

Estimating the UK one percent

A public service message

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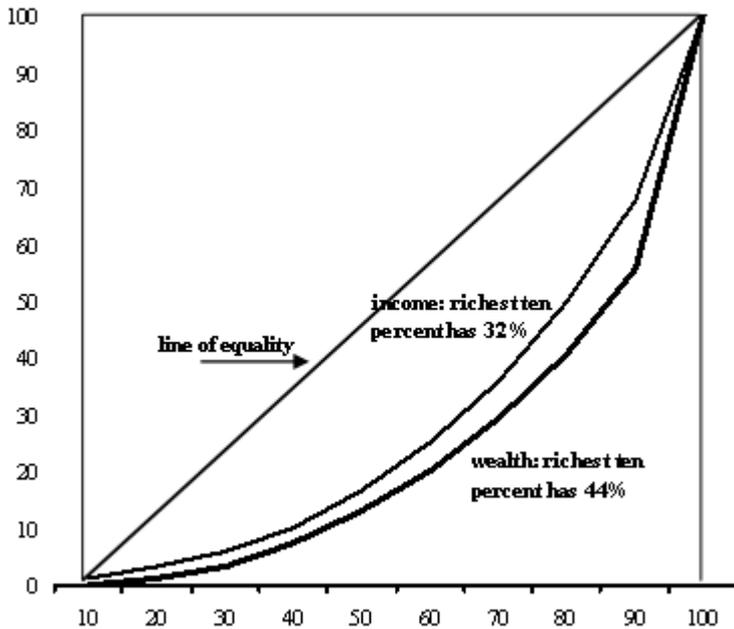
Wherever progressives hit the streets in protest, a repeated (literally) slogan is, "we are the 99 percent", confronting "the one percent" with its crimes of greed. The percentage reference is usually to annual income, and, less often but of equal if not more relevance, to wealth. How rich do you have to be to be in the one percent for income and wealth?

The Office of National Statistics (ONS) is kind enough to provide this information. We start by checking out the big picture in Chart 1, which shows the overall distributions for tax year 2007-2008 (latest statistics). This is a convenient benchmark year because it records the peak incomes before the global financial crisis. With economic stagnation after 2007/8, I would not expect the numbers for 2011 to be very different.

The obvious message is that the distributions of income and wealth in the United Kingdom are very, very far from equality (the diagonal line in the chart). The bottom half of households could, no doubt with some regret, claim only seventeen percent of income before tax and a meagre thirteen percent of net wealth (wealth being net real property value, stocks, bonds, and other paper assets). Way up at the other end, the Top Ten hauled in almost one third of all income and getting on toward half of wealth (44% to be exact). In order to climb into the ten percent, a net wealth of almost £400,000 was required (for example, a home whose value net of any mortgage of that amount would put you into the elite Ten). I regret that ONS does not give the wealth boundary for the one percent.

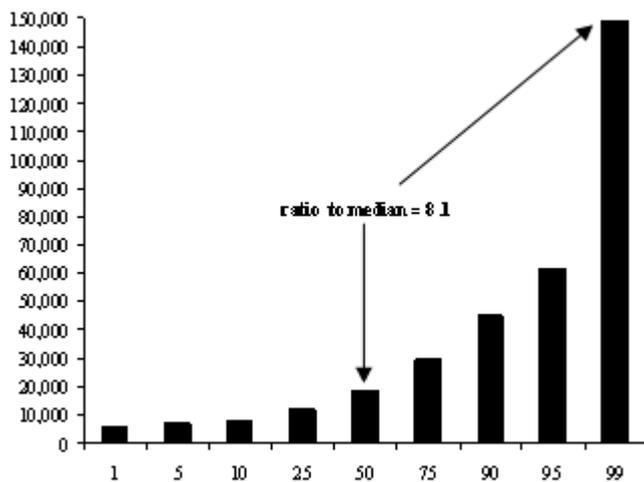
The richest ten percent are the paupers of the world of wealth and riches - after all, in that realm you are just one out of ten which wouldn't put you at the head of the queue at many London bus stops. What does it take to reach the one-in-one-hundred crowd (using the last word loosely)? Unlike for wealth, HM Treasury can help on income, though I presume that all those "non-doms" are not included. In the 2007/8 tax year the lower boundary of the One Percent Club (OPC) was almost exactly £150,000 for one person, implying £194,000 for a household. While it would be slightly embarrassing to have it known you were at rock-bottom of the OPC, it was over eight times median taxable income. This was a considerable improvement over the 1993 ratio, which was a risible 5.5 (see Chart 3). Over the fifteen years, 1992/3 to 2006/7, nominal median income grew at 3.2 percent per year and the lower limit of the one percent group grew at six percent. An exclusive club should and does become more exclusive over time, absolutely and relatively.

Chart 1: Percentage distribution of income and wealth in the UK, 2007/8
(Lorenz curve)



With this information, each reader should be able to locate her/himself. In the interests of transparency, I shall declare myself. In 2005/6, the last year before I retired, I had the salary of one of your garden-variety UK professor, and I just made the cut for the top 5 percent (boundary equal to just over £56K), but was woefully short of the OPC. On the household scale, even two professors in the family did not get you into the OPC (it is, after all, an exclusive club). Once retirement kicks in, you can forget about joining unless you were a banker, a CEO or in the Coalition cabinet.

Chart 2: Personal income before tax by percentiles, 2007-2008

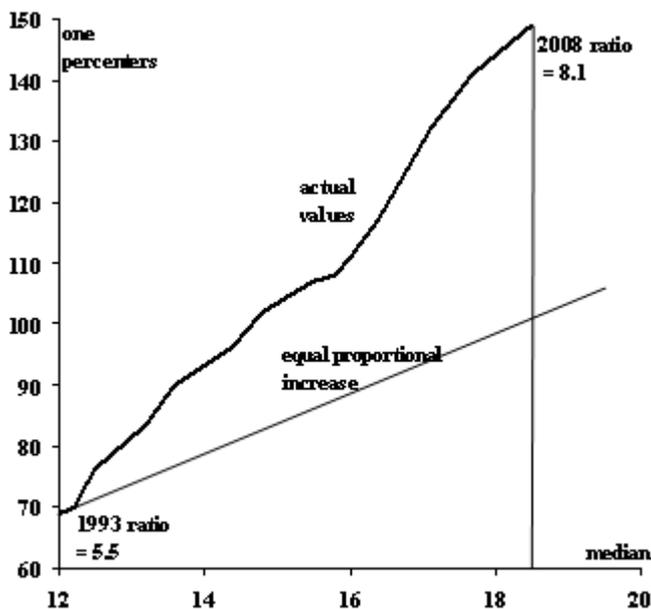


If you want make a rough estimate on your personal income position in the distribution (i.e., not household, which you can guess by adding 30%), the following benchmarks would be approximate for the end of 2011:

- If over £20,000, in the top 50%
- over 30,000, in the top 25
- over 45,000, in the top 10
- over 63,000, in the top 5
- and
- over £150,000, in the Big Number One Club.

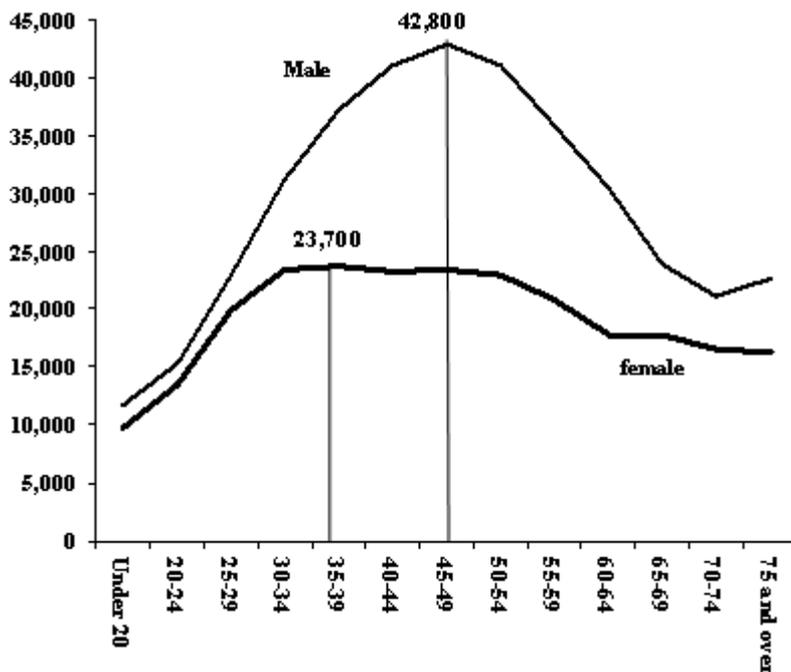
HM Treasury has a category “employment income”, which includes all wage and salary incomes in the private and public sectors, and this should give an approximate peg for the working class. If anyone is interested, the median for this income category in 2007/8 was almost exactly £15,000, approximately percentile thirty-seven. As one should expect, median working class income was well below the median for all people on the tax list. For the truly curious, I can report that the median pension income of £12,000 just made the cut for the twenty-fifth percentile. About a year ago the always-progressive Polly Toynbee argued that the benefits enjoyed by UK retirees should be taken away because OAP’s “don’t need them” (e.g., bus passes), and given to the young, who do need them. Indeed, the typical OAP is better off than a full quarter of the tax paying population, solidly ensconced in the richest 75 percent.

Chart 3: Median and one percent personal incomes, 1993/4 -2007/8 (thds £)



Retirement income raises the more general issue of income over time, which carries at least two important lessons. First and well-known, personal income rises with age, hits a peak, then declines. The second and less well-known (at least its severity), is the that difference for men and women is enormous. In the last years of the 2000s, median income for men peaked in the 45-49 age range at £42,800. For women it peaked a full ten years earlier, 35-39, at £23,700 (forty-five percent lower). Needless to say, entry into the OPC is extremely difficult for women. This is very much in the tradition of the Pall Mall clubs.

Chart 4: Caution, Low Ceiling: Age distribution of median personal income, females and males, 2007-2008 (pre-tax)



I suspect that to hit the real villains, we have to aim a bit higher (using the word "aim" in a non-violent way, of course), to the 0.1 percenters. That tiny group, brings you down to about 26,000 households (referring as before to those on the tax lists). Neither the Treasury nor ONS provide information to measure directly income at that astronomic altitude, and estimations at the top of distributions are famously inaccurate. However, an educated guess would put the one-in-a-thousand personal income near £500,000, which is not bad for a dishonest year's work.

Sources

- http://www.hmrc.gov.uk/stats/income_distribution/menu-by-year.htm
- http://www.hmrc.gov.uk/stats/personal_wealth/menu.htm