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Deaton Review policy
workshop

London

28 April 2026

@TheIFS

Wealth inequality



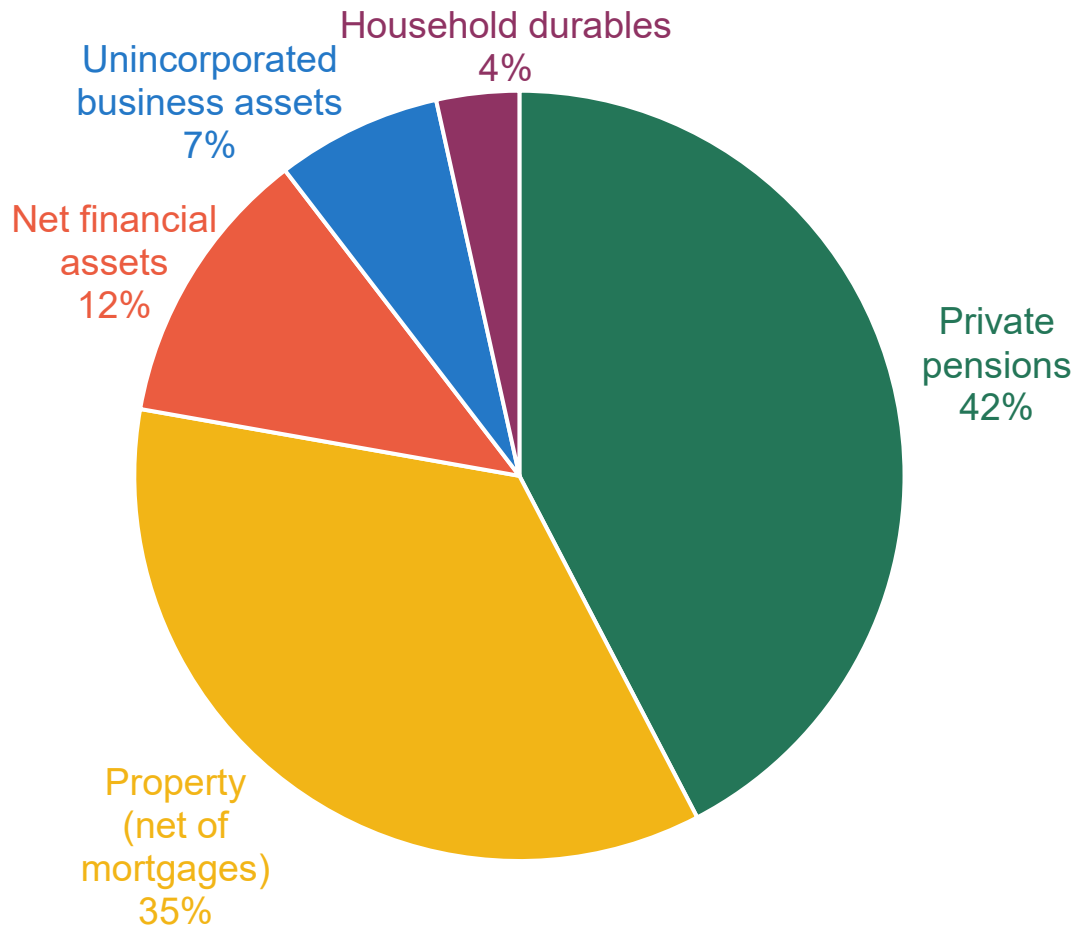
Economic
and Social
Research Council



Key facts

Most wealth is pensions & housing

Composition of household wealth, 2016-18

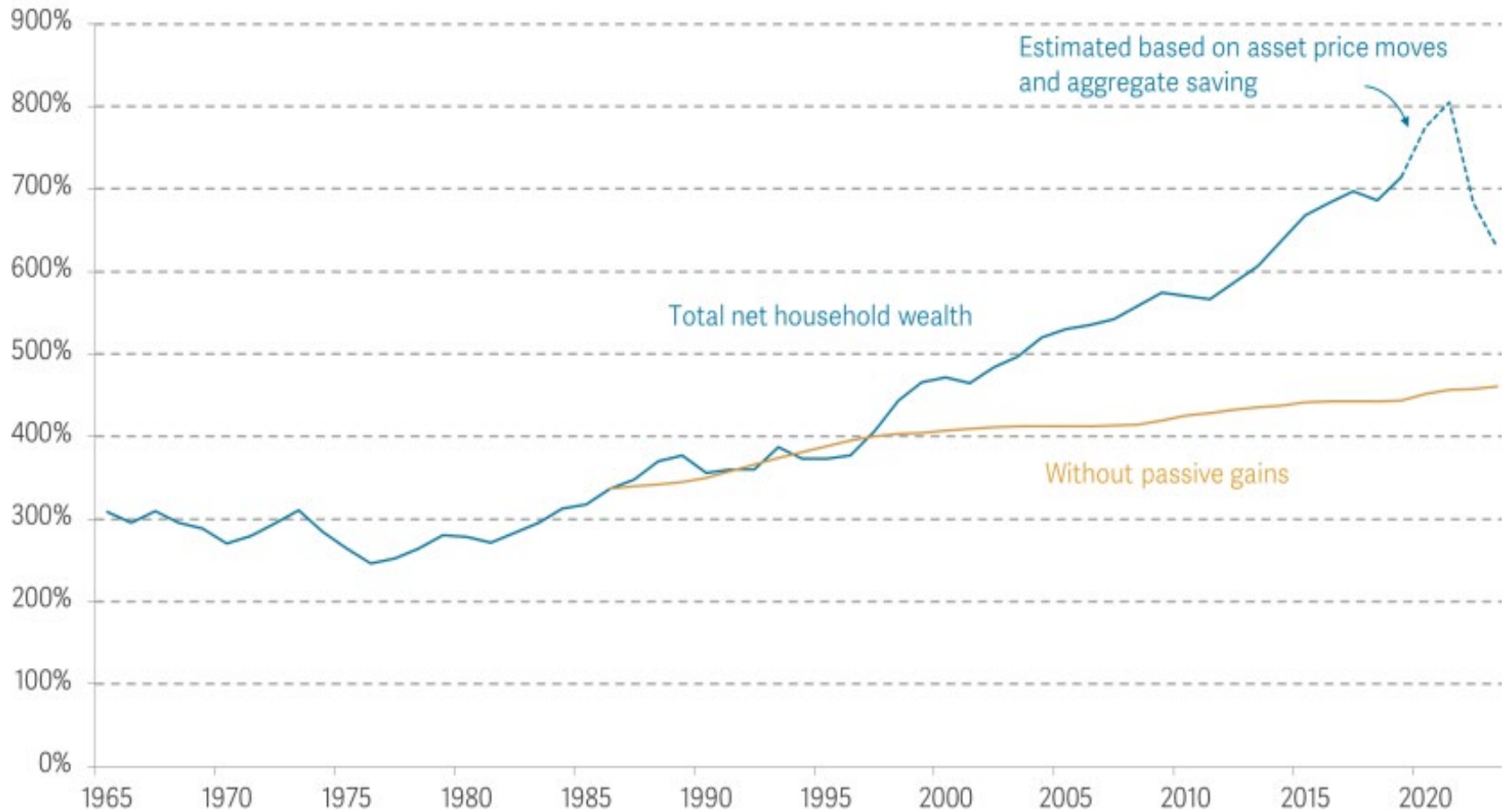


Different at the extremes:

- Bottom 10%: mainly physical assets – but negative net wealth on average
- Top 10%: financial wealth more important
- Very wealthiest (>£5m): business assets very important

Wealth now more important?

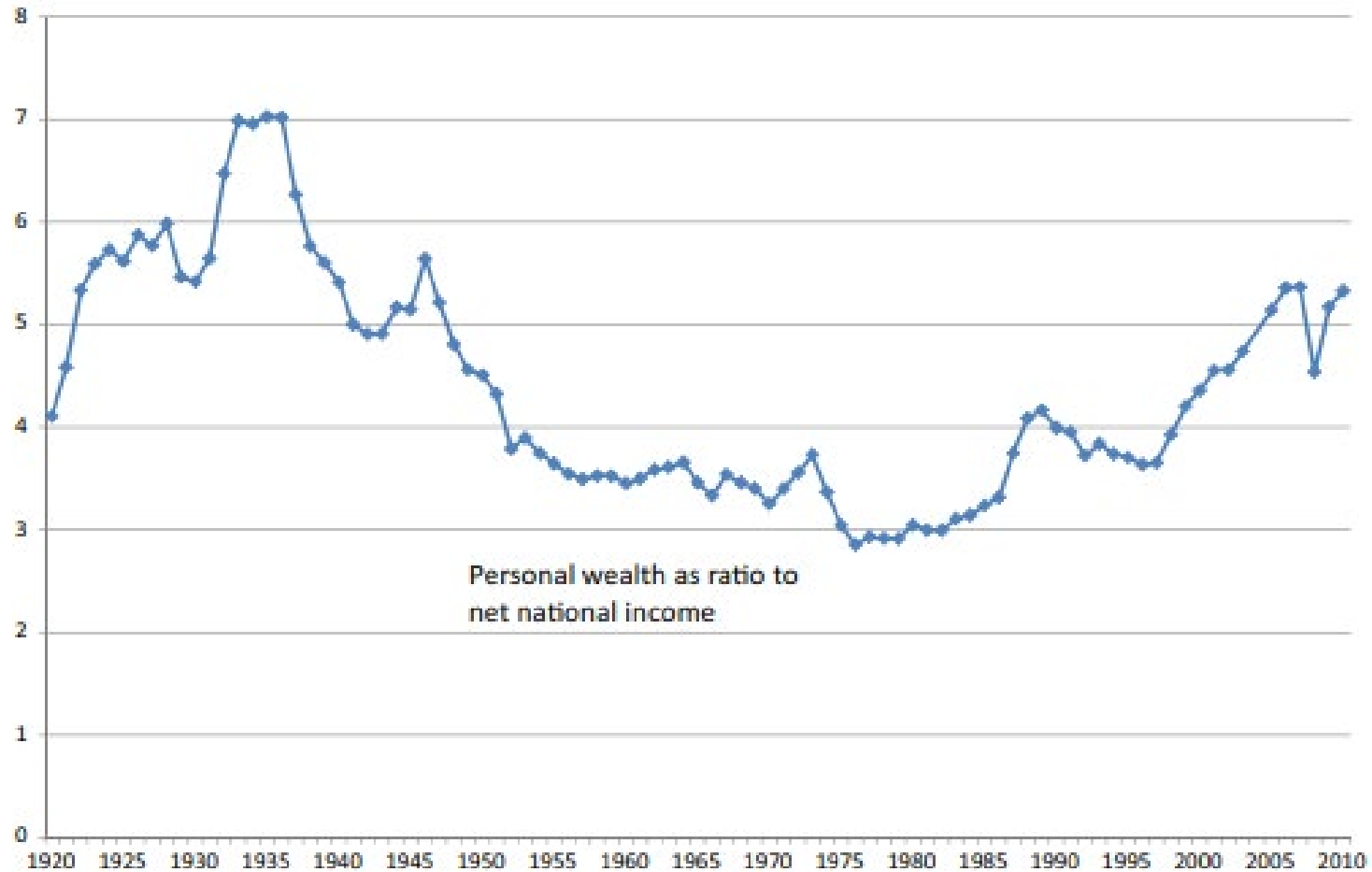
Ratio of household wealth to national income



Source: Figure 1 of Pittaway (2024)

Wealth now more important?

Ratio of household wealth to national income

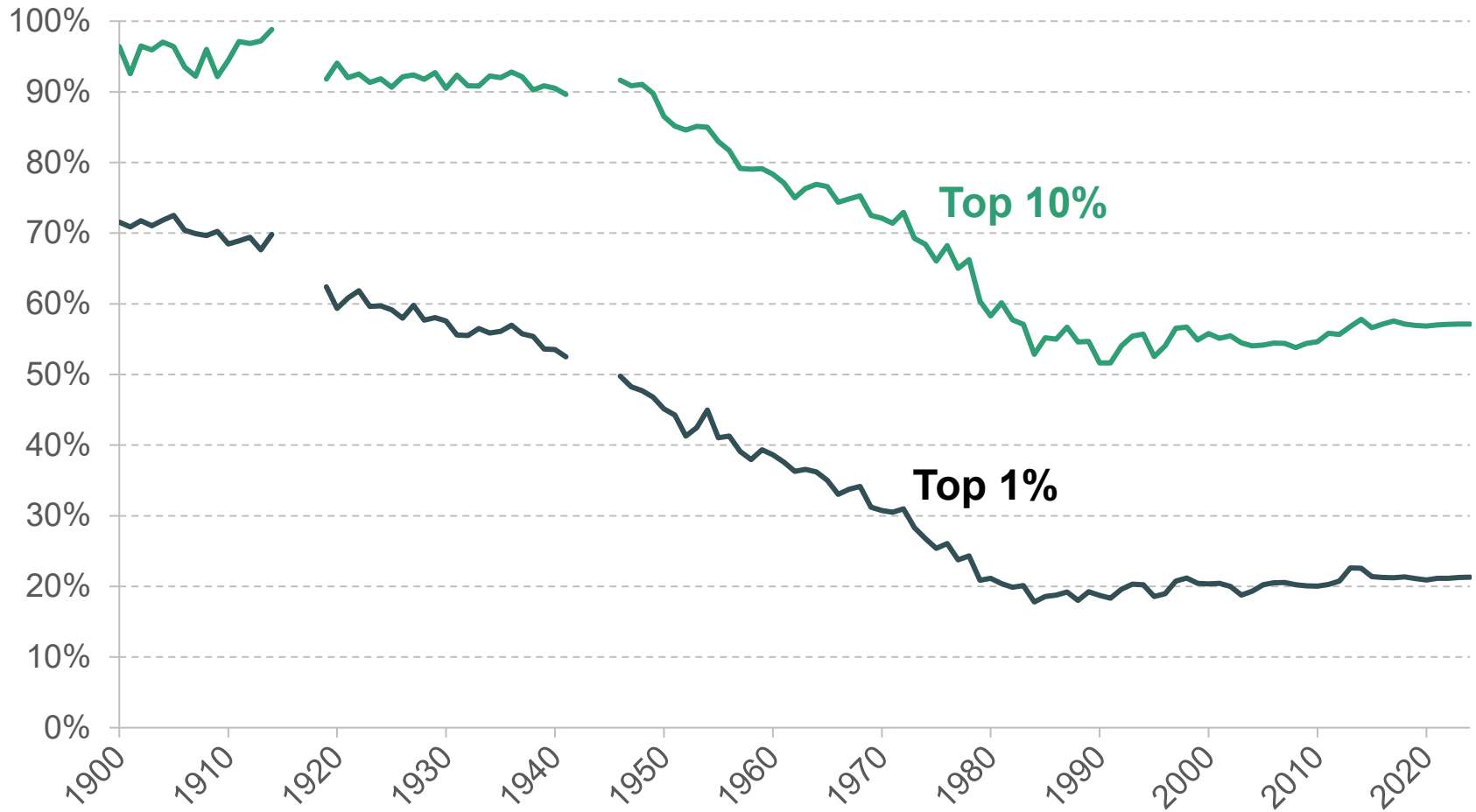


Source: Atkinson (2018), Figure 1

Wealth inequality

Wealth now more unequal?

Shares of wealth held by the richest

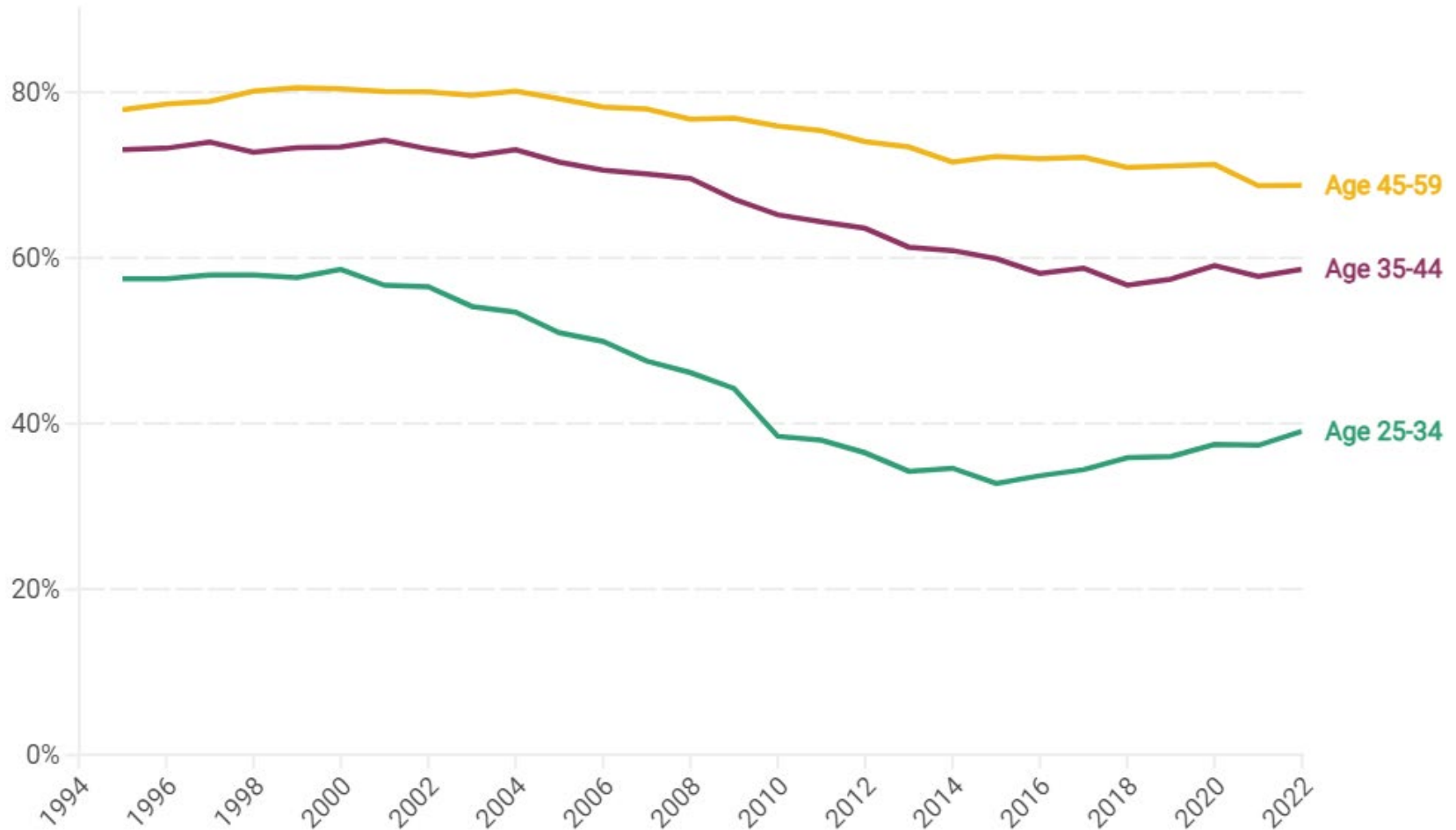


Source: World Inequality Database

Wealth inequality

Fewer young home-owners

Home-ownership rate by age group

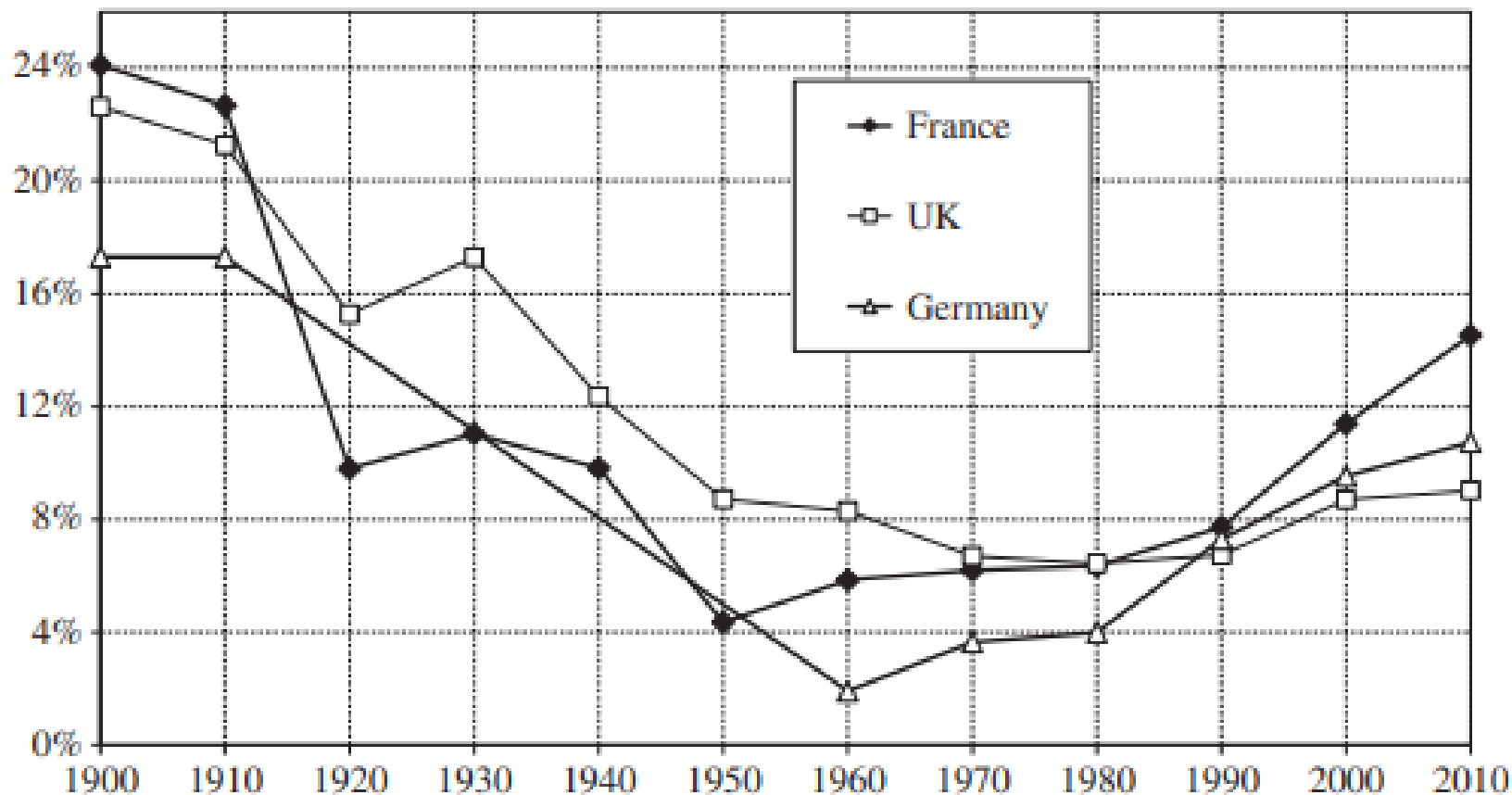


Source: Cribb (2024)

Wealth inequality

Inheritance now more important?

Bequests & gifts as % of national income



Source: Alvaredo et al. (2017), Fig 4.



Why unequal, and why care?

Why does wealth vary?

- Sources of wealth:
 - Earnings, gifts & inheritances received, returns to existing wealth
- Uses of wealth:
 - Consumption, gifts given and bequests
- People vary in how much they have received and used. Why?
 1. Age: people at different points in life-cycle
 2. Timing: some receive money earlier in life or use it later
 3. Lifetime income: differences reflect abilities, preferences, inheritances, expectations, opportunities, effort, luck,... and policy
- Which of these are we concerned about?

What's the problem?

- Why concerned at all? Different possible reasons, e.g:
 - £1 more valuable in the hands of a poorer person
 - Wider social harm: unequal social relationships, political influence,...
- Inequality across the whole distribution? Top 1% or 0.01%? Those left behind?



Policy options

Annual wealth tax

Widely discussed, and natural if concern really is about wealth itself

- Tax millionaires vs billionaires vs pensions & housing of middle class?
- Penalises those with long gap between acquisition & disposal
 - Who save and work (esp. when young) to accumulate wealth
- International mobility (esp. of richest)
- Difficulties defining & valuing taxable wealth (esp. of richest)
 - From defined-benefit pensions to jewellery & artwork
 - Private businesses and related issues: When are expected future earnings treated as taxable asset now?
- International experience not encouraging

One-off wealth tax

Most direct way to deal with concerns about existing stocks of wealth

- Still difficulties defining & valuing taxable wealth
- Potentially economically efficient if based on past outcomes
 - But not if creates expectations/uncertainty about future tax
- Is it fair?
 - Taxes generation at peak wealth, and those who've chosen to save
 - How accurately 'correct' past injustices in how wealth acquired?

Taxing land/property

- Fewer practical difficulties
- Insofar as supply inelastic:
 - Economically efficient
 - One-off loss to owners when announced
- Is it fair?
 - Taxes those at peak wealth when tax announced
 - And whose wealth is in land/property rather than other assets

Focusing on incomes

If concern is unequal (lifetime) incomes – esp. those acquired in certain ways – then better to address directly

- Tax and benefit policy
 - Taxation of inheritance & gifts
 - Taxation of earnings (and means-tested benefits)
 - Taxation of income from business & capital
- But not just tax and benefit policy
 - Public services, labour market regulation, innovation policy, infrastructure, planning system, competition policy,...
 - Some discussed in the other sessions today

Conclusion



- Wealth has become – and inheritance is becoming – increasingly important relative to income
- Wealth inequality can reflect differences in lifetime income, timing, or stage of life-cycle
- Annual wealth tax has serious economic and practical drawbacks
 - Why tax people more if longer gap from getting money to spending it?
- Concerns about (unequal) lifetime incomes can be addressed directly
 - Not just about tax policy!
- Policy on future income wouldn't address concern about existing stocks
- Taxes with one-off effects can do that – but have their own problems
- Need to be precise about exactly what concern you want to address