Section 5

Conclusions and policy directions

The pandemic has had profound impacts on household wealth in the UK. Covid-19 has had an unprecedented impact on the economy, but the big picture is that there has been good news on family finances. Uniquely for a recession in at least the past 70 years, the aggregate picture is one of rising wealth levels, increased saving and falling debt. These developments should help to support living standards and will mean that many families will have seen their financial resilience increase.

But these gains have been uneven. Those at the bottom of the distribution are much more likely to have increased debt and have not been in a position to benefit from increases in asset prices. Moreover, although the outlook is uncertain, evidence from our survey suggests that the changes seen over the past 16 months are likely to persist. This means that the legacy of the pandemic looks set to be a continuation of the pre-pandemic trends: continued growth in overall total wealth, but larger absolute gaps between families, with a sizable minority of the population coming out of the pandemic more vulnerable to future income falls.

The rise in wealth during the pandemic is a continuation of a 40-year trend. This makes it all the more imperative for the Government to put changes in household wealth front and centre when designing policies for the post-pandemic recovery. Economic policy choices will be crucial in delivering a swift and sustainable recovery from the pandemic. Changes in wealth matter, not least because the pace of the recovery is likely to depend on household saving rates and the average propensity to consume from the additional savings built up. In this context, evidence from our survey provides a reason to the Government to prioritise policy measures that support overall demand and drive a rapid recovery.

The distribution of debt and savings changes – particularly the rise in debt for some low-income families, many of whom will be receiving UC – provides extra justification for keeping the pandemic support of an additional £20 per week to UC. Prior to the pandemic, low-to-middle income households were increasingly using consumer credit: for example, there was a 13-percentage point rise in proportion of the bottom fifth of earners who use a credit card during the 2010s.[43] There is also little evidence that those families who did increase debt in the past year are expecting to be able to reverse that situation. Higher debt is associated with lower wellbeing, and reduces financial resilience to cope with future falls in income. Policy support to help families with longer-term rises in debt may well be needed.

Meanwhile, policy needs to be proactive in addressing wealth gaps. As we have shown, increasing gaps between households' wealth holdings is not a new feature of the British economy. But the pandemic has further accelerated this process, particularly between those at the bottom of the distribution and everyone else. A society where some people are able to invest, make returns and get on the housing ladder but others are unable to accumulate wealth is both bad for the economy and for family wellbeing. Many of the policy interventions over the past decade have either exacerbated the problem (for example, 'help to buy' accelerated house price growth and much of the government subsidy went to those who were already better off) or been small scale.

Wider policies have generally ignored the trend of rising asset prices, which has only been compounded by the pandemic. Successive governments' approach to taxing wealth is the clearest example of this. While the inflation-adjusted value of household wealth has more than doubled since 1980, revenue from taxes on wealth has remained remarkably stagnant, meaning the tax rate on wealth has effectively more than halved over the past 40 years. This is ultimately unsustainable. Given that the Government has a significant challenge to achieve its fiscal targets, especially if the pandemic leaves longer-term damage to the economy, reforming wealth taxes is a good candidate to help improve tax revenues.[44]

This paper has highlighted how household wealth has evolved through the Covid-19 pandemic and the significant challenges that these changes present. But policy solutions are not simple. A follow-up paper, again in partnership with the Standard Life Foundation, will be published later in the year focussing on the policy response to the pandemic and changes in wealth.

43 For more details on the use of households' use of consumer credit, see: J Ahmed & K Henehan, An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK, Resolution Foundation, January 2020.
44 For more on the scale of the fiscal challenge and the potential for wealth 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.