The desperate horrors of wealth inequality [1]

Written by **Tim Worstall** [2] | Wednesday 9 October 2013

Yes, we've another bunch of bedwetters and handwringers telling us how appalling it is that Britain is so unequal. This time it's about wealth inequality. It's just absolutely terrible about how unequal it all is. Here at The Guardian [3], at the "Inequality Briefing [4]" site and I'm afraid that it's actually out and out nonsense. Entire tripe. Their information comes from this ONS paper [5] and I'm afraid that they've not understood the caveats that accompany that research as well as making one other entirely silly mistake.

This is, in fact, all very reminiscent of the Hills Report that I shouted about some time ago [6].

The first and simplest mistake they make is that they forget that wealth changes sigificantly over the lifecycle. Indeed, what with things like university fees we rather expect people to have significant *negative* wealth for some years of their life. Certainly we expect that to be the general experience, that for some years people will have debts larger than their financial (but not their newly enhanced human capital wealth) wealth. It's also missing the other end of the life cycle part. 30 to 35 years after that period of negative wealth if all has gone well in that career in earlobe tattooing then we'd expect you to have paid off your mortgage and built up a nice little nest egg to finance your pension in your golden years. We really don't expect the newly graduated arts student to have either of those things. But we would rather hope that someone on the cusp of retirement would.

And that is in fact the major reason for the wealth imbalance. In those ONS figures we see that the total wealth they're talking about is around £10 trillion: of which £3.5 trillion is property and £4.7 trillion private pension plans. Financial and physical wealth are around a £ trillion each. I'm very much unconvinced that inequality of wealth across age is something to get worried about. Indeed, I think it not just normal but desirable. Another way to put this is the thought that people paying off their mortgages and saving for a pension just isn't something to bring the rabble out onto the streets.

The second problem is that they're committing what has been named (although not by me I hasten to add) Worstall's Fallacy. They are looking at this distribution of wealth *before* the various things that we do to reduce the inequality of the distribution of wealth. They do not count the State pension as wealth: even though it is very much an inflation proofed annuity just like the one you buy with your private pension pot. They count the house that you own but not the subsidised lifetime tenancies available in the council and social sector. That the NHS will treat you whenever you fall ill (OK, perhaps 4 weeks afterwards but....) is also a form of wealth, so is the social insurance that the State offers. In short, we've a welfare state and that is a source of wealth.

Whether that welfare state actually has the value that it costs to provide is another matter of course: but it is most certainly wealth: otherwise, why in hell does anyone support providing it?

In short, Inequality Briefing has ignored the most basic reason why wealth inequality is as it is: that people pay off mortgages and save for their pensions. And not only that they've looked at only the raw figures, without noting what is done to reduce wealth inequality.

This deserves an F minus. Go back and do it again and do it properly this time.

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