

Wealth Video 1 - what is wealth?

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This is the start of my new wealth series. We're going back to basics — and that means asking what wealth even is. I explain how stocks and flows of wealth shape power, politics, and our future, and expose some of the secrets that the wealthy would rather we do not know as a result.

<https://www.youtube.com/watch?v=H6spje0DqXU?si=wJ-bYMM0kffQmBJ->

This is the audio version:

https://www.podbean.com/player-v2/?i=7yh86-18f5d2f-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

This is the first in our new video series on wealth. And the reason why I want to make a video series on wealth is that I don't think that wealth is very well understood. We all have myths about what wealth is and what its consequences are, but I want to talk about the realities. And to do that, I've got to start right at the beginning, and that means we need to talk about what wealth is because unless we understand that, well, everything else in this series won't make a lot of sense. So I'm going to start at the very beginning, which somebody once said is a very good place to start.

And there are, in my opinion, two types of wealth that we need to talk about. And in itself, that will surprise most people because they think there's only one.

So let's talk about what that one type of wealth that most people think exists is. That is the stock of wealth that we own. Now this is what is counted and reported in things like the Sunday Times Rich List. Or it's what you might do for yourself, and tot up how much are you worth?

The fact is that this looks at all the property that we can claim legal right to and takes off that any liabilities that we owe, like our mortgages, our credit card debts, or car loans or whatever else, and comes up with a net figure of how much a person is worth. That's the stock of wealth.

But there is another form of wealth as well. And before we go into the detail of either, I just want to make clear what this second form is, and that is wealth as a flow. Because the wealth of society is not measured in the same way as stocks of wealth are. The wealth of society is measured in how we survive, how we thrive, how we, as people, develop. And that is also about wealth.

It's not a concept that is just about income, because income is a financial concept, as such. It's the amount we get in, less the amount that we spend, all measured in cash. But here I'm talking about something more than that. I'm talking about our ability to survive and thrive as human beings.

So we're talking about the human capital of our society; what we know, how we are educated, what our values are, how we relate to each other, what it is that we put emphasis upon within our culture, because we have a culture. We have differing cultures in the UK, but we reconcile them. And even how we reconcile them is part of our wealth, and those flows of wealth measure our well-being.

You can see that the term well-being does, in a sense, derive from the same term as wealth. They both have 'well' in them, and I think that's not by chance. So, the flow of our wealth is a measure of our well-being, which is something much more than just our income. And both these concepts, the stock of wealth and the flow of wealth, are essential, but they're rarely discussed together, and I think we need to do that.

So having laid that foundation, let me just go back to the stock of wealth again and talk about what that is, how we do, broadly speaking, appraise it, and then compare it with the flow of wealth so we can begin to understand these two concepts which are critical if we're going to really talk about wealth in a meaningful way.

The stock of wealth, as I've already mentioned, is the sum of what we legally own, less what we owe, to come up with our net value.

Now, for most of us, this is a pretty easy exercise. You can look on the internet if you

own a house and decide roughly speaking by looking at Zoopla, or RightMove, or whatever else, pretty much how much your house is worth today.

And you can do the same with your car. You can put your car registration number into a number of websites. I've done that for my own, and discovered that it's worth very little on trade-in.

And you can also look at things like your bank statement to assess your savings.

You can ask your pension fund for a valuation of how much you have saved there, and all of those things you can add together, and you can take off your credit card bill, your mortgage, your bank overdraft, or whatever else you might have by way of liability, and you will come up with a net value.

Now, that's true for most of us. And let's be clear, when I say most of us, that's true for probably well over 90% of people in the UK. For well over 60% of the people in the UK, as we will discover as we go through this series, that figure is not going to be that big.

When we come to the very wealthy, the story is totally different. The way in which the very wealthy measure their wealth is quite different to the rest of us.

Their properties, for example, are unique. You can't go onto RightMove and ask how much a landed estate with a thousand acres and 15 outhouses or farm estate cottages, or whatever else is, worth without actually bringing in a professional valuer. And then they'll guess what the value is.

When you look at their personal property, it's not like the rest of us looking at how much can we flog the car for and basically putting absolutely no value at all on the rest of what we have as personal possessions. No, they will need to bring in the professional valuer to look at the art, the silver teaspoon collection, whatever else it is that they have of great value; the wine cellar, the cars that they collect, whatever it might be.

And when we look at their pension fund, that might be a personal pension fund, and it might be more complex to value than is an ordinary pension fund.

But for them, the real issue is their investments. Now, their investments, which are in the stock market, can be valued like the rest of us, barring one thing. And that is, most wealthy people own significant chunks of companies. Some of those will be quoted companies, some of those will be private companies, but in either case, what we're talking about is a single person having significant influence over a company so that the value of a single share in the company, which is what is quoted on a stock exchange, is pretty meaningless because when you have power over a company as a whole, your share is worth a lot more than is the ordinary share quoted in isolation on a stock market.

Why? Well, quite simply because you can influence the management. You might be

able to tell it what to do. You might be the management, as well as the owner, but whatever it is, the value of your investments is going to be based, in this case, on the future expectations of profit in this business. And when we look at the mega-wealthy now, whether we are looking at those who own large amounts of land or whether we are looking at those who own private businesses, or quoted businesses, because of course, people like Elon Musk get their value from quoted businesses and not private ones, but whichever one of those we look at, what we are really valuing is the future expectation of profit arising from the business in question, whether it's paid by way of rent, or by sales less costs, which equates to profit. And so that value is not like the value that most of us enjoy when it comes to wealth.

The common perception of wealth is that it represents our accumulated savings. Now, that's not always true because somebody like me, most people of my age who own a property, will not have made as many savings as we now have wealth, because the properties that we live in will have gone up in value in a way that had nothing to do with our earning capacity or what we paid for it. There has been house price inflation. So we are, sort of, familiar with the idea that value isn't necessarily based on past saving, but this is spectacularly true in the case of the really wealthy.

Their value is based upon the future expectation of the profits they're going to make. And this matters because when we look at that future expectation of profit, they are utterly dependent upon forecasts; forecasts that make some quite weird assumptions.

Assumptions about, for example, what is the rate of inflation going to be?

Is their business going to grow? Or not?

Will it be possible to continue to enforce the property rights that maintain the business in the future? For example, will copyrights, patents and other such things stay in place so that the business can continue to extract a monopoly profit from those who it makes sales to?

Will technology change, which is a particularly important issue if you are looking at a tech company?

And will you be able to keep your market share, or will it be threatened by some unforeseen event, like a disastrous comment by the CEO?

All of those things fundamentally change the future prospects of wealth arising from any business, and as a result, will change a person's expectation of value.

Now, the point I make is that whereas most people have a value of wealth, which can be fairly easily determined, the basis of wealth for the very wealthy is in no way like that, no way like that at all, in fact.

The valuation of wealth for the wealthiest is based upon a hope expectation. It is not

based upon a reality. And that hope expectation is particularly dependent upon the fact that we will continue to buy from them; that is, the mega-wealthy. And you've got to understand this symbiotic relationship between us as the providers of wealth to the wealthy, because we buy from their companies, and so deliver wealth for their benefit. This is where the concepts of the stock of wealth and the flow of wealth come together, because if we don't have enough wealth to buy from the people who are trying to make sales to us, and that by and large is the mega-wealthy, then we will not be providing them with the income that they want.

That's why you have to understand that controlling us matters greatly to them.

This power relationship between us and them is of troubling concern to us, but it's a matter of absolute paranoia to them because if they can't control us and ensure that we continue to provide them with the wealth they want, their wealth disappears.

And as we will explore later in this series, nothing troubles them more than the prospect that their wealth might disappear.

But in that case, let's return for a moment to what the flows of wealth are, because we can already see that these two things are linked, and the flow of wealth is, of course, a measure of a person's ability to sustain their well-being. It isn't just income, therefore.

It does obviously include the ability to sustain oneself when one can't work.

We need to be able to provide for the elderly.

We need to be able to provide for the young.

We need to support those who are supporting the elderly and the young, because otherwise they don't have the ability to participate in society, to buy the goods and services that maintain the wealth of the wealthy, who should therefore be desperately keen that we have the benefits that we need, and there's something more to it than that.

Our well-being is not just dependent upon having access to fair wages and opportunity and education, and justice, and all those things that provide us with a chance of succeeding, as we see it, in life. Our well-being, the well-being of everyone, in fact, is dependent upon more than that because it's dependent upon the poets, the writers, the carers, the journalists, the teachers, all of the people who create unseen wealth in our society because they create the values and culture that are all around us. The things that keep society flowing for the benefit of everyone and everything. These are all about wealth as well.

But they might challenge the wealthy if we actually get too far advanced in the development of our thinking, and so there is an inherent conflict in this as well. The stocks of the wealthy depend upon our flows, not just for our own maintenance, but

also with regard to our ability to pass profits to them. The wealth of the wealthy only stands if we keep supporting it, and that, and I will keep reiterating this point, is why this is a political economic issue, because it is this relationship between the power of the wealthy and our power to withhold wealth from the wealthy, which terrifies the wealthy themselves.

So, guesswork and hope value is, in fact, the basis of the wealth of the wealthiest. They don't rely upon what is printed on a bank statement. They don't rely upon the value of their properties very much. They don't rely on the value of their chattels, although they love to show them off, which is another theme we'll get to again. They live in a deeply fragile world where they live in quiet fear that all their hopes and expectations might not be realised.

So we have to understand that wealth is a much more complex subject than it is usually presented to be. Our wealth, our ideas, our ability to thrive, create tomorrow's society, and if we can't create tomorrow's society, including by, for example, teaching people so that they can come up with the new ideas which will become the new tech companies of the future, which will create the new wealth of the wealthy in the future, then, even that threatens the wealth of the wealthiest and could lead to the value of their stock of wealth collapsing.

These things are deeply fragile, therefore, and it's within that fragility that we have to look for answers to resolve the tensions that are created by the very idea of wealth.

We do demand fairness because the maintenance of wealth for everyone is dependent upon it.

We do try to resolve the tensions that define our economic struggles, because doing so means that we might all survive.

We do wish to expose what wealth really is, because unless we do, we can't understand it.

We have to do that if we are to establish the basis of justice and common culture that is the foundation of both forms of wealth, whether that be stocks or whether that be flows. And in this series, I'm going to be exploring all these concepts and will ask us to imagine whether there are alternatives to the way we organise things at present, because I think there are.