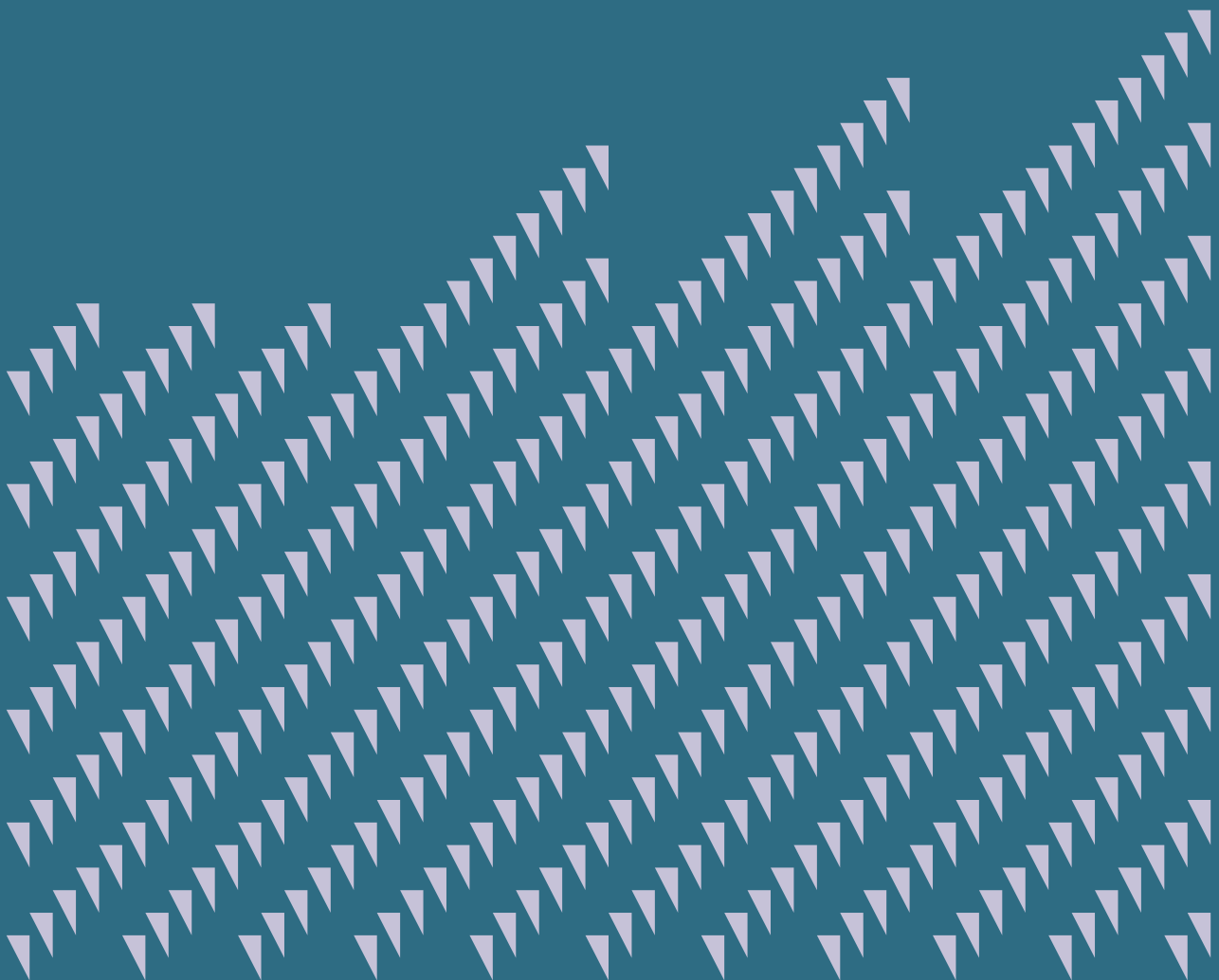


A gap that won't close

The distribution of wealth between
ethnic groups in Great Britain

George Bangham

December 2020



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Summary

Pre-existing wealth has played a key role in shaping the experience of families during the pandemic. Families with savings to fall back on, for example, have been more resilient in the event of income losses, and so less likely to have to cut spending or taken on new debt. Those who own their house have been able to socially distance in higher-quality housing, so their physical and mental health outcomes have tended to be better. The pandemic has also raised public awareness of ethnic inequalities, with other research showing that death rates from Covid-19 are markedly different between ethnic groups.

Unfortunately, wealth was not held evenly in the run-up to the crisis, with large differences existing in the amount of wealth held by people of different ethnicities. In the most recent data (for 2016-18), people of Black African ethnicity held the lowest typical wealth (£23,700 family wealth per adult, in current prices), less than an eighth of the typical wealth held by a person of White British ethnicity (£197,000).

Over the past decade, total wealth has grown among most households. The story for wealth inequalities between ethnic groups is less simple: they have narrowed in relative terms, but absolute wealth gaps have grown. These wealth gaps matter because they make it harder for people to earn and save towards greater wealth, and because they put a brake on efforts to equalise graduate job openings, incomes, housing quality and people's opportunities for entrepreneurship. By 2016-18, both the average and typical value of net household wealth held by all ethnic groups except people of Other White ethnicity had risen in real terms, compared with 2006-08. And, over the same period, the relative difference in average wealth between the lowest- and highest-wealth ethnic groups fell from 81 to 76 per cent of the highest-wealth group's average. Yet, despite wealth growing proportionately faster among the least-wealthy ethnic groups in this time period (Bangladeshi, Pakistani and Black African households in particular), the absolute gaps in inflation-adjusted wealth between the wealthiest and least wealthy ethnic groups have continued to widen.

Wealth gaps are particularly important during the coronavirus crisis because holding wealth boosts families' financial resilience. A comparison of different ethnic groups' exposure to hardship in the event of unexpected falls in income shows that families headed by people of Bangladeshi and Pakistani ethnicity were least likely to be able to make ends meet if their main income source ran out for a month. At least half of people

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of Black African, Bangladeshi and Black Caribbean ethnicity had less than £1,000 in family savings to act as a buffer in case of a fall in their income.

Beside looking at wealth inequality between ethnic groups, it is also important to look at inequality within them. A comparison of median wealth and that at the 90th percentile in each ethnic group reveals that the ethnic groups with the lowest typical wealth (Bangladeshi and Black African families) also have some of the smallest absolute gaps between typical and high-wealth families.

These differences reflect a range of underlying factors. To unpick their respective roles, we undertake an analysis that focuses on those that are within the reach of economic policy. This shows that significant wealth gaps remain even when household characteristics like age and income are controlled for. It also shows that capital gains and the wider impact of falling interest rates have played an important role in sustaining ethnicity wealth gaps, via inequalities in the housing market and the ownership of other assets. Crucially, our analysis suggests that these differences in wealth are unlikely to be reduced in the near term – if policy stays on its present course – partly because wide disparities in what people of different ethnicities inherit will act to reproduce today's wealth gaps in the future. Currently, the average person of White British ethnicity inherits 50 per cent more than one from the next highest-inheriting ethnic group (people of Indian ethnicity), while the average person of Black African, Chinese, Bangladeshi or Pakistani ethnicity inherits nothing.

These findings mean that policy makers need to take ethnicity wealth gaps into account when responding to the crisis. For example, it is essential to continue reducing ethnicity pay differentials and reducing discrimination in the labour market, as well as widening access to occupational pensions, even more so in the aftermath of the crisis. Moreover, given that there is little prospect of significant change to ethnicity wealth gaps in the near-term, policies which provide relief to those with low wealth would be particularly welcome. Such measures might include more progressive pension tax relief, matched saving schemes and policies to improve homeownership among those with low wealth.

Gaps in wealth held by people from different ethnic groups are large

Wealth is increasingly important for living standards. This is partly because of the precipitous growth in total household wealth over the past four decades, which has seen it rise from three to seven times national income.¹ It is also because of the importance of the distribution of wealth. With relative wealth inequality largely unchanged in recent

¹ See: G Bangham and J Leslie, *Who owns all the pie? The size and distribution of Britain's £14.6 trillion of wealth*, Resolution Foundation, December 2019.

decades, the absolute difference in wealth between richest and poorest has widened in recent years, making who has wealth much more important in determining lifetime living standards.²

Wealth holdings are also important in the context of the enormous economic shock from the coronavirus crisis. As the UK faces the largest hit to annual GDP in more than 300 years, families' pre-existing levels of wealth have been crucial in shaping how the crisis has affected them: those with savings to fall back on will face less need to cut spending or borrow in the face of a loss in income. The pandemic has also raised public awareness of inequalities between people of different ethnicities, with death rates from Covid-19 markedly different between ethnic groups.³ Many people from ethnic minorities have faced both a greater risk of exposure to the coronavirus, and heightened rates of mortality if infected.⁴

Unfortunately, wealth is not evenly distributed, meaning some groups came into this crisis in a more vulnerable position. This is particularly true if we consider wealth across people of different ethnicities. As Figure 1 shows, the average family wealth per adult held by people of different ethnicities varies significantly. In this chart, and most others in this briefing, we compare wealth on a per-adult basis to aid fair comparison between households of different sizes. Box 1 gives more detail on the units of analysis that we use, as well as our definition of 'total net wealth'.

Figure 1 shows that people of Bangladeshi ethnicity have the lowest average net family wealth (£83,600 per adult), less than a quarter of that of the wealthiest ethnic group (adults of White ethnicity, who average £355,700).⁵ Comparing typical wealth (the median of the distribution) shows a different and arguably more representative picture, given that averages (the mean of the distribution) are skewed by the few households with extremely high wealth. On this basis, people of Black African ethnicity have the lowest median net wealth per adult (£23,700), about an eighth of the level among people of White ethnicity.

² For more on this, see: G Bangham and J Leslie, [Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain](#), Resolution Foundation, June 2020.

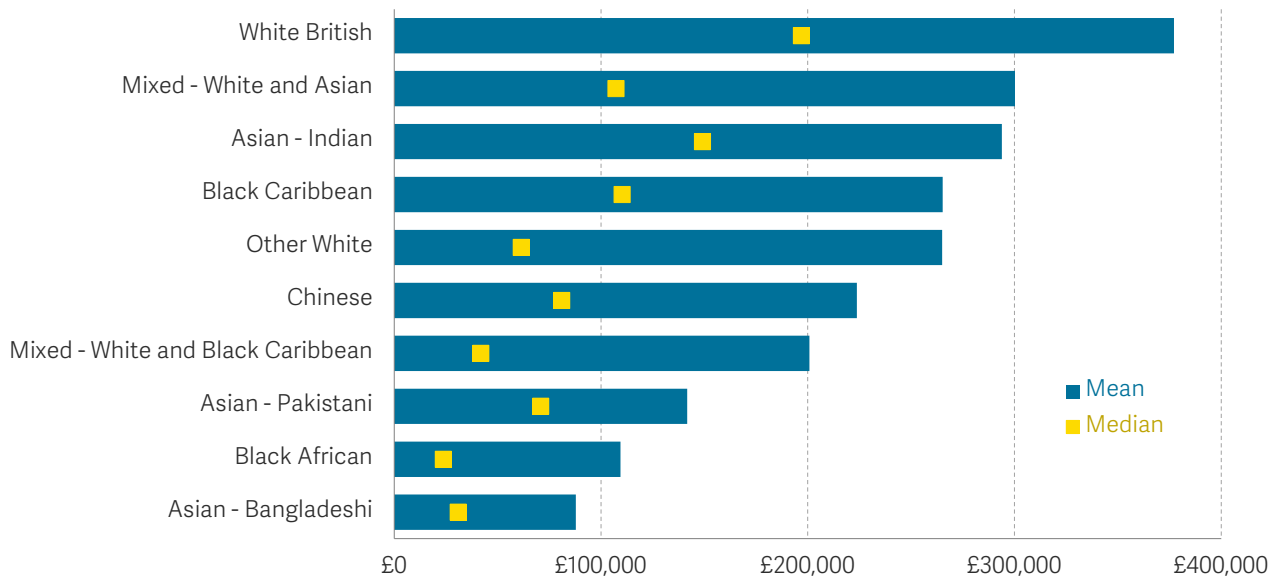
³ C White and D Ayoubkhani, [Updating ethnic contrasts in deaths involving the coronavirus \(COVID-19\), England and Wales: deaths occurring 2 March to 28 July 2020](#), Office for National Statistics, October 2020.

⁴ M Marmot, J Allen, P Goldblatt, E Herd and J Morrison, [Build Back Fairer: The COVID-19 Marmot Review](#), Institute of Health Equity, December 2020; Public Health England, [Disparities in the risk and outcomes of COVID-19](#), August 2020.

⁵ All statistics in this note are given in 2019-20 prices, adjusted by CPIH.

FIGURE 1: People of Bangladeshi ethnicity have the lowest average net family wealth

Mean and median total net family wealth per adult, by ethnicity: GB, 2016-18



NOTES: CPIH-adjusted to 2019-20 prices. Medians rounded to nearest £100 for data confidentiality reasons.
 SOURCE: RF analysis of ONS, Wealth and Assets Survey.

BOX 1: Survey data on the wealth of people of different ethnicities

This briefing note draws on household survey data collected by the Office for National Statistics in the Wealth and Assets Survey (WAS), and by the Department for Work and Pensions in the Family Resources Survey (FRS). For our key variable of interest in WAS, survey respondents were asked to self-categorise their ethnicity into one of 18 different groups. We avoid aggregating together self-categorised ethnic groups into broader groups, such as 'BAME' or 'ethnic minority' on the basis that different ethnic groups' experiences in terms of wealth accumulation have been very different in recent decades.

Understanding these differences is important, particularly for policy makers. Our approach means that the ethnic groups we use are those into which people assign themselves. Inevitably, this approach means that some ethnic groups cannot be included since the survey sample size is too small.

The unit of analysis in most of this briefing note is the 'family', defined as a single adult or adult couple (including any dependent children), with cohabiting adult children counted as separate families from their parents. One household may have more than

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one family in it. In most of the analysis we report family wealth on a per-adult basis, to allow fairer comparisons between groups. Families in our sample may consist of adults of different ethnicities, and so the per-adult wealth of members of the same family may contribute to the averages for different ethnic groups. In some instances, in order to provide a longer time series, we also look at results at the household level. In this case, we assign ethnicity according to the self-reported ethnicity of the Household Reference Person (HRP), who is usually the person with the highest income (technically, the HRP is the only adult in a single-adult household, the person with the highest personal income in a multi-adult household, or the oldest person if more than one person has the same income). As a short-hand, we sometimes refer to, for example, a household where the

HRP is from the Bangladeshi ethnic group as 'a Bangladeshi household'.

Total net wealth is defined in our sample using the broadest wealth concept available in the WAS, the sum of five categories of wealth: pension wealth, net property wealth, net financial wealth, physical wealth, and net business assets. Previous Resolution Foundation research has not tended to include business assets in the definition of total wealth, since these were not well recorded in earlier waves of WAS data, but this does not greatly affect the results of our analysis. It has also tended to exclude physical wealth due to issues with its valuation, but it is included in this study (with these caveats) so as to best analyse the differing composition of wealth between families of different ethnicities.

How have disparities between ethnic groups changed over time?

In contrast to some other dimensions of inequality, differences in wealth between ethnic groups have been relatively unchanged over the past decade. While it is possible to point to some recent progress on other dimensions of inequality – for example, Britons from many ethnic minorities are now more likely to have a degree than White British people – wealth inequality is different.⁶ It moves more slowly, and is much more challenging for policymakers to change.

Figure 2 uses the WAS data to look at changes in wealth in the decade leading up to the most recent wave (2016-18).⁷ Three key points stand out. First, the rank ordering of typical household wealth headed by people from different ethnic groups has changed

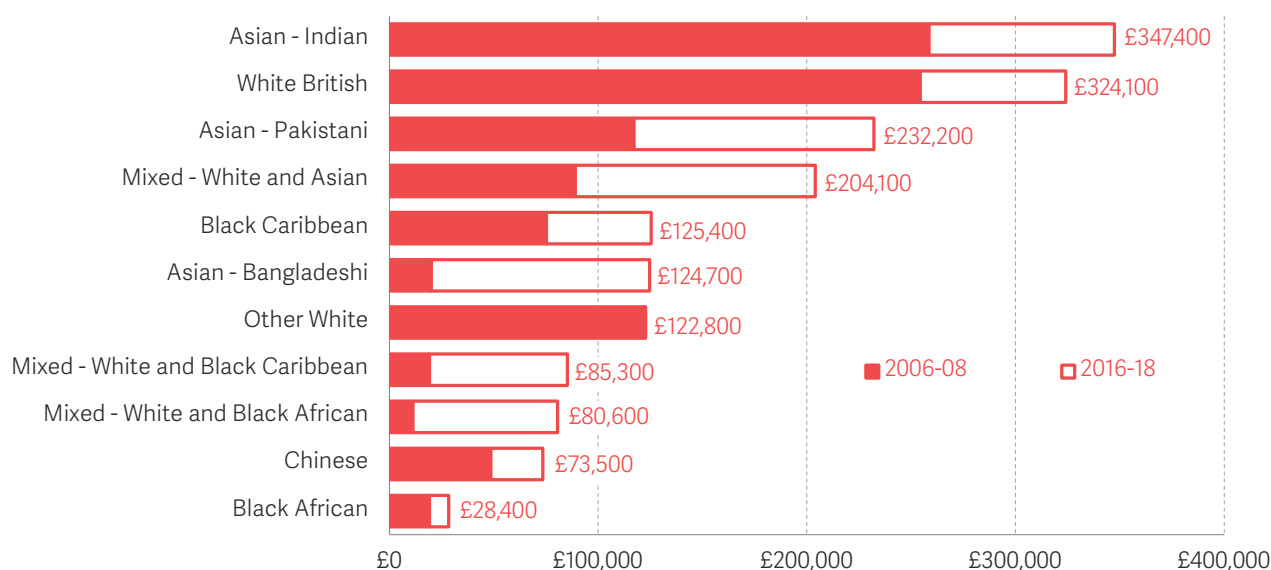
⁶ Although they still face pay and progression barriers in the workplace – for example, see: S Katwala, The race for recognition: Lessons from the pandemic for race equality, in K McNeill and R Harding (eds.), *Our Other National Debt*, Our Other National Debt Project, May 2020.

⁷ In this case we look at the wealth of whole households, rather than families.

little over the past decade.⁸ Second, the largest proportional growth in median wealth has occurred among households with lower wealth, notably Bangladeshi households (where median wealth grew fivefold in real terms), Pakistani households and Black Caribbean households. Third, and less encouragingly, the wealth gaps between the ethnic groups with highest and lowest typical household wealth (households head by people of Indian and Black African ethnicity respectively) have grown both in relative and absolute terms.

FIGURE 2: The ordering of typical household wealth by ethnic group of household head has changed little over the past decade

Median total household net wealth, by ethnicity: GB, 2006-08 and 2016-18



NOTES: CPIH-adjusted to 2019-20 prices, and figures rounded to nearest £100. The average wealth of households of 'White Other' ethnicity fell by £1,200 over this time period. Household ethnicity is determined by the self-described ethnicity of the 'household reference person', usually the household member with the highest personal income. In this chart, business assets is excluded from household wealth, due to differences in measurement quality between the two periods of data analysed.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Previous research has highlighted the importance of the gap between wealthy and non-wealthy households, in cash terms, in determining people's lived experience of wealth inequality.⁹ Even when relative inequality indicators (like the Gini coefficient) remain fairly constant, a widening of absolute gaps in wealth holdings between 'haves' and 'have-nots' means that it becomes more difficult for low-wealth households to save their way to higher relative wealth. The effect is particularly strong in a world where the rate of return from capital gains and investment returns outstrips the rate of growth of earnings. This

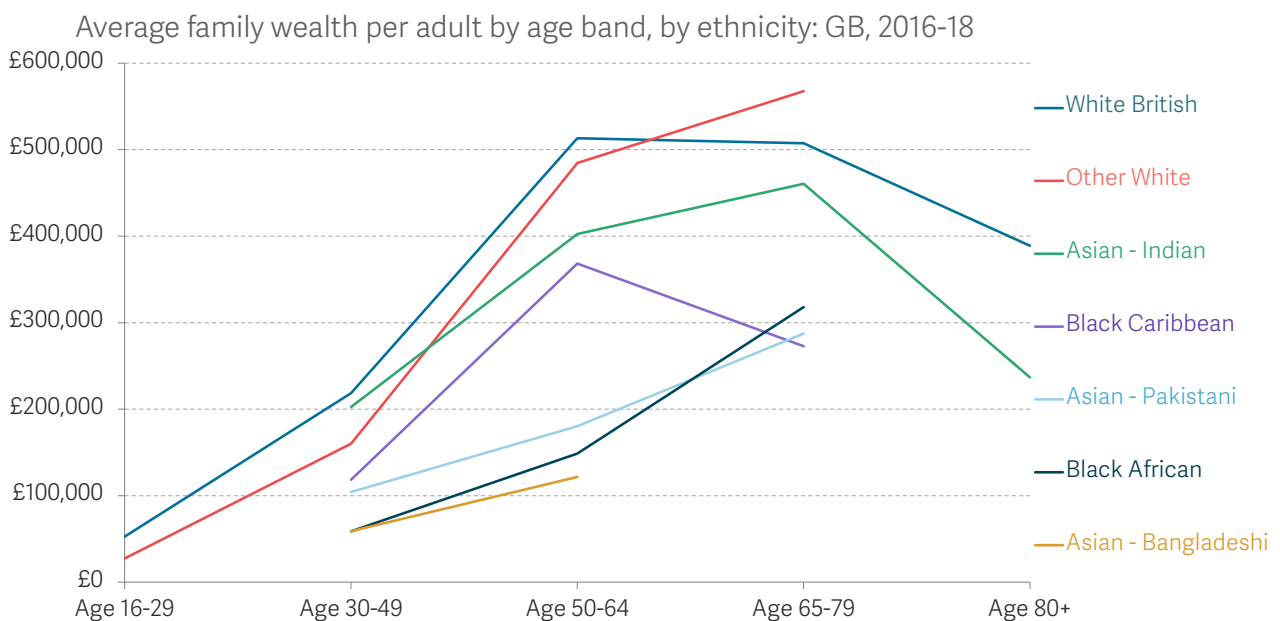
⁸ The exceptions here are that households headed by people of Other White ethnicity have been overtaken by households headed by people of Pakistani, Mixed – White and Asian, Black Caribbean and Bangladeshi ethnicities; and the typical household headed by people of Chinese ethnicity is also becoming less wealthy relative to other ethnicities.

⁹ G Bangham and J Leslie, *Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain*, Resolution Foundation, June 2020; L Gardiner and C D'Arcy, *The Generation of Wealth: Asset accumulation across and within cohorts*, Resolution Foundation, June 2017.

means that gaps in wealth by ethnicity are not currently on track to close, which may weaken people’s sense that they can earn their way to lasting prosperity and reinforces links between ethnicity and lifetime living standards in Britain.

Holdings of wealth vary considerably over the life time, usually rising slowly throughout working life and then falling as people run down their savings in retirement. The same broad pattern of wealth accumulation and decumulation occurs among families of all ethnic groups, as Figure 3 shows, although the levels of wealth held by people of different ethnicities at the same age vary considerably. The lines do not overlap very much, so a similar relative ranking of wealth holdings between different ethnicities applies at all ages. It is also notable that the difference in wealth holdings between those of different ages is larger some ethnic groups than others: the relative difference in average family wealth between 30-49 year olds and 50-64 year olds (in 2016-18) was largest for people of Black Caribbean and Other White ethnicity, and smallest for people of Pakistani and Indian ethnicity (although this may reflect both genuine differences in the rate of growth as people age, as well as differences between successive cohorts). In short, ethnicity wealth gaps occur within age cohorts as well as across the whole population, which suggests that differences in the age structure of different ethnic groups may not be a major driver of ethnicity wealth gaps. We return to this question in our regression analysis later on.

FIGURE 3: Similar patterns of wealth accumulation occur among families of all ethnic groups



NOTES: CPIH-adjusted to 2019-20 prices. Some estimates omitted for statistical significance and/or data confidentiality reasons.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

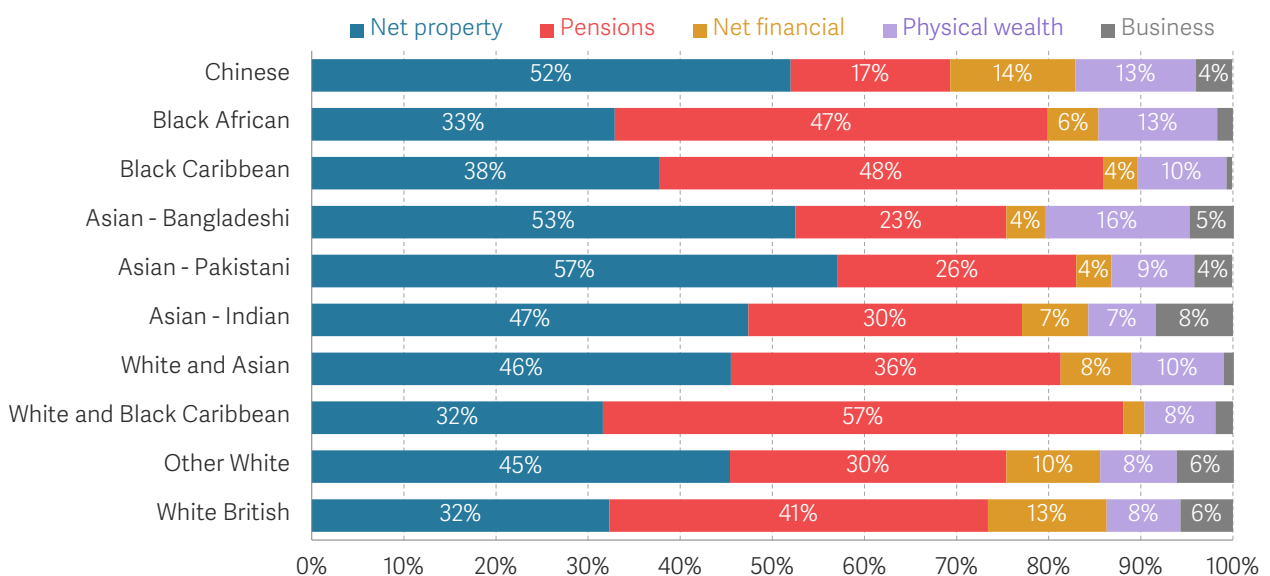
... though gaps are different for property, financial and business wealth

So far, our analysis has looked only at gaps in total net wealth, without considering how the composition of wealth varies between people of different ethnicities. The WAS data offers granular detail on people's wealth holdings, and we opt here to break them down into the broad categories of property, pension, financial, physical and business wealth.

Figure 4 shows that the composition of the total wealth held by families of different ethnicities varies substantially. The families of people of Indian and Pakistani ethnicity, for example, hold a substantially larger proportion of their wealth in property than other ethnic groups. Among people of Black African, Black Caribbean, White and Black Caribbean and White British ethnicities, the largest component of family wealth is in pensions. The median person of White British ethnicity has more than double the family pension wealth (per adult) of the median household from any other ethnic groups, although pension wealth is proportionally the biggest component of family wealth among people of Black Caribbean ethnicity. Financial wealth is the smallest component of family wealth for all ethnic groups except people of Bangladeshi ethnicity, while physical wealth is the most evenly distributed category of wealth holdings.

FIGURE 4: The composition of the total wealth held by families of different ethnicities varies substantially

Components of family wealth per adult, by ethnicity: GB, 2016-18



NOTES: CPIH-adjusted to 2019-20 prices. Values less than 3 per cent are not labelled due to space constraints.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The composition of wealth matters for living standards. Because some types of wealth are more liquid – that is, can more quickly be turned into cash – than others, they can more easily be used in the event of income drops in the case of job loss or other falls in income. Different types of wealth are also differently exposed to valuation changes due to market conditions. Comparing the two ethnic groups with the lowest net family wealth per adult – that is, people of Black African and Bangladeshi ethnicities – Figure 4 suggests that the latter group may have more scope to use their wealth to supplement living standards in working life, given that a high proportion of it is in property wealth – which could be sold or mortgaged – and in physical wealth. In comparison, people of Black African ethnicity hold a much larger proportion of their wealth in relatively-inaccessible pensions.

The composition of wealth also matters directly for living standards. Take property wealth, for example, where ethnicity wealth gaps are particularly large. Property wealth correlates closely with housing tenure, given that homeowners tend to have higher housing wealth. In turn, home ownership is associated both with lower ongoing living costs – since homeowners have lower housing cost to income ratios – and with much stronger tenure security. There are also other, more indirect, locational benefits, such as access to better schools.¹⁰ Moreover, housing quality has been associated with people's health and wellbeing outcomes during the Covid-19 pandemic, and so people in the private rented sector, who tend to have low or zero housing wealth, are likely to have been even more disadvantaged in 2020 than in normal times.¹¹ Recent Resolution Foundation research has found evidence that the cost pressures of rented housing caused particular difficulties for people from ethnic minorities during the early months of the pandemic.¹² There is also evidence that overcrowded housing has been a contributor to mortality rate differences between different ethnic groups in the UK.¹³

The proportion of people who are financially vulnerable varies considerably by ethnic group

Holding low or no wealth is a matter of particular concern for policy makers, given the importance of having some financial buffers to fall back on in the face of a loss in income. We define 'low wealth' in this briefing as when a family holds less than £1,000 in gross financial assets – i.e. assets held in bank accounts, savings or investment products. Figure 5 shows that the proportion of families with low wealth is considerably higher

¹⁰ On housing cost to income ratios, see: Resolution Foundation, [Housing Outlook: Interactive data dashboard](#) (last updated August 2020). On the house price premium associated with proximity to top schools, see: Department for Education, [House prices and schools: do houses close to the best performing schools cost more?](#), March 2017.

¹¹ L Judge and F Rahman, [Lockdown living: Housing quality across the generations](#), Resolution Foundation, July 2020.

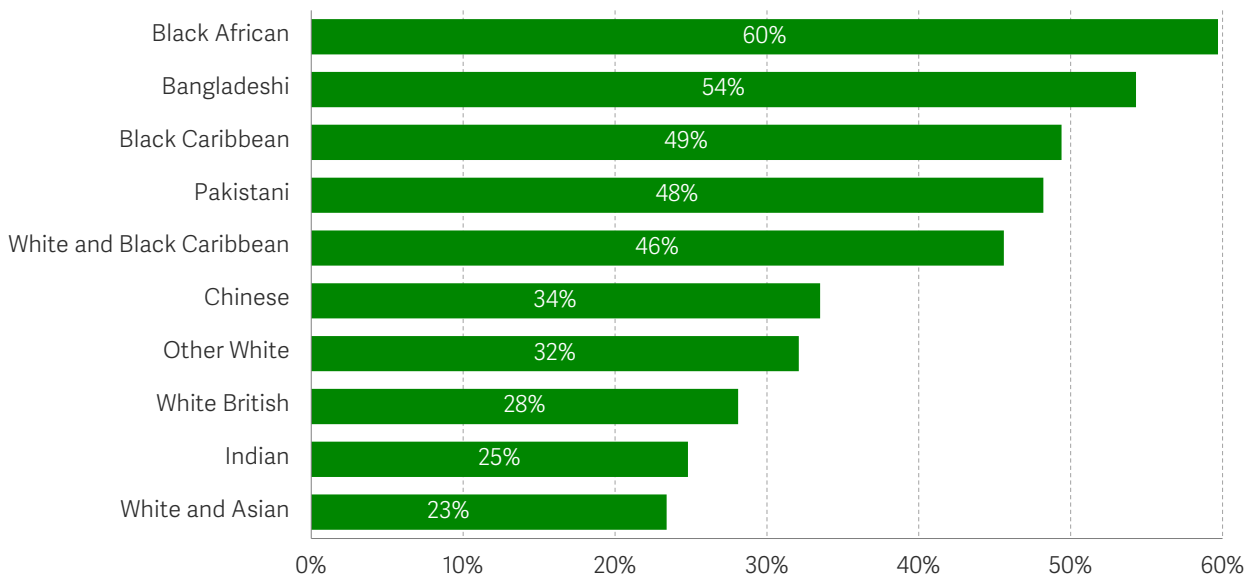
¹² L Judge and C Pacitti, [Coping with housing costs, six months on: New findings from the Resolution Foundation's Covid-19 study - wave two](#), Resolution Foundation, October 2020.

¹³ Public Health England, [Disparities in the risk and outcomes of COVID-19](#), August 2020.

among some ethnic groups than others: 60 per cent of adults of Black African ethnicity had less than £1,000 in family savings in 2016-18, with Bangladeshi adults the next most likely to have low savings. The prevalence of low family savings is scarcer among Indian and White and Asian adults than it is among the largest ethnic group, White British adults, of whom 28 per cent had low family savings.

FIGURE 5: The proportion of families with low wealth is considerably higher among some ethnic groups than others

Proportion of families with less than £1,000 in savings, by ethnicity: GB, 2016-18



NOTES: £1,000 threshold is defined in nominal terms (i.e. in 2016-18 prices). 'Savings' defined as gross financial assets.

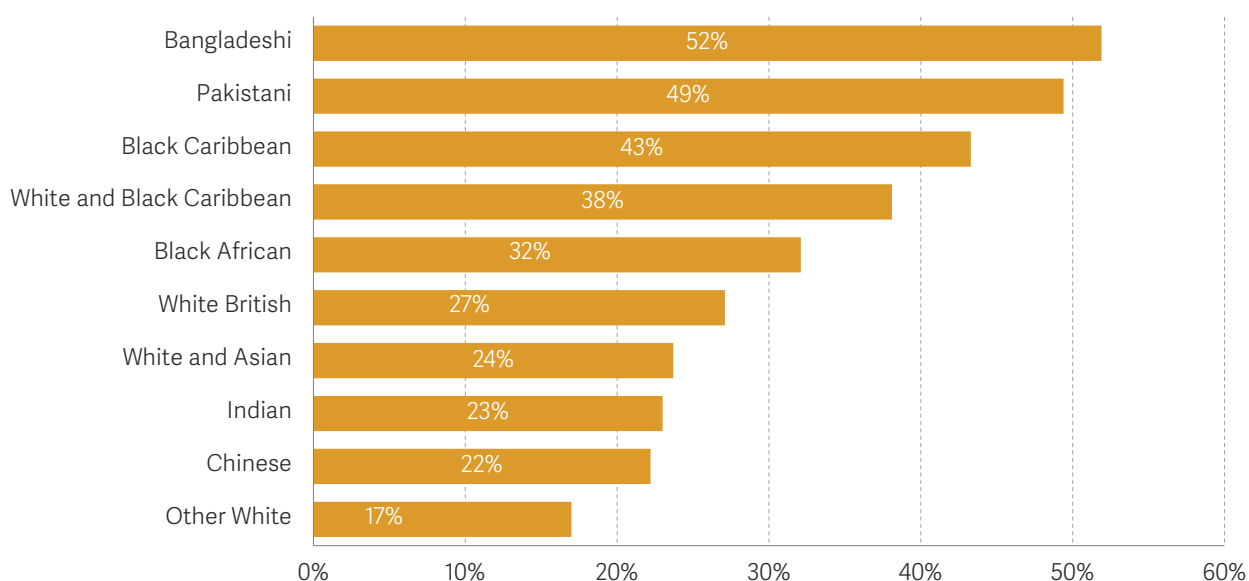
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The WAS data also provides a measure of financial fragility that is assessed by respondents themselves, who are asked how long they could make ends meet if their household's main income source dried up. Figure 6 shows the proportion of people of different ethnicities who think they could not make ends meet for more than a month. People of Bangladeshi and Pakistani ethnicity are most likely to be financially precarious on this measure, with around half saying they could not make ends meet for more than a month, whereas people of Other White, Chinese and Indian ethnicity are least likely to be financially precarious. This comparison is striking not only for the disparity between the proportion of people in different ethnic groups who classify themselves as financially precarious, but also for the imperfect correlation with overall levels of family wealth. People of Black African ethnicity, for example, who have some of the lowest median family wealth of any ethnic group, are less likely to be financially precarious on this measure than those from several other ethnic groups. People of Other White

ethnicity are less likely to be financially precarious than those of Indian, Black Caribbean and White and Asian ethnicity, despite having lower mean and median wealth. Overall, this metric reminds us that financial fragility depends not only on families' levels of wealth, but also on their sources of income (how diversified these are) and the types of wealth they hold, as well as the proportion of their consumption that can be varied on a discretionary basis.

FIGURE 6: People of Bangladeshi and Pakistani ethnicity are most likely to say they could not make ends meet for more than a month

Proportion of people who say they could not make ends meet if their household's main source of income stopped for a month, by ethnicity: GB, 2016-18



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

There is also considerable variation in wealth among people of the same ethnicity

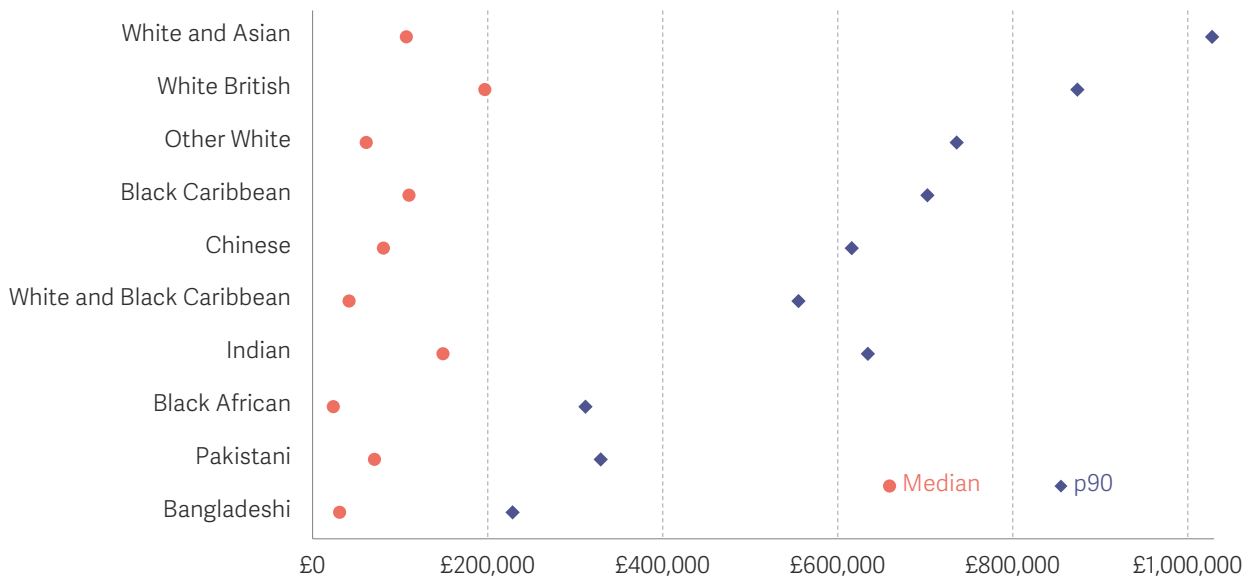
Wealth gaps between ethnic groups matter a lot, but they should not blind us to the existence of inequalities of wealth within ethnic groups. To ignore these would be to pay too little attention to the diversity of families included within each of the categories we analyse. Figure 7 shows one way to look at this: the difference in wealth between the family net wealth per adult of the typical family – that is, the median or 50th percentile (p50) – in an ethnic group, and the person with family wealth at the 90th percentile. An alternative way is to express the gap as a ratio, where a larger number means that relative wealth inequality in an ethnic group is higher.

The distribution of wealth between ethnic groups in Great Britain

The key point revealed in this analysis is that the ethnic groups with the lowest median per adult family wealth – Bangladeshi and Black African adults – also have some of the lowest levels of p90 wealth, and therefore the smallest absolute gaps between typical and high-wealth families. So these ethnic groups have comparatively low wealth inequality within them, and even their relatively wealthy members are not especially wealthy when compared to other ethnic groups. A family at the 90th wealth percentile of the distribution of per-adult family wealth of Bangladeshi adults has only a little more than a quarter of the wealth per adult of a family at the 90th percentile among White families. On a relative basis, the gaps between typical and wealthy families are smallest among Indian, Pakistani and White British families. By contrast, Black African families have by far the largest relative difference in wealth (16 times) between the typical family and a wealthy one, owing to the very low per-adult wealth (£23,700) of a family at the median. This analysis does not control for age, so the higher 90th percentile values for some ethnic groups will be influenced partly by their having more members of ages where wealth holdings tend to be highest, but as Figure 3 showed, ethnicity wealth gaps tend to exist across different age groups overall.

FIGURE 7: The ethnic groups with the lowest typical wealth have the smallest absolute gaps between typical and high-wealth families

Median and p90 total family net wealth per adult, by ethnicity: GB, 2016-18



NOTES: CPIH-adjusted to 2019-20 prices. Figures rounded to nearest £100. Groups ranked in order of the absolute gap between median and p90 wealth.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Wealth gaps are driven by a number of factors

It is clear from the analysis presented so far that gaps in wealth between people of different ethnicities are substantial and persistent. As a matter of equality alone, it is right that policy makers should work hard to close them. To achieve this, it is necessary to have an assessment of the factors that have driven them.

In this section we seek to identify the factors that are likely to be drivers of ethnicity wealth gaps, with a focus on those that economic policy makers can directly influence: the labour market, inheritances, and homeownership. To be clear, this section does not offer a comprehensive causal analysis of all possible drivers. This is partly because it is difficult to quantify the influence of a number of relevant factors – for example, direct discrimination. It is also because high-quality data is only available for the past few years. It also bears stressing that explaining some of the factors that contribute towards ethnicity wealth gaps is not to excuse the gaps themselves; quite the opposite. Explaining contributory factors helps to expose some of the inexcusable reasons why wealth gaps remain large, and in so doing help policy makers to close them in the future.

The role of debt

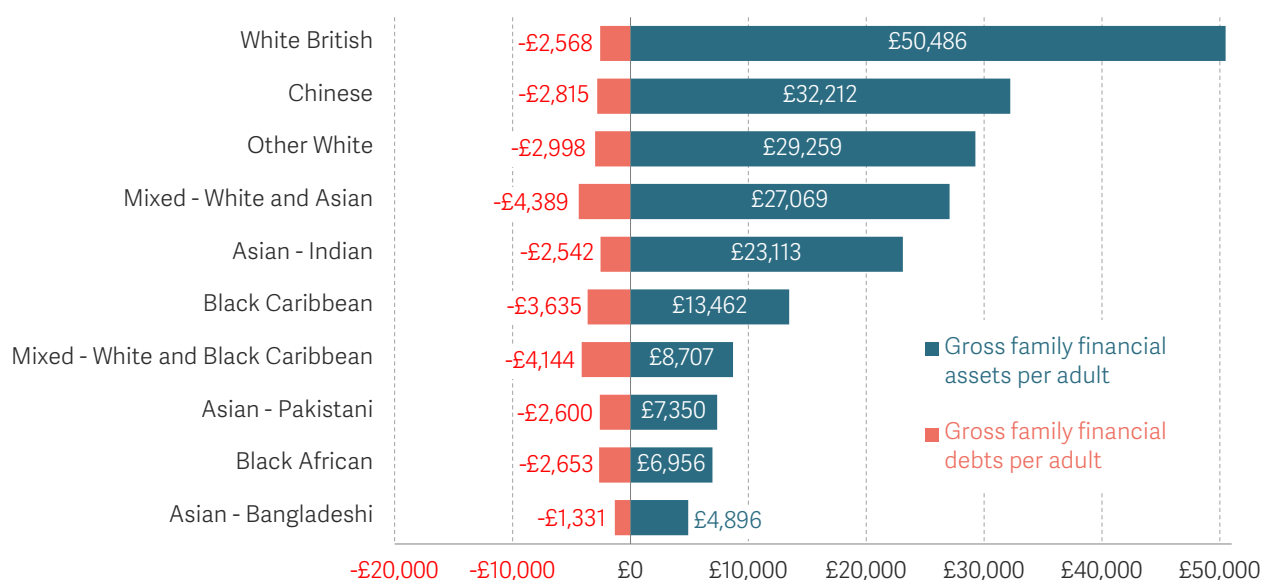
One possibility is that gaps in net wealth across society derive partly from the fact that some people take on far more debt than others, either as a share of their income or of their assets. The cost of servicing debt might then be a hindrance to future wealth accumulation.

It is true that across the population as a whole, families with the lowest net wealth tend to have the highest level of debts relative to their gross wealth.¹⁴ But debt holdings do not explain a significant portion of wealth gaps. As Figure 8 shows, there is relatively little difference between people of different ethnicities in the amount of financial debt that they hold. In fact, the ethnic group with the lowest average level of financial assets – people of Bangladeshi ethnicity – also has the lowest average level of financial debt. The ethnic group with the highest average financial assets (White British people) has 10 times the average assets of the group with the lowest, whereas the relative difference between those with the most debt (White and Asian people) and those with least is only around three times.

¹⁴ See Figure 31 in: G Bangham & J Leslie, *Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain*, Resolution Foundation, June 2020.

FIGURE 8: There is relatively little difference between people of different ethnicities in the amount of financial debt that they hold

Average family financial assets and financial debt per adult, by ethnicity: GB, 2016-18



NOTES: CPIH-adjusted to 2019-20 prices.
 SOURCE: RF analysis of ONS, Wealth and Assets Survey.

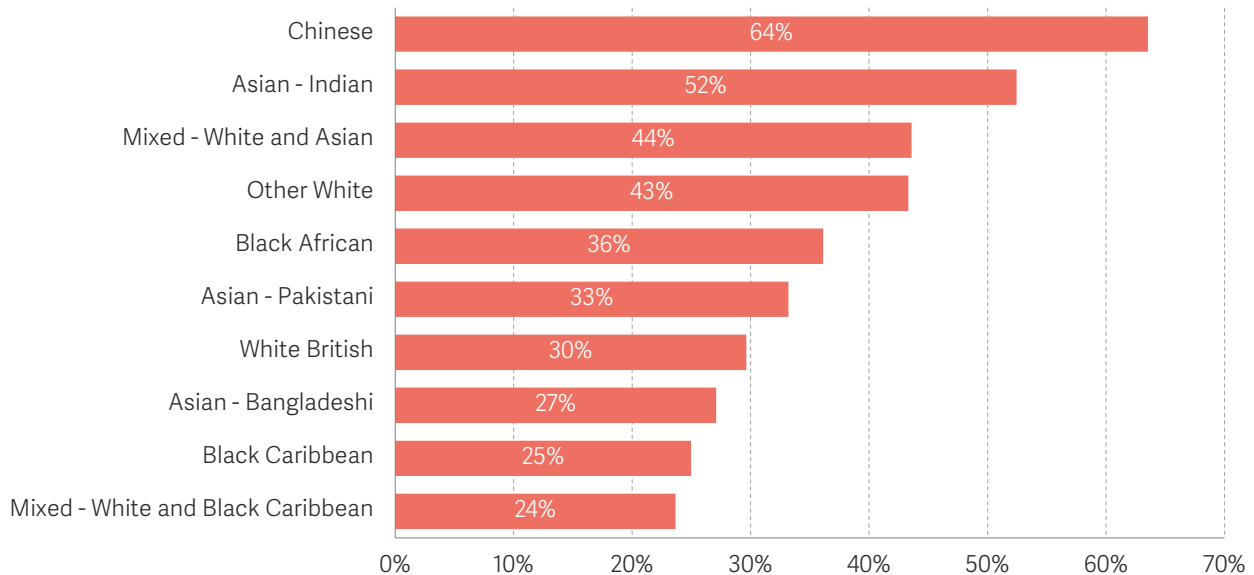
Educational attainment

Another possible explanation for wealth gaps across society is the differing levels of education that people receive, and the economic rewards from these education pathways. As Figure 9 shows, there are substantial average differences between ethnic groups in the proportion of working-age adults who are educated to degree level or higher, differences which are related to gaps in average pay between people of different ethnicities. Previous work has shown that these gaps have changed considerably over the past two decades, with the fastest increases in degree-level attainment occurring among Pakistani, Bangladeshi and Indian women, though progress still remains to be made.¹⁵ Educational attainment differences may contribute to disparities in wealth between, for example, people of Indian ethnicity and people of Pakistani ethnicity, and partly explain why people of Indian ethnicity have largely converged with White British families on wealth metrics like property wealth (although education is both a cause and consequence of this trend). But they do not explain all gaps, such as the difference between people of Pakistani and White British ethnicity: other factors are at work.

¹⁵ K Henahan & H Rose, *Opportunities Knocked? Exploring pay penalties among the UK's ethnic minorities*, Resolution Foundation, July 2018.

FIGURE 9: There are substantial average differences between ethnic groups in the proportion of working-age adults who are educated to degree level or higher

Proportion of working-age adults with degree-level education, by ethnicity: UK, 2019



NOTES: Sample includes all adults aged 16-64.
SOURCE: RF analysis of ONS, Labour Force Survey.

The joint relationship between wealth, age, income, ethnicity and family composition

To examine further how personal characteristics are associated with wealth gaps between people of different ethnicities, we use a multiple regression analysis, looking at the association between household wealth and the characteristics of the household reference person (HRP). The results of five regression specifications are reported in full in the Appendix, but may be summarised as follows:

The first regression looks only at the relationship between wealth and ethnicity, and shows that ethnicity is significantly associated with household wealth.

The second regression brings age in too, showing that both age and ethnicity are separately and significantly associated with household wealth, once accounted for simultaneously. Once age is controlled for, the coefficients describing the relationship between ethnicity and wealth are smaller, for most ethnic groups, meaning that a small part of the variation in wealth between ethnic groups is due to differences in their age structures, with most minority ethnic groups being younger, on average, than White British.

The third regression shows that household size is important in explaining the wealth holdings of households headed by people of different ethnicities.

The fourth regression shows that income is also strongly associated with wealth even once ethnicity, age and family size are controlled for: a £1 increase in household income is associated with household wealth being £16 higher, all other things equal. It also shows that ethnicity is less strongly associated with wealth once we account for income, since the coefficients on the HRP being of White and Asian, Pakistani and Black Caribbean ethnicity are no longer significant.

The final regression suggests that households whose HRP was born outside the UK tend to have lower wealth, and that accounting for this factor means that ethnicity by itself is no longer necessarily significantly associated with household wealth. A likely reason for this association is that people not born in the UK have had less time to accumulate wealth since moving to the country. This helps illuminate the difference in household wealth between households headed by people of Black African and Indian ethnicity, though not the comparatively low wealth of households headed by people of Black Caribbean ethnicity.

The main take-away from this regression analysis is that the significant gaps in wealth between households of different ethnicities are only partially associated with the different age, income or household structure of different ethnic groups. What other factors, then, play a role in driving gaps in wealth between people of different ethnicities, and also lie within reach of economic policy makers?

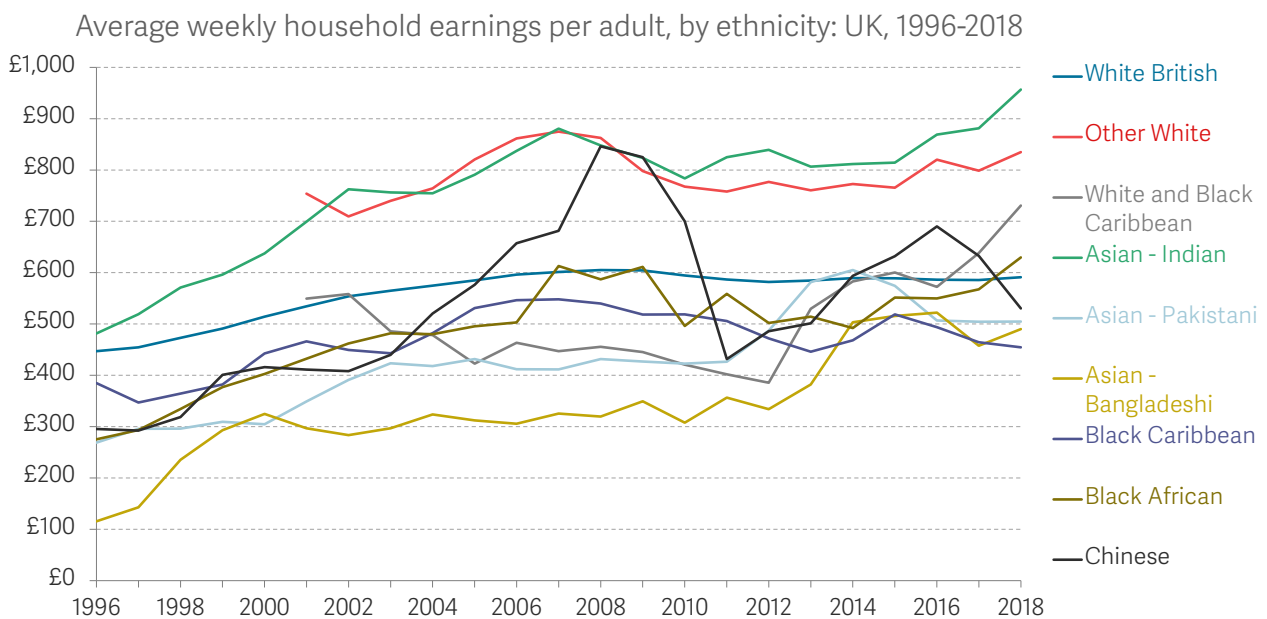
We focus on three such areas: people's experience of the labour market both past and present, the prevalence of inherited wealth, and housing tenure both past and present. The first factor has strongly determined family incomes over time, affecting the extent to which families of different ethnicities have been able to save money. The second gives an indication of how far families of different ethnicities have benefited from intergenerational transmission of assets, given the known correlation of parent and child wealth. The third factor is a way to understand the importance of the timing of asset ownership: families who were able to purchase housing equity before the long asset price rise of recent decades will be wealthier purely from 'passive' capital gains, setting aside any 'active' saving or investment behaviour.

Experience of the labour market

The existence of ethnicity gaps in the labour market is well-known; they have existed for a long time and across many dimensions including participation rates, unemployment

rates, pay levels, occupation choice and pension enrolment.¹⁶ All of these factors are likely to contribute to the existence and persistence of ethnicity wealth gaps, because families' wealth holdings reflect their compounded impact over many years. We saw from the regression analysis above that income is significantly associated with household wealth, and earnings from the labour market are a substantial component of household income. Figure 10 shows that for household earnings there has been progress in recent years in closing ethnicity gaps a little, but they remain very wide: households of Indian ethnicity receive average weekly earnings per adult more than twice as high as those in the lowest-earning ethnic groups (households of Bangladeshi and Pakistani ethnicity).¹⁷ This measure captures several different labour market inequalities: those in participation rate (households with more non-working adults will have lower earnings), working hours (households with short-hours workers will earn less), and hourly pay.

FIGURE 10: While there has been some progress in recent years in closing ethnicity gaps for household earnings, they remain very wide



NOTES: CPIH-adjusted to 2019-20 prices. Chart shows three-year moving average.
 SOURCE: RF analysis of DWP, Households Below Average Earnings.

Careful comparison of Figure 10 with earlier charts, however, reveals that earnings inequality in the labour market cannot be the sole driver of ethnicity wealth gaps. Indeed, households of Pakistani and Bangladeshi ethnicity may have similarly low average levels of earnings per adult, for example, but they have very different levels of

¹⁶ For a recent overview see O Khan, *The Colour of Money: How racial inequalities obstruct a fair and resilient economy*, Runnymede Trust, April 2020.

¹⁷ For further RF analysis see: K Henehan & H Rose, *Opportunities Knocked? Exploring pay penalties among the UK's ethnic minorities*, Resolution Foundation, July 2018.

average wealth. And while people of Black African ethnicity are close to the average of the whole population in terms of earnings, that group appears at or near the bottom on most measures of total wealth. It is clear that we must look beyond the labour market to understand wealth gaps (although it is still vital to build on progress in recent years in widening access to higher and further education, and in narrowing pay and other gaps between different ethnic groups).

Property tenure

Owning a home is strongly associated with having higher wealth. This is obviously the case for property wealth, but the lower housing costs of homeownership relative to renting also give owners a better chance to accumulate financial wealth over time through saving. Even more importantly, homeownership is not just correlated with wealth in the here-and-now, but also with the possibility of receiving capital gains over time. In this sense what matters most for people's wealth today is when they acquired property wealth, and whether they have benefited from capital gains in recent decades. The main reason why total wealth has risen from four to seven times the level GDP over the past 25 years is the impact of falling interest rates and rising life expectancies, leading to capital gains and valuation gains on assets already held, rather than 'active' saving and investment behaviour.¹⁸ This issue has been widely explored in the context of intergenerational inequalities, where cohorts which achieved high levels of property ownership before the long house price boom of the past quarter-century have achieved substantial cohort-on-cohort gains in property wealth, leaving behind most people who did not acquire housing equity before the boom began (or at least those who have not inherited wealth or had very high incomes).¹⁹

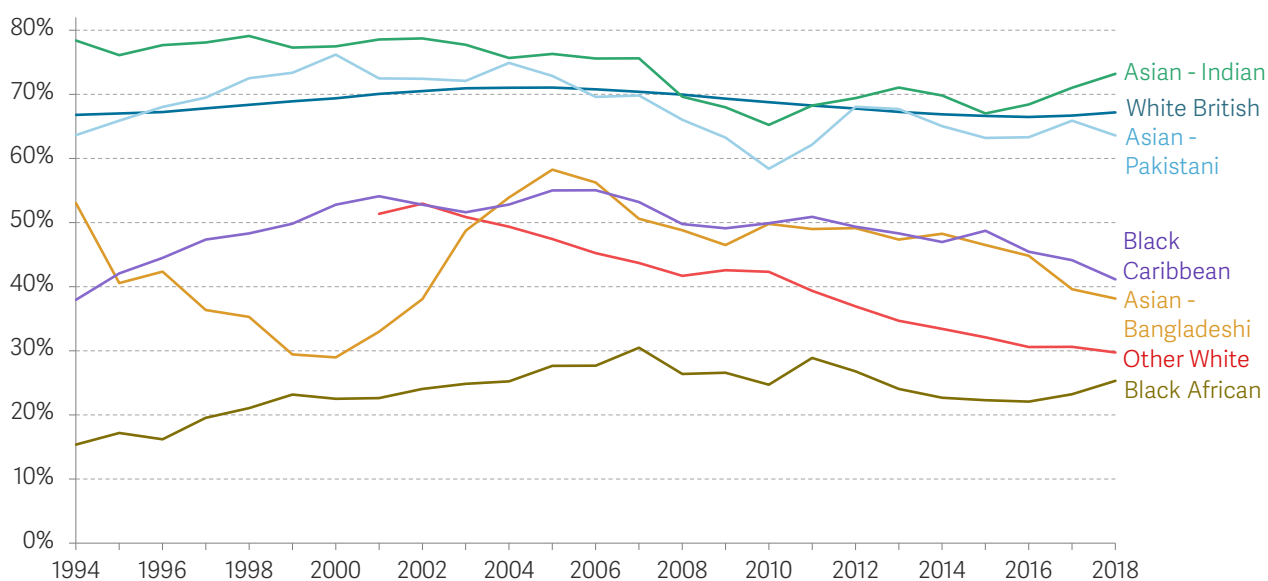
Ethnicity gaps in property wealth are driven by the timing of homeownership in a similar way to intergenerational gaps. They reflect how long people of different ethnicities have owned housing equity (thereby benefiting from lower housing costs and from capital gains), and specifically whether they acquired property before the current phase of asset price inflation. As Figure 11 shows, there have been persistent and very wide gaps in homeownership rates between ethnic groups over the past quarter-century. People's location also plays a role here, given that housing tenure varies between regions, and people from some ethnic minorities are more likely to live in some regions than others.

¹⁸ See I Mulheirn, [Sources of wealth and their implications for taxation](#), Wealth and Policy Working Paper 122, October 2020; R Crawford, D Innes & C O'Dea, [The evolution of wealth in Great Britain: 2006-08 to 2010-12](#), Institute for Fiscal Studies, November 2015; L Gardiner & C D'Arcy, [The Generation of Wealth: Asset accumulation across and within cohorts](#), Resolution Foundation, June 2017.

¹⁹ L Gardiner and C D'Arcy, [The Generation of Wealth: Asset accumulation across and within cohorts](#), Resolution Foundation, June 2017.

FIGURE 11: There have been persistent and very wide gaps in homeownership rates between ethnic groups over the 25 years

Proportion of families that are homeowners, by ethnicity: UK, 1994-2018



Note: Lines show three-year moving averages.
 SOURCE: RF analysis of DWP, Households Below Average Income.

Policy makers looking at the association between property tenure and family wealth by ethnicity could draw three key conclusions from the trends identified in Figure 11 combined with those shown earlier in this briefing. First, there remain substantial differences in housing tenure between people of different ethnicities, and these have changed relatively little over the past two decades. Second, increasing access to homeownership for people from ethnic groups with low rates of ownership would help to achieve a more even distribution of wealth by ethnicity, although there would have been much more scope for this sort of 'levelling up' before the long house price boom of the past quarter-century. But comparing Indian families – who have higher levels of wealth, on average, and a high rate of homeownership – with those of Pakistani ethnicity, who have high homeownership but relatively lower total wealth, suggests that other factors such as education, occupation and income matter too. And third, reducing the relatively high housing costs faced by non-homeowners would help reduce ethnicity gaps in housing cost to income ratios and, over time, ethnicity gaps in wealth.

Inheritances and gifts

Two particularly relevant questions for policy makers that arise from the analysis laid out so far are: what policy measures could help reverse some of the underlying drivers of ethnicity wealth gaps and, if policy remains on its present course, how far are ethnicity wealth gaps likely to close over time? On the first point, as already discussed, public

policy can help in areas like the labour market, homeownership and housing costs. Moreover, measures over the past decade to increase pension enrolment are also likely to help lessen disparities in pension wealth, though rates of pension enrolment across whole households currently vary between 48 per cent (for households of Bangladeshi ethnicity) and 82 per cent (for those of White British ethnicity).²⁰

On the second question, however, there is less reason for optimism. Figure 2 showed that ethnicity wealth gaps have not closed over the past decade. On the evidence analysed so far, there is little to suggest that they might close in the future. Some might argue that because Indian families have attained average wealth levels equal or higher than White British families, then similar convergence is possible for other ethnic groups, but this argument neglects the fact that such convergence is much harder now in a world with larger wealth gaps, and 'convergence' for some groups does not help the situation for those who do not achieve it.

There might, however, also be reason for optimism over the next few decades, at least, if patterns of inherited wealth were set to weaken the correlation between wealth and ethnicity in the future. So in this final section we look at the prospects in this area.

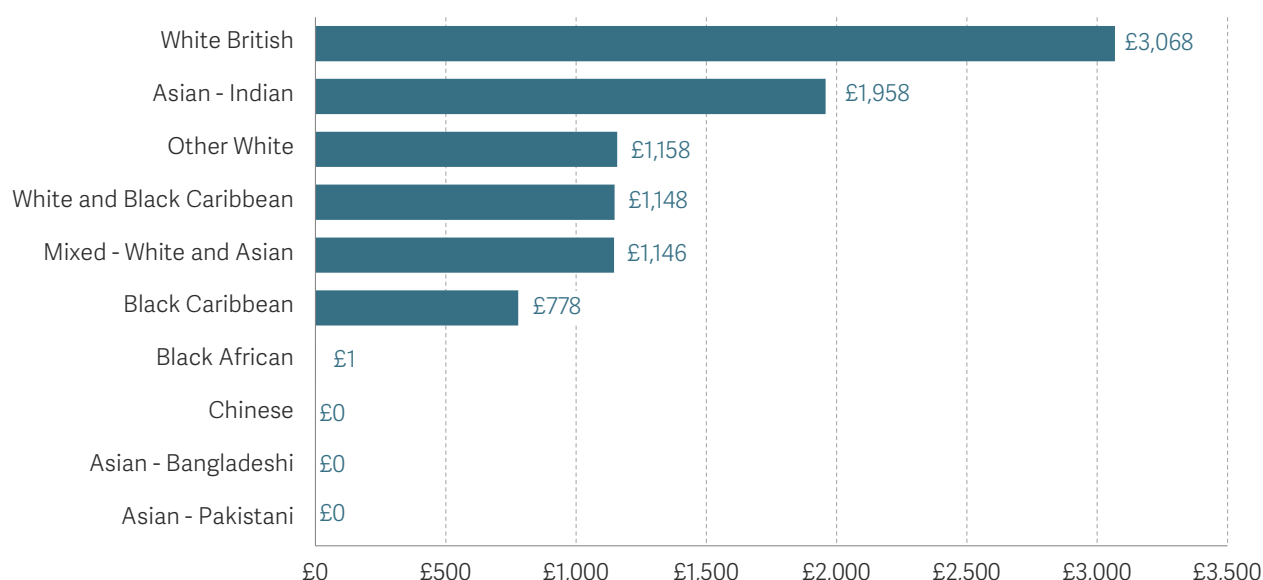
Inheritances are a key driver of wealth disparities, both between ethnic groups and across other dimensions in society. As previous research has shown, they play a large and increasing role in determining people's wealth holdings throughout their life.²¹ Figure 12 shows the average amount that people of different ethnicities receive from inheritances in the latest data. It shows that people of Black African, Chinese, Bangladeshi and Pakistani ethnicity on average receive no income from inheritances. In the latest WAS data, the average person of White British ethnicity received over £3,000 per year over the previous two years, 50 per cent more than the next highest-inheriting group (people of Indian ethnicity) and close to three times the amount inherited by people of Other White, White and Black Caribbean, White and Asian, and Black Caribbean ethnicities. In some respects, this distribution is not too surprising, given that it roughly mirrors the current pattern of ethnicity gaps in wealth. It also reminds us that wealth inequalities are partly driven by wealth accumulation that occurred decades ago (or did not occur, in the case of people whose forebears migrated to the UK without substantial assets), and can be long-lasting without policy intervention.

²⁰ C Kidd, *Household wealth by ethnicity, Great Britain: April 2016 to March 2018*, Office for National Statistics, November 2020.

²¹ L Gardiner, *The million dollar be-question: inheritances, gifts, and their implications for generational living standards*, Resolution Foundation, December 2017.

FIGURE 12: People of Black African, Chinese, Bangladeshi and Pakistani ethnicity on average receive no income from inheritances

Average inheritances and gifts received over past two years, by ethnicity: GB, 2016-18



NOTES: Figures in 2016-18 prices.
 SOURCE: RF analysis of ONS, Wealth and Assets Survey.

This analysis shows that recent patterns of inheritances do not give grounds for optimism for the future. It suggests that inherited wealth will not play a role in narrowing ethnicity wealth gaps, unless substantial reforms are made to the system of Inheritance Tax. The overall outlook for the relationship between wealth and ethnicity is not encouraging, since it appears likely that large gaps in wealth by ethnicity have not narrowed over the past decade, and their fundamental drivers in the labour market, housing market and in inheritances are not changing particularly fast.

Policy makers should therefore be facing up to a world in which leaving policy on its current course is unlikely to make a substantial difference to the ethnicity wealth gaps that exist in Britain today. Radical policy proposals for significant wealth distribution are in theory a solution to this problem, since overall wealth redistribution would also achieve a narrowing of ethnicity wealth gaps.²² But, if new wealth taxes are not on the horizon in the short-term, then it is essential to consider what else might be done to both lessen ethnicity wealth gaps where possible, and to mitigate the negative consequences of wealth inequalities where they cannot quickly be reduced.

²² For an alternative approach to reducing the role of inheritance in driving ethnicity wealth gaps, see: D Hamilton and W Darity, *Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America?*, *Review of Black Political Economy* 37, 2010; S Kliff, *An exclusive look at Cory Booker's plan to fight wealth inequality: give poor kids money*, *Vox*, October 2018.

Conclusion

Ethnicity wealth gaps in Britain are large and persistent. The reasons for their existence are complex, and reflect the cumulation of inequalities and discrimination over decades. For policy makers today, what matters most – beside the basic inequity of ethnicity being so strongly correlated with household wealth – is that there is little sign of ethnicity wealth gaps closing under current policy and on present trends. Continuing to close gaps in educational attainment (where they exist), and labour market entry, pay and progression is necessary and will help. But it is unrealistic to expect these policies alone to close much more embedded gaps in wealth.

The course of action for public policy ought therefore to be twofold: to do what is possible to narrow wealth gaps in general, in a way that will also close ethnicity gaps, and to respond to the negative consequences of continuing disparities in wealth as manifested in terms of wellbeing, disposable income, education attainment or job prospects.

Narrowing wealth gaps generally is a job for both tax and transfer policies, and could be achieved first of all through reforms to the existing system of wealth-related taxes.²³ Such a narrowing could be pursued in a way that is sensitive to the particular needs of ethnic minorities and other groups with lower than average wealth, who are particularly lacking in property wealth and pension wealth, as well as financial savings. Desirable policies in these areas might include help for first-time buyers that is more progressively targeted than recent schemes, more generous tax pension tax relief for lower earners, and matched savings schemes that build on the example of Help to Save and its antecedents.

Where redistribution reaches its limits, the next task for policy is to mitigate the negative impact of wealth gaps in some key areas that allow inequalities to be reproduced in the future. The specific consequences of wealth inequality that could be tackled in this way include high housing costs for (private) renters, which inhibits saving; the lack of a savings buffer if people lose jobs or income; and a lower capacity to take risks when starting a business. They could be tackled via further reforms to tenancy law to improve tenant security, support for matched savings or ways to offer higher rates of return for low-wealth savers, and the extension of business loan support to new business ventures in the pandemic recovery period. Neither ethnicity wealth gaps, nor their consequences, should be allowed to persist in their present form in Britain in the 21st century. Policy makers should take action on both these counts as the country sets its policy course for the recovery from the economic and health crises of 2020.

²³ For a comprehensive analysis of current wealth-related taxes see G Bangham, A Corlett, J Leslie, C Pacitti & J Smith, [Unhealthy Finances: How to support the economy today and repair the public finances tomorrow](#), Resolution Foundation, November 2020.

Appendix: Regression results

TotWlthR6	Specification 1		Specification 2		Specification 3		Specification 4		Specification 5	
	Coefficient	P> t	Coefficient	P> t	Coefficient	P> t	Coefficient	P> t	Coefficient	P> t
Ethnicity of HRP										
White British [base]										
White Other	- 144,907	0.00	- 12,163	0.72	- 18,194	0.62	- 74,139	0.03	3,577	0.94
Mixed - White and Black Caribbean	- 298,422	0.00	- 309,656	0.00	- 332,626	0.00	- 186,180	0.07	- 140,774	0.18
Mixed - White and Black African	- 374,528	0.00	- 317,494	0.00	- 375,600	0.00	- 412,211	0.00	- 342,689	0.01
Mixed - White and Asian	- 215,284	0.01	- 22,329	0.75	11,656	0.87	- 40,619	0.52	- 7,875	0.90
Asian - Indian	- 56,407	0.19	- 5,629	0.90	- 87,093	0.09	- 74,055	0.07	- 8,693	0.85
Asian - Pakistani	- 251,181	0.00	- 127,216	0.00	- 258,920	0.00	- 27,960	0.54	34,369	0.51
Asian - Bangladeshi	- 412,628	0.00	- 292,365	0.00	- 383,262	0.00	- 213,541	0.02	- 157,080	0.08
Black Caribbean	- 190,108	0.02	- 225,837	0.00	- 204,004	0.01	- 97,130	0.14	- 52,193	0.45
Black African	- 424,399	0.00	- 344,898	0.00	- 356,660	0.00	- 218,622	0.00	- 139,656	0.00
Chinese	- 216,946	0.02	- 48,107	0.62	- 70,975	0.49	- 155,160	0.07	- 84,404	0.34
Age band of HRP										
25 to 34 [base]										
35 to 44			178,441	0.00	153,710	0.00	77,169	0.00	77,766	0.00
45 to 54			417,760	0.00	341,030	0.00	360,925	0.00	361,410	0.00
55 to 64			700,057	0.00	644,561	0.00	690,614	0.00	691,414	0.00
65 to 74			694,624	0.00	673,047	0.00	731,478	0.00	732,174	0.00
75 to 84			435,883	0.00	470,844	0.00	597,811	0.00	599,587	0.00
85 and over			297,216	0.00	360,621	0.00	499,861	0.00	503,047	0.00
Number of adults in household										
Additional adult					143,846	0.00	- 56,812	0.01	- 56,235	0.01
Household total net income										
							16	0.00	16	0.00
Whether HRP born in UK										
Not born in UK [base]										
Born in UK									90,692	0.01

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For more information on this report, contact:

James Smith

Research Director

james.smith@resolutionfoundation.org

Resolution Foundation, 2 Queen Anne's Gate , London, SW1H 9AA

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