The UK's Generational Wealth Gap

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Income inequality soared in the 1980s, enough to turn the UK from being internationally-mid-table (inequality-wise) in the mid-1970s to what it remains: one of the most unequal nations in Europe. But since then, it hasn't changed. [1]

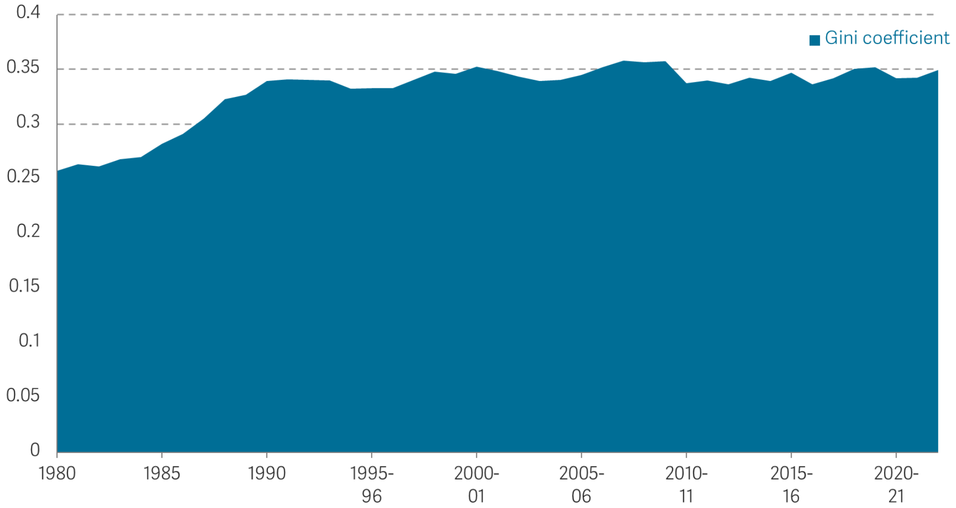

Figure 1: The Gini coefficient of income inequality

So why is concern about inequality so high? We can think of three reasons.[2]

- First, if inequality is a bad thing, then it's the level that matters, not whether it's rising or falling: if it was worth worrying about a generation ago, and it hasn't shifted since, then it remains a problem today.[3]
- Second, recent concern about inequality might just reflect that incomes just haven't been growing in absolute terms. During the 'Thatcher years', income growth was very strong at the top, fair-to-middling lower down, and then outright negative at the bottom. Then during the nineties and noughties up to the financial crisis, the UK came close to shared growth, with income growth averaging 2 per cent a year across almost the whole range. But the austerity-Brexit-pandemic years gave us income stagnation. If people's own incomes are hardly growing, they may be much more aware of those people who have a lot more than them. [4]
- Third, people's concept of their standard of living or financial position might be based not just on their income but also their wealth (savings, pensions and property).

It is this last idea that we will focus on in this lecture. Wealth is roughly twice as unequally distributed as income. It follows that when wealth becomes relatively more significant compared to income, and more

[1] DWP (2024).
[2] Brewer (2019).
[3] Ostry et al. (2019) show how inequality may contribute to slower growth. Wilkinson and Pickett (2009, 2018) are among the most prominent of scholars arguing that inequality causes a huge array of social problems. Elliot Major and Machin (2018) touch on the link between inequality and social mobility.
[4] Bourquin et al (2024); Brewer (2025).

consumption is funded from it, then living standards will diverge. This is exactly what has happened over the last half century, with the ratio of private wealth to national income having doubled from about 3:1 in the 1970s to about 6:1 today.[5]

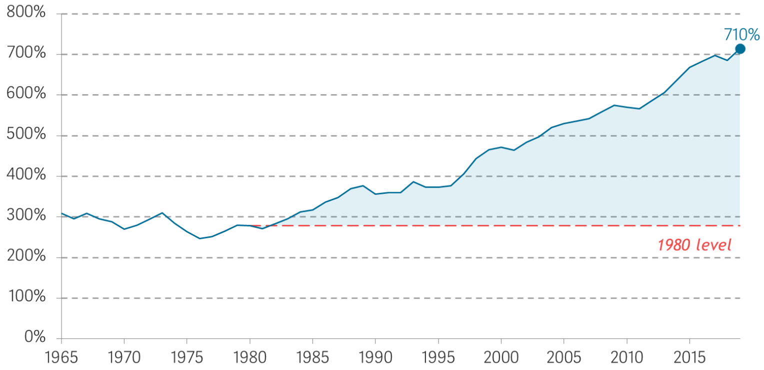

Figure 2: Household wealth as a share of national income

This has led to widening absolute wealth gaps. The gap between the top end and middle Britain was always at least a £1 million since the series began in 2006. But over the next 14 years it surged by about two-thirds to reach £1.65 million by 2020. It may have fallen back in the most recent years, as higher interest rates depress the value of big pensions and other assets, but even in 2024 we estimate the gap at £1.27 million, 17 per cent more than it was in 2006, 37 times more than typical household income, and unimaginably more than it would have been in the smaller wealth era of the more distant past.

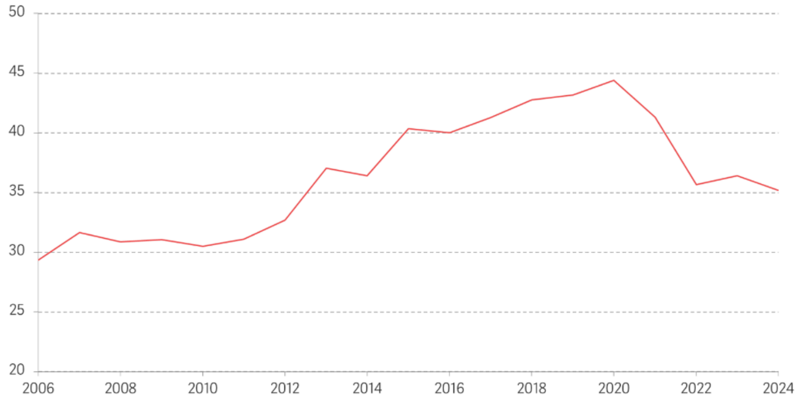

Figure 3: Gap between household wealth in 5th and 9th deciles of wealth as a fraction of median earnings

And the growing importance of wealth has not benefited people of all ages equally. The surge in wealth was due first to soaring house prices in the 1990s and 2000s, and more recently in robust growth in pension wealth. That huge growth in house prices also upended patterns of homeownership, with today's young people far less likely to own their own homes than their parents were, and those born in the 1980s on a track that will give them lower rates of homeownership than all birth cohorts since the 1930s.[6]

[5] Pittaway (2024).
[6] Acharya and Broome (2024).

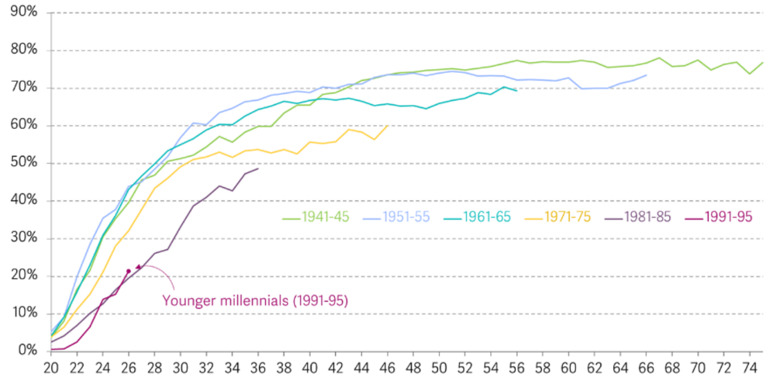

Figure 4: Proportion of family units owning a home, by age of head of family unit and birth cohort

Inheritances will, in time, transfer some of the wealth to today's younger cohorts, but increased longevity means that this won't happen until very late in life.[7] Furthermore, it looks like inheritances will act to reduce social mobility, strengthening the link between the living standards of the 1980s cohort and their parents' circumstances than was the case for the 1960s cohort.[8]

This new intergenerational divide in wealth has come on top of generally weak growth in income in the UK since the mid-2000s. Driven by the labour market (and with sluggish productivity growth at its core), this has had much more of an impact on the most recent cohorts who would have expected to have seen rapid earnings growth in their 20s and 30s: the cohort born in the 1980s, for example, has experienced lower levels of earnings than the 1970s cohort at the same age throughout their working life so far.[9]

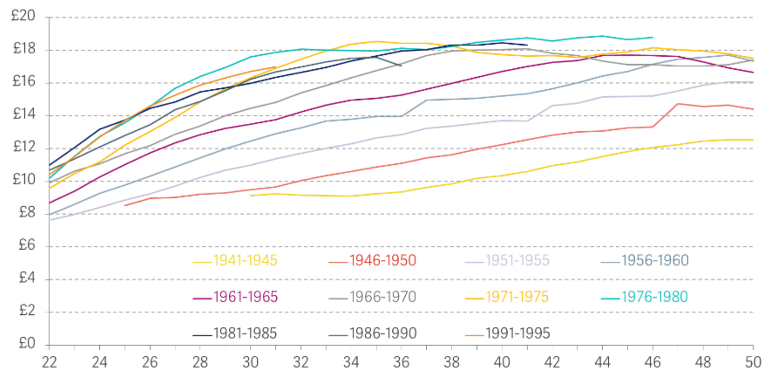

Figure 5: Median real hourly employee pay, by birth cohort

As a result, cohort-on-cohort improvements in the level of household disposable income – something that would have been taken for granted throughout the second half of the twentieth century – have also slowed, or stopped, for the most recent cohorts. For example, over a 25-year period beginning from the age of 25 or 30, median within-cohort income for those born in the 1940s and 1950s approximately doubled, in real terms. Those born in the 1960s saw a rise of around a half from age 25 to 50; on current trends, those born in the 1970s will see a rise of less than a quarter over 25 years.[10] The result is a profound reversal of between-cohort differences in living standards and wealth, with those born in the 1980s or later both suffering from the UK's poor record on productivity, and having missed out on rising wealth. While there has been a little bit of catch-up in the most recent years, albeit nothing like what Millennials have seen in the US, the story of generational slowdown in the UK remains a potent one.[11]

In sum, inequality is a big deal, and even if it isn't rising on the headline measure. There are, of course, always other things going on under the surface, some of which are prone to make that inequality feel more unfair. Moreover, when people across the income range are not enjoying the same sort of incremental

[7] Pittaway (2024).
[8] Piketty (2014) is the classic text on how inequality in wealth reproduces itself through the generations on a global scale.
[9] Broome et al. (2023).
[10] Bourquin et al (2024); Brewer (2025).
[11] Broome et al. (2023).

advances in pay and living standards that they used to be the norm, they may be more inclined to suspect that anyone who is outdoing the stagnant average is doing so at their expense. All this goes to show that if we really want to make Britain feel better, we need to get inequality down as well as getting growth up.

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