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

Danny Dorling
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London School of Economics
Lecture, Oct 7\textsuperscript{th}, 2014
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
Even the super-rich can feel poor

24 people
So, how do our 1% compare?

63 million people

24 people

Over 500 million people
OTHER LARGE EU COUNTRIES ARE SIMILAR TO EACH OTHER, NOT UK

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

<table>
<thead>
<tr>
<th></th>
<th>1% CUTOFF</th>
<th>Median</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>€154,000</td>
<td>€36,400</td>
<td>4.2</td>
</tr>
<tr>
<td>France</td>
<td>€189,000</td>
<td>€39,000</td>
<td>4.8</td>
</tr>
<tr>
<td>Italy</td>
<td>€164,000</td>
<td>€33,400</td>
<td>4.9</td>
</tr>
<tr>
<td>Spain</td>
<td>€105,000</td>
<td>€22,700</td>
<td>4.6</td>
</tr>
<tr>
<td>UK</td>
<td>€227,000</td>
<td>€36,300</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Source: calculations by Author EU-SILK weighted household sample
“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...

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

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.
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**

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

*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.

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)
£160,000 a year to be in the 1%

The top 1%, a household income greater than £3000 a week

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

6.7% to be in the 1%
In the Netherlands in 2012

Source: Atkinson, Piketty and Saez, 2012
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).
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: population .....Source: Luxembourg income study and Paris top income dataset.
It is worse in the USA

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

The Richest 1% would own this
The next 4% would own this
The next 5% would own this
The next 10% would own this
The next 40% would own this

Source: Edward Wolffe, New York University, 2012
Note: 2007 data (includes home equity); Federal Reserve
$100m households by country, 2011, note the UK and USA.

Source: Boston Consulting Group, 2012
What is the effect of overall inequality on: policy?

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:

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

This graph first appeared in the social mobility and child poverty report of 2013, a publication produced by part of the civil service.
17 million people, better housed
We are rarely told that greater inequality is not inevitable.
Twice as big as Scotland; still very much tied to Germany, and not a utopia (for migrants especially).

8 to 10 million people
But in large countries the rich cut taxes on themselves, not the rest (USA).
99% should fear retirement in USA

Dreading the ‘Golden Years’
Americans can look forward to a retirement future every bit as top-heavy and insecure as their unequal present, suggests a just-published Economic Policy Institute analysis of the latest available savings data.

Retirement account savings in 2010 of US households, ages 26-79
Households at 90th percentile have more retirement savings than 90 percent of households with retirement savings.

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

Income decile group

- Poorest
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- Richest
- All

Income gain

- (-6%)
- (-5%)
- (-4%)
- (-3%)
- (-2%)
- (-1%)
- 0%
- 1%
- 2%

Note: Income decile groups are derived by dividing all households into 10 equal-sized groups based on their simulated income under the April 2011 tax and benefit system according to income adjusted for household size using the McClements equivalence scale. Assumes full take-up of means-tested benefits and tax credits and excludes Universal Credit, which will be rolled out from October 2013 but not fully in place until the end of 2017. Results look qualitatively very similar if one assumes Universal Credit were fully in place in 2015.

Source: Institute for Fiscal Studies’ calculations using TAXBEN, the IFS tax and benefit microsimulation model, run on uprated 2010–11 Family Resources Survey data.

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)

To what extent do you agree or disagree…?

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

|   | China       | 91% | Agree |
|   | Spain       | 86% | Agree |
|   | Turkey      | 84% | Agree |
|   | Germany     | 84% | Agree |
|   | Russia      | 83% | Agree |
|   | S Korea     | 81% | Agree |
|   | Italy       | 78% | Agree |
|   | Brazil      | 77% | Agree |
|   | India       | 77% | Agree |
|   | Total       | 74% | Agree |
|   | Belgium     | 73% | Agree |
|   | Poland      | 72% | Agree |
|   | France      | 68% | Agree |
|   | Canada      | 68% | Agree |
|   | GB          | 67% | Agree |
|   | Argentina   | 67% | Agree |
|   | S Africa    | 64% | Agree |
|   | Australia   | 64% | Agree |
|   | Sweden      | 63% | Agree |
|   | Japan       | 60% | Agree |
|   | US          | 47% | Agree |

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

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

*IF POUNDS WERE PIXELS...*

*Does that seem right to you?*

Sources: http://zoom.it/yE5B
Note: Image created by an anonymous campaigner.
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