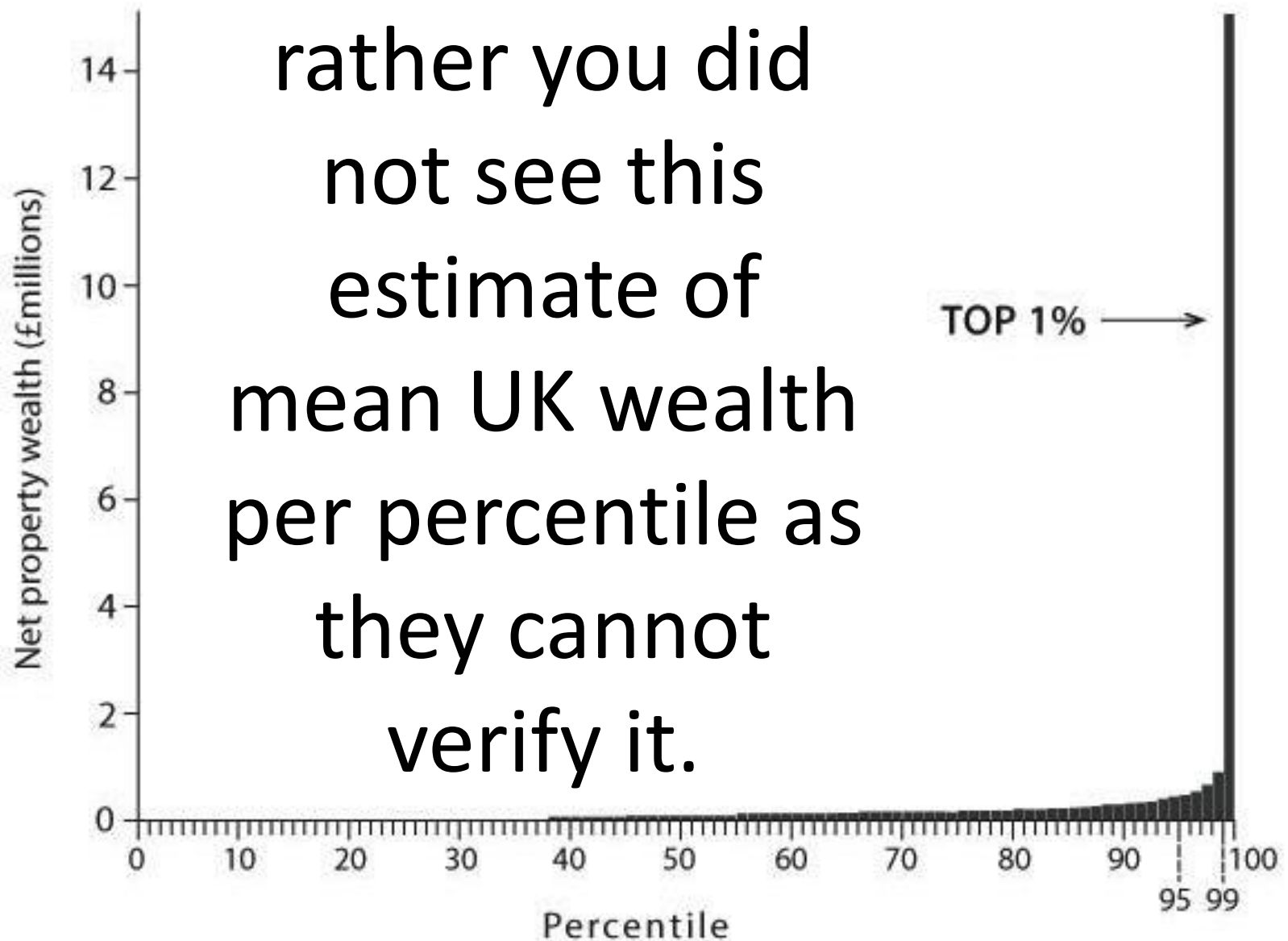
Source: Boston Consulting Group, 2012

What is the effect of overall inequality on: policy?



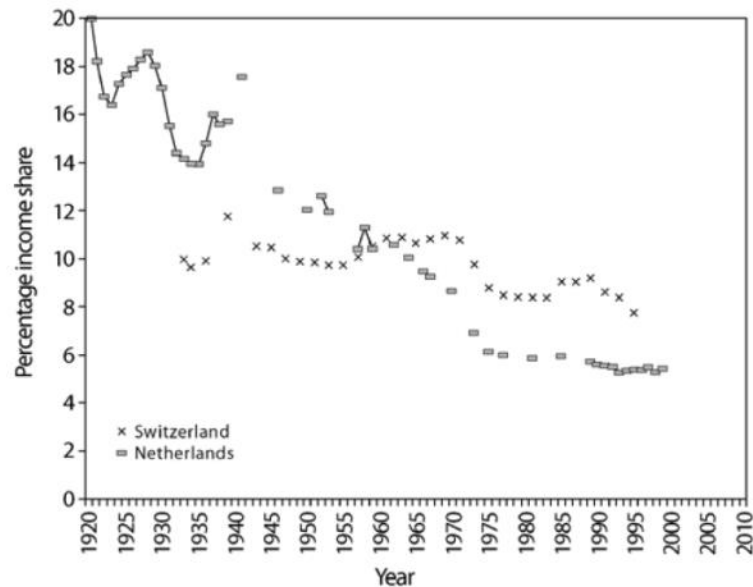
Source: Financial Deregulation, <http://www.nber.org/papers/w14644.pdf>;
Income share: Piketty and Saez (2003, 2012)

ONS would
rather you did
not see this
estimate of
mean UK wealth
per percentile as
they cannot
verify it.



We have turned into a country that is rapidly reverting back to its past. By now it is likely that more than a quarter of children in England live in families with a private landlord. But we are not becoming more European:

Income share of the best-off 1%, Netherlands and Switzerland



Households with children in private renting, % in England 1984-2012

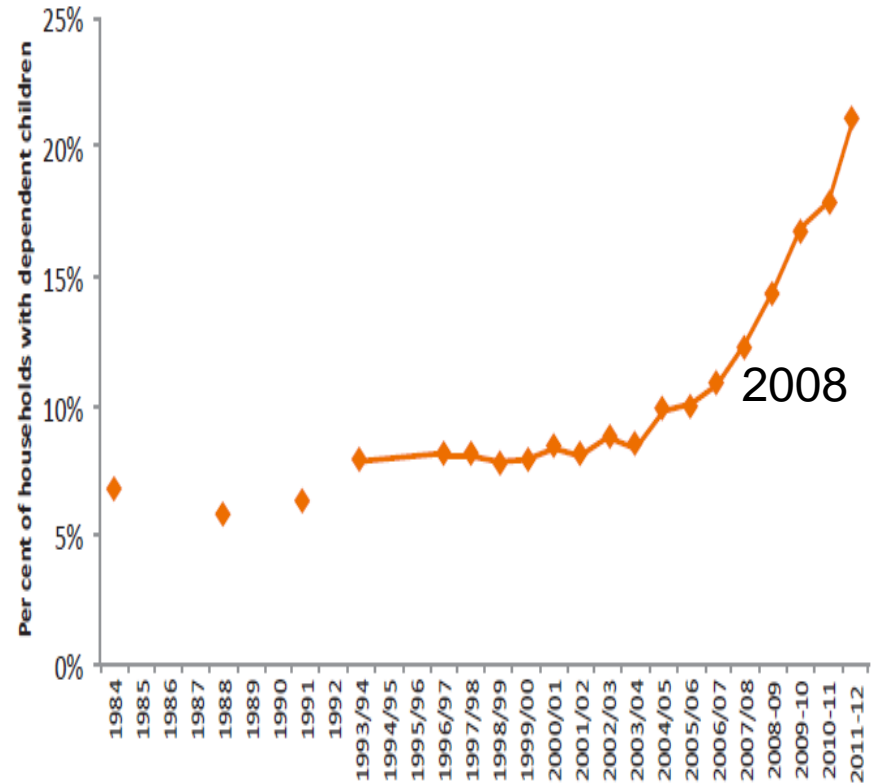
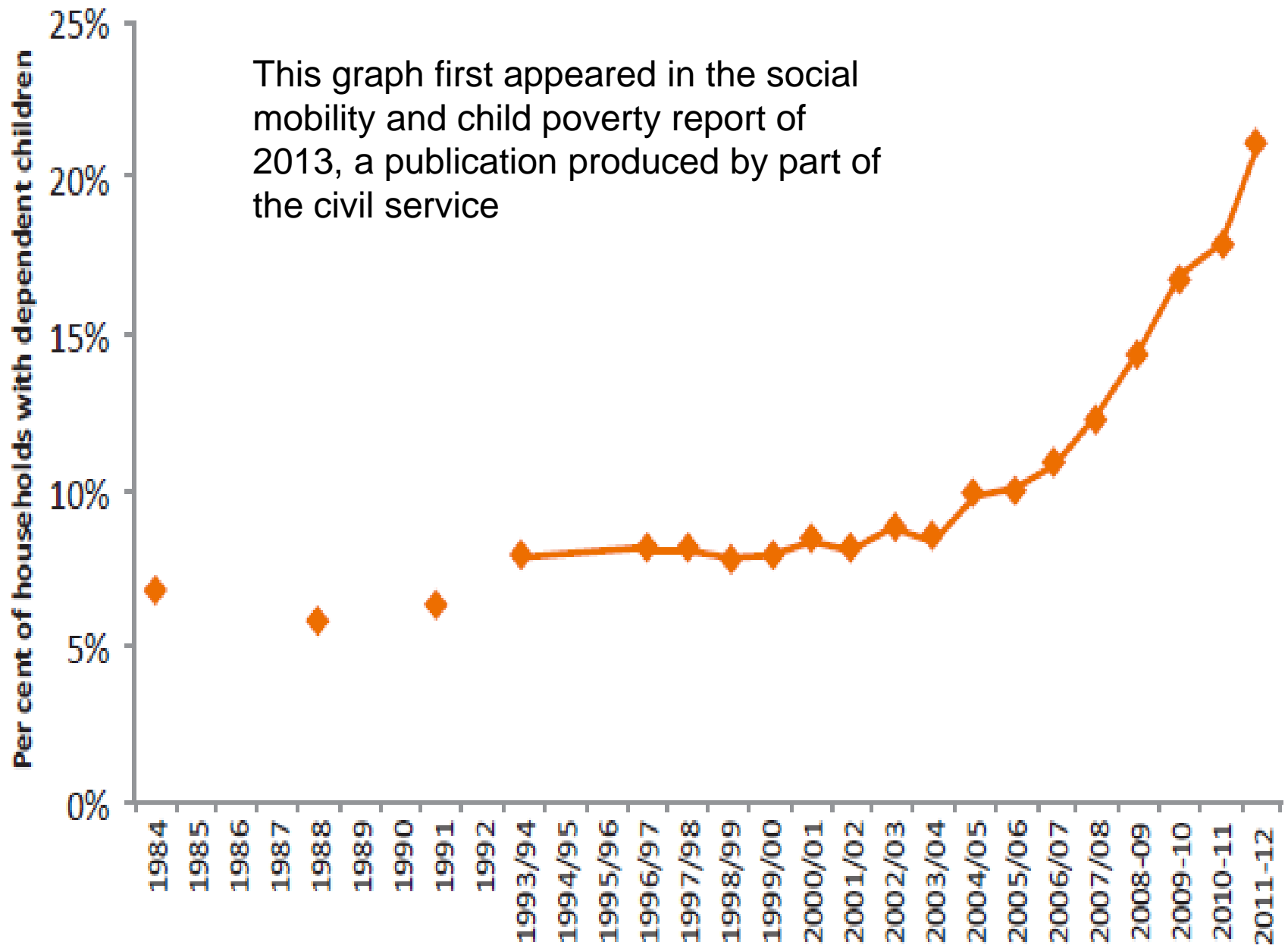


Figure 3.4 of Social Mobility and Child Poverty Commission (2013) *State of the Nation* 2013 October 2013, London: The Stationery Office https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251213/State_of_the_Nation_2013.pdf

Countries as different as Switzerland and the Netherlands are continuing to reduce inequality, steadily and slowly over time.

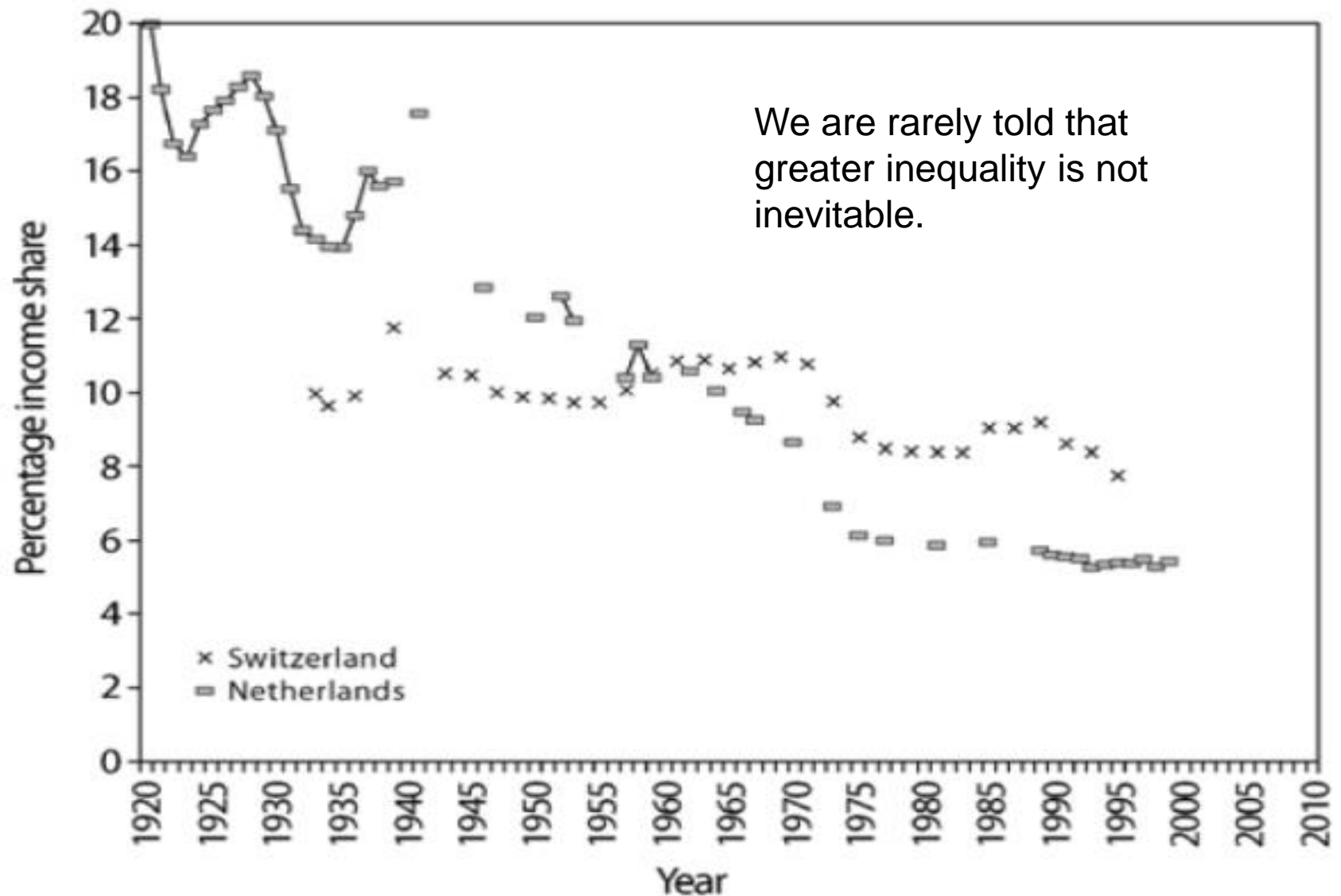


Netherlands

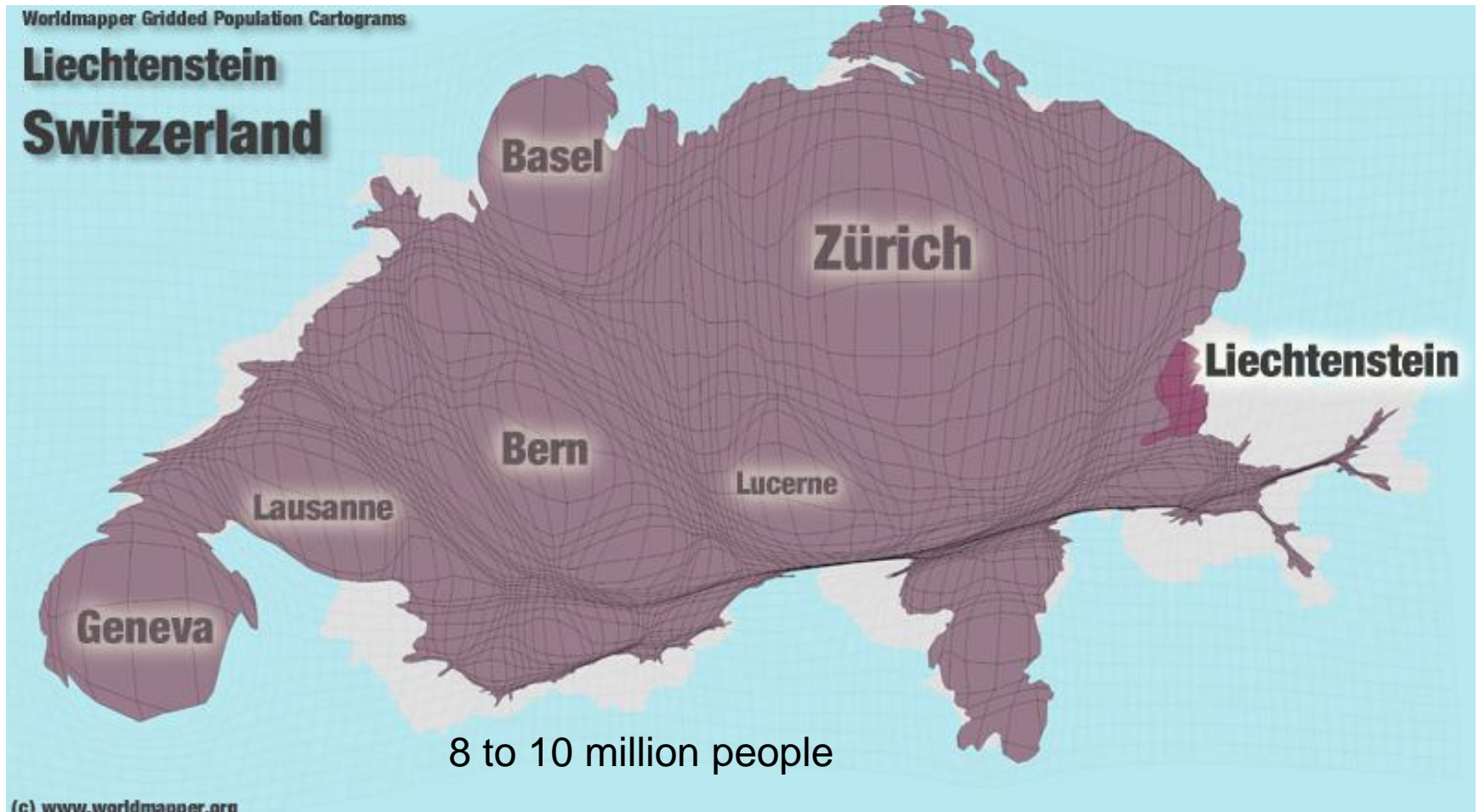


17 million people, better housed

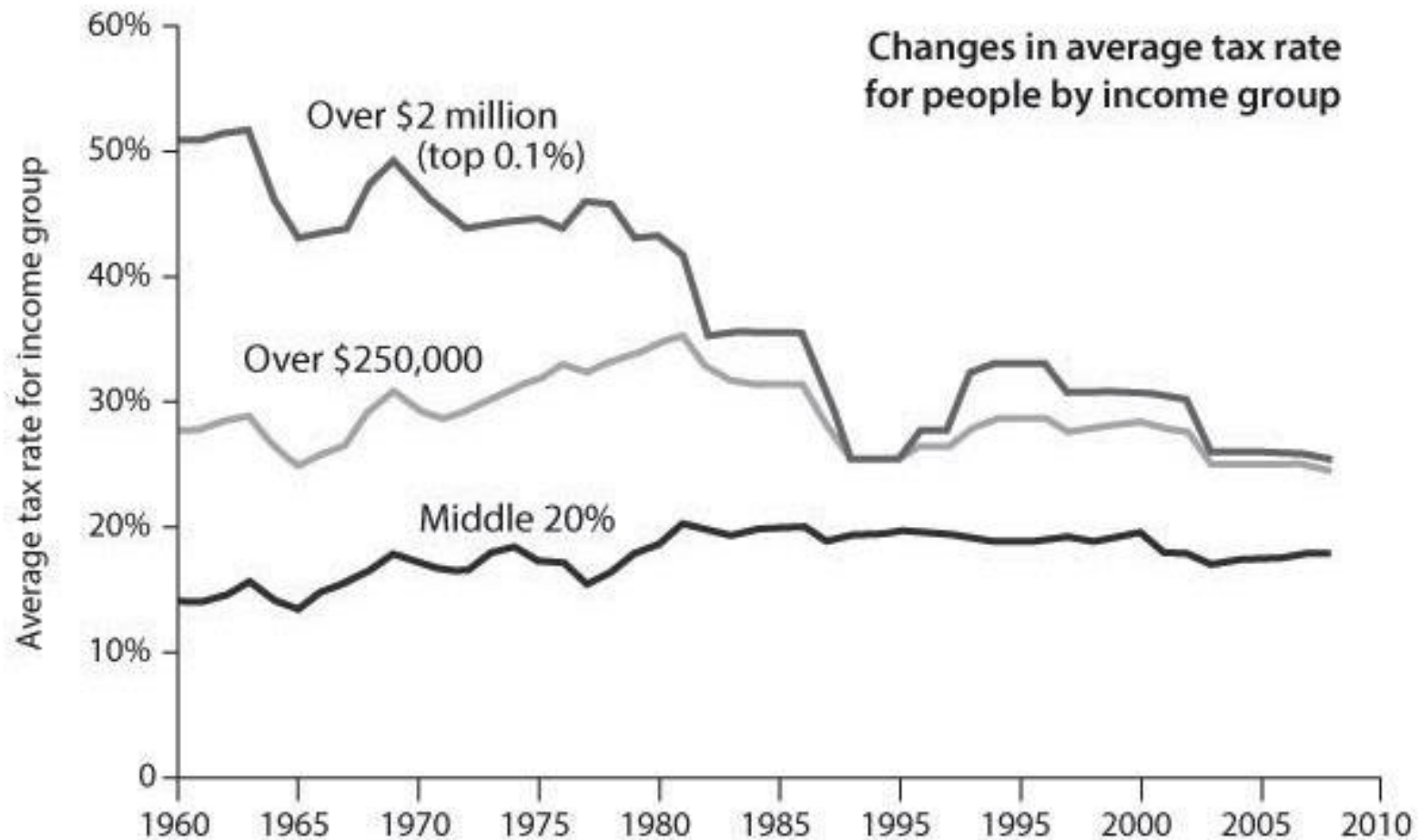
Income share of the best-off 1%, Netherlands and Switzerland



Twice as big as Scotland; still very much tied to Germany, and not a utopia (for migrants especially).

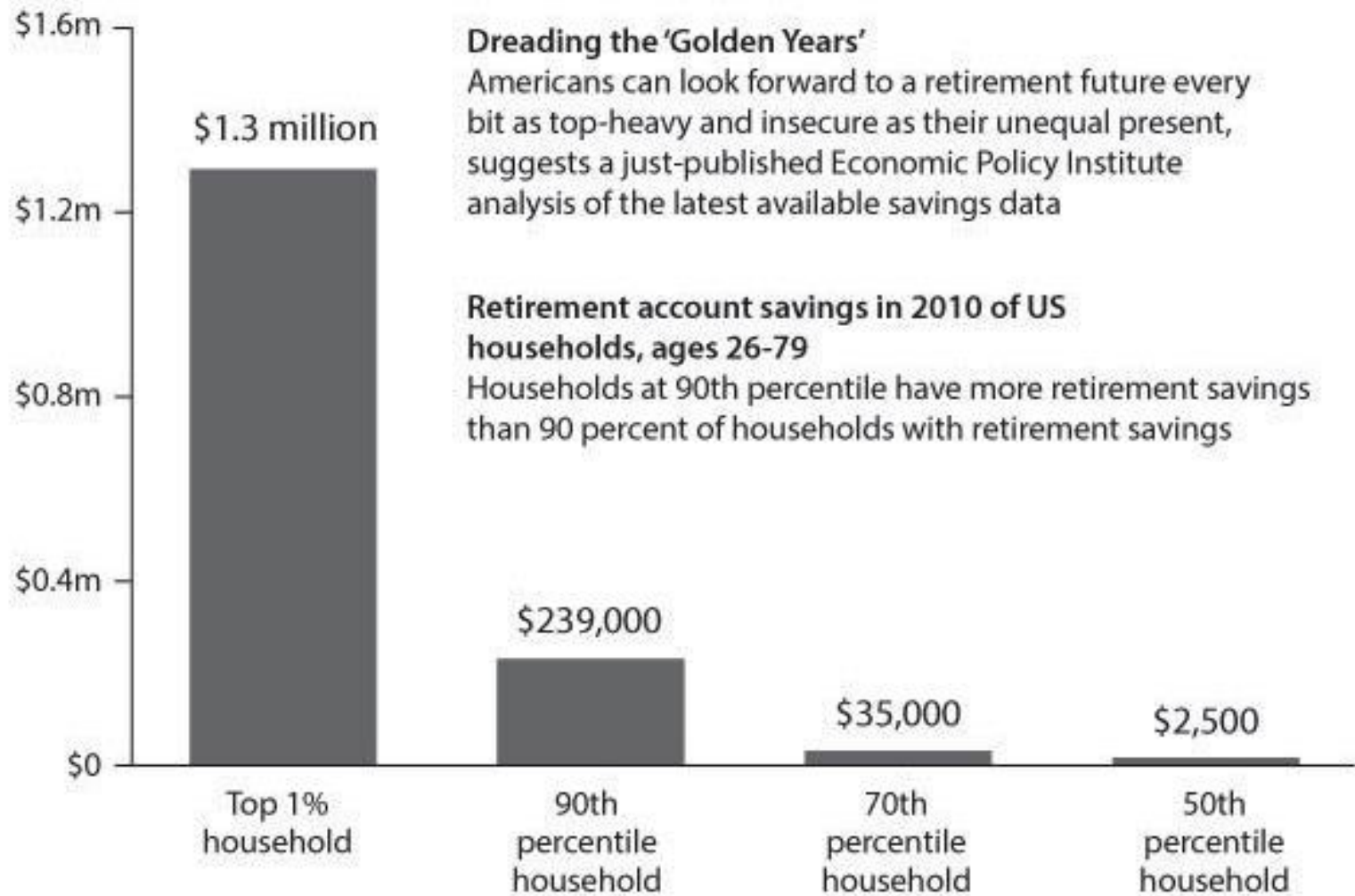


But in large countries the rich cut taxes on themselves, not the rest (USA).



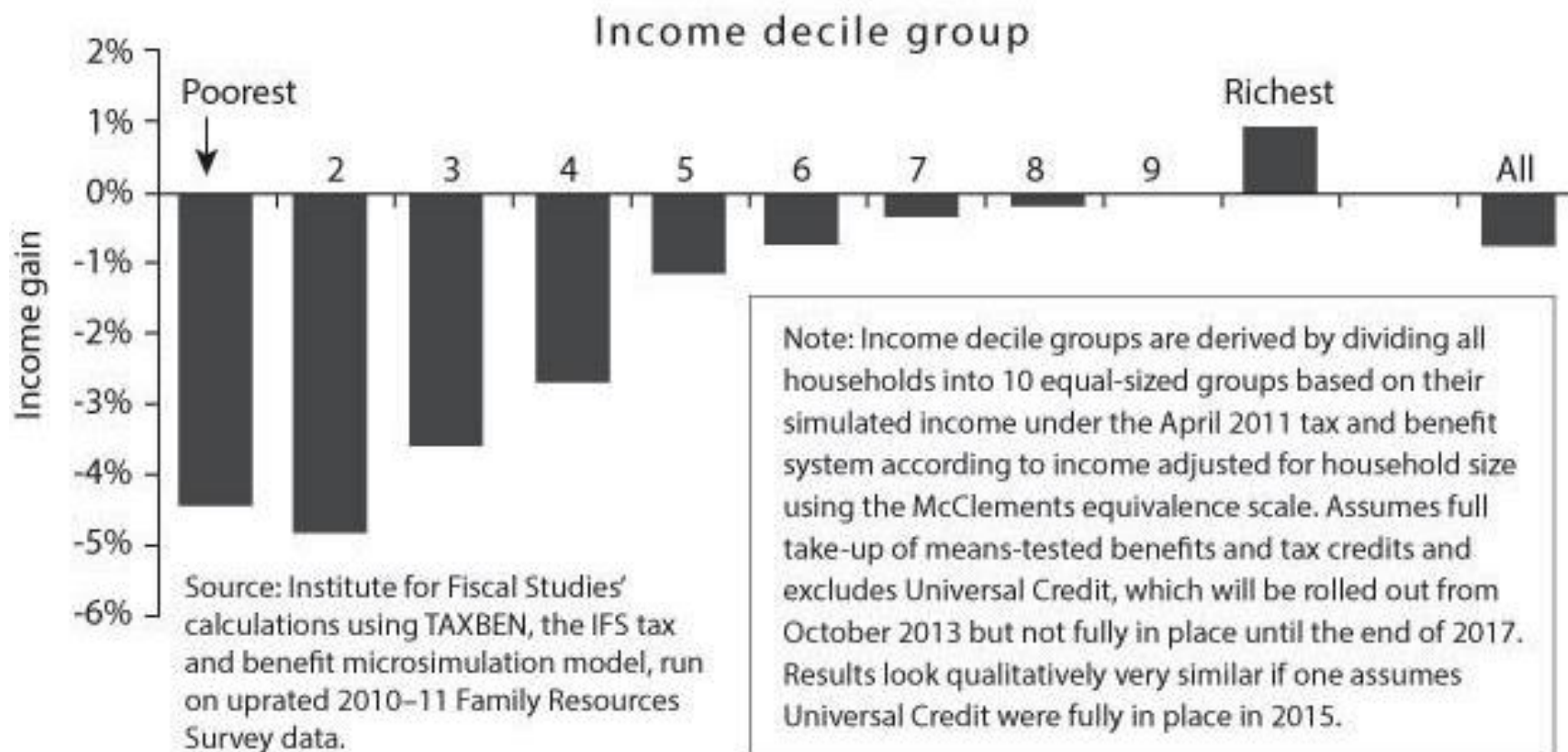
Source: Paul Krugman, 'The Long Run History of Taxes', 12th July 2012

99% should fear retirement in USA



Source: Monique Morrissey and Natalie Sabadish, Economic Policy Institute, How the 401(k) revolution created a few big winners and many losers, September 2013.

Figure 6.1: Planned UK tax and benefit changes 2012 to 2015/2017



Note: only 1% within the 10% gain, those who's tax is cut to 45% (no c.b.)

World views on Income inequality (Ipsos Mori)

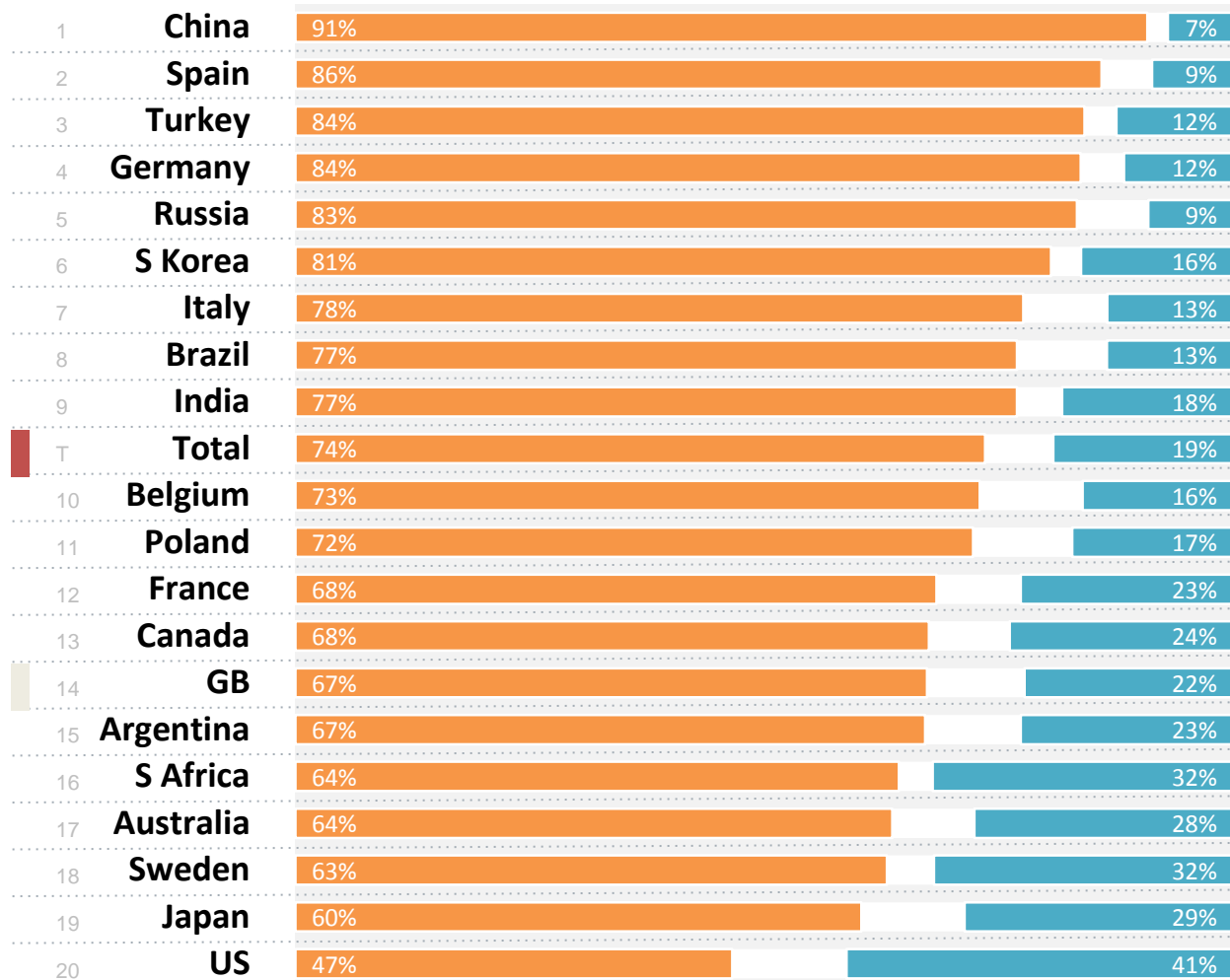
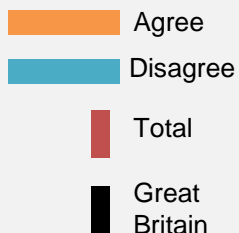
The Global Trends Survey



To what extent do you agree or disagree...?

Having large differences in income and wealth is bad for society overall

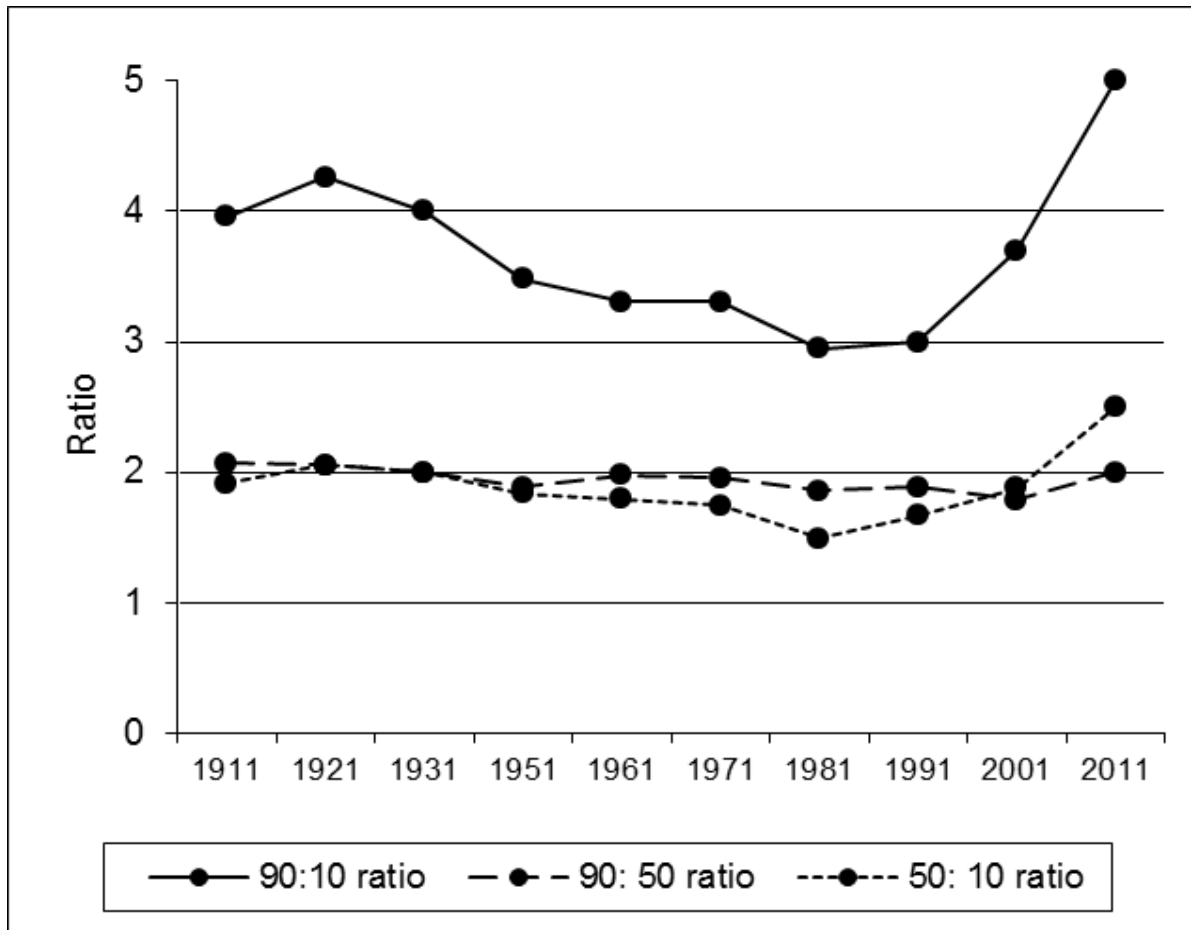
Key



Base: 16,039 adults across 20 countries (1,000 GB), online, 3-17 Sept 2013

Question 16e
Unpublished

It is not too few homes in England and Wales (or Scotland?)



From Figure 6 of:

Relative housing inequality: The decline and return of housing space inequality in England and Wales, 1911-2011

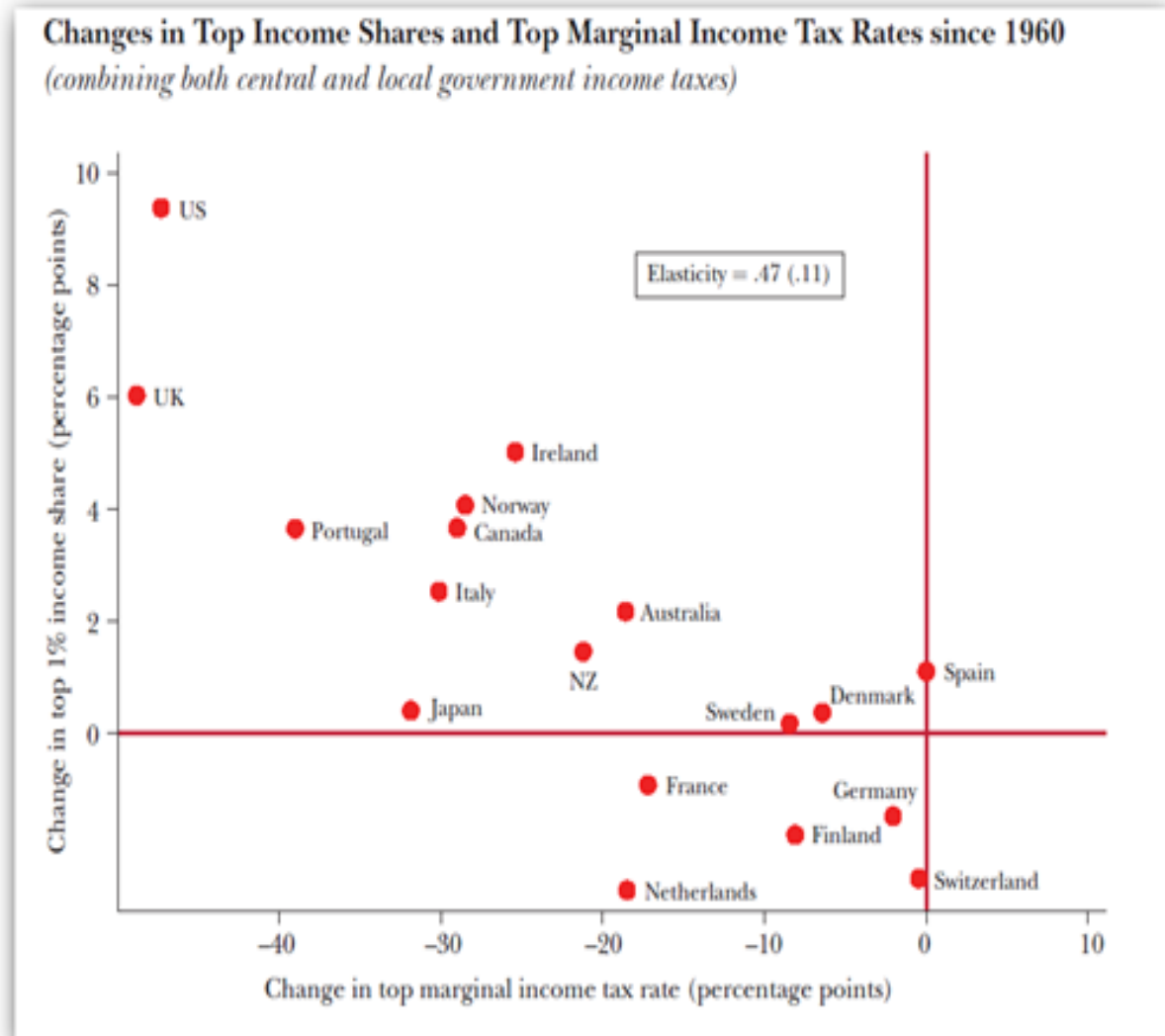
Rebecca Tunstall
Director, Centre for
Housing Policy,
University of York
(in press)

Inequality in distribution of rooms per person for people in private households in England and Wales, percentile ratios, 1911-2001

Geographical comparisons show that those countries which reduced top rate taxes the most since 1960s have seen the 1% gain the most since 1960.

Currently the top 1% take 20% in the USA and near to 15% in the UK.

Thomas Piketty's work may well come to form a new consensus



This graph shows how government policies rather than global market forces have changed the status quo in different countries since 1960.

Source: Figure 4 in:
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.3.3>

Conclusion: *international context matters*

Earlier this year it was reported that just 85 people owned as much as the poorest half of humanity (by Oxfam). Forbes then updates the figure to 67, then to 66 people. We need to know that we are living, as the old curse suggests, in unusual times.

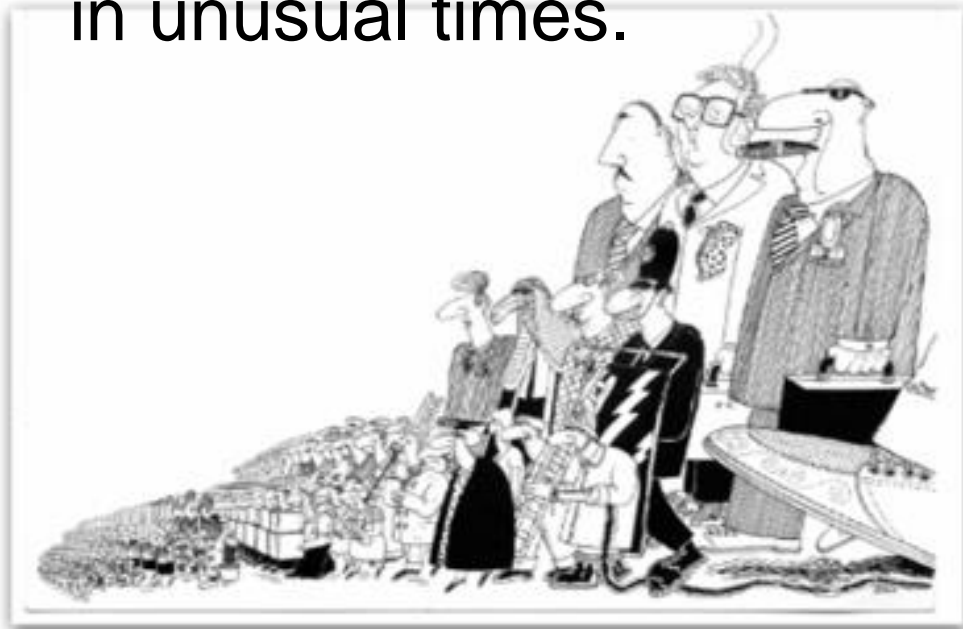


Figure 2.5: If pounds were pixels - one of many hundreds of images of dissent in 2012.



Source: <http://zoomit.fyE58>

Note: image created by an anonymous campaigner.

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