

Resolution  
Foundation

**IC** Intergenerational  
Commission  
REPORT

JULY 2016

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# STAGNATION GENERATION

*The case for renewing the intergenerational contract*

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# Acknowledgements

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# The Intergenerational Commission

The Resolution Foundation has convened an Intergenerational Commission to explore the questions of intergenerational fairness that are currently rising up the agenda. In order to improve understanding of these issues, the Foundation has brought together leaders from business, academia and policy-making to devise a means of repairing the social contract between generations.

## The Commissioners

Ben Page, Chief Executive of Ipsos MORI

Carolyn Fairbairn, Director General of the CBI

David Willetts, Executive Chair of the Resolution Foundation (chair)

Frances O'Grady, General Secretary of the TUC

Geoffrey Filkin, Chairman of the Centre for Ageing Better

John Hills, Professor of Social Policy at the LSE

Kate Barker, economist and former MPC member

Nigel Wilson, Group Chief Executive of Legal & General

Paul Johnson, Director of the IFS

Sarah O'Connor, Employment Correspondent at the Financial Times

Torsten Bell, Director of the Resolution Foundation

Vidhya Alakeson, Chief Executive of Power to Change

# Executive Summary

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## The social contract between the generations shows signs of fraying

Much of David Cameron's premiership was characterised by the debate on living standards. This was driven both by the generalised squeeze on incomes that followed the financial crisis of 2008, and by deeper-rooted questions about the distribution of the gains from growth. Those issues remain painfully relevant today, with many groups facing typical incomes that are no higher than at the turn of the century, and inequality within generations remaining too high. But it is increasingly clear that our new Prime Minister must respond also to emerging questions about the specific challenges facing younger people in Britain.

Just like families, states and societies are underpinned by a social contract between the generations – collectively supporting each of us through the stages of our lives, and crucially doing so fairly. But this contract looks at risk of fraying. Even before the EU referendum result highlighted big differences between the generations, with the under 45s voting to remain and the over 45s to leave, issues of intergenerational fairness were rising up the agenda.

These concerns have been driven by some visible problems. Young people have experienced the biggest pay squeeze in the aftermath of the financial crisis, seen their dreams of home ownership drift out of sight and witnessed a welfare state in retreat. No doubt some of these strains on the intergenerational contract are short-term in their nature and will unwind naturally over time, but there is a sense that many of them run deeper.

In this document, which marks the launch of the Intergenerational Commission, we dig deeper into some of the experiences of younger generations to identify both reasons for optimism and causes for concern. In doing so, we establish a framework for thinking about intergenerational issues and highlight the scope for policy to make a difference.

## Millennials are at risk of becoming the first ever generation to record lower lifetime earnings than their predecessors

In contrast to the taken-for-granted promise that each generation will do better than the last, today's 27 year olds (born in 1988) are earning the same amount that 27 year olds did a quarter of a century ago. Indeed, a typical millennial has actually earned £8,000 less during their twenties than those in the preceding generation – generation X.

While it is the financial crisis that is responsible for much of this, with more than a 10 per cent gap still existing between young people's earnings today compared to their peak in 2009, there are signs that problems preceded the recent crisis. Those millennials who were 25 years old before the financial crisis hit were already seeing no pay progress on

preceding cohorts. And we know that there were problems developing before the crash including a lack of productivity-boosting training for young people and declining job switching – both trends posing risks to younger generations' earnings.

Of particular relevance to questions of intergenerational fairness is evidence that the pay of today's workers has been suppressed by firms filling deficits in defined benefit pension schemes that provide for older or retired workers. Some estimates suggest that as much as £35 billion is being diverted to this effort each year by businesses.

No one knows what the future will bring, but even on optimistic scenarios it looks likely that the millennials will record much lower generational pay progress than their predecessor generations did. And under the pessimistic but plausible scenario in which factors including Brexit and the structural productivity slowdown weigh down on earnings growth over the longer term, millennials face becoming the first generation on record to achieve lower lifetime earnings than their predecessors.

This idea that progress over time might be grinding to a halt matters not just for individuals, but for how Britain feels as a country.

## Lower levels of asset building, and home ownership in particular, generate short-term disappointment and longer-term living standards challenges

Wealth matters both in the near- and the longer-term. Asset ownership – in cash savings or possessions – provides a source of stability that helps individuals to deal with the inevitable challenges life throws up, and creates a platform for risk-taking and entrepreneurialism. Crucially, wealth also makes a big difference to living standards in retirement, with implications for individuals and for the state.

The fact that those aged 65-74 now hold more wealth than the entire population aged under 45 (a group more than twice their size) is therefore a matter of concern.

This generational concentration of wealth is being driven in no small part by the closure of access to generous defined benefit occupational pension schemes to younger workers. Such schemes have average contribution rates of 21 per cent, with 16 per cent coming from the employer. But the number of active members has dropped from 4.6 million to just 1.6 million since the turn of the century, with very few newer workers included.

Instead, younger workers must make do with defined contribution pensions. The introduction of auto enrolment is providing an important boost to coverage, with active membership rising from around 1 million in 2000 to 3.2 million by 2014. But average contributions are below 5 per cent, with just 2.9 per cent coming from employers. In the absence of significant improvement in these figures, millennials face much more uncertain retirements than the baby boomers currently entering this phase.

Important though this pension question is, the more visible source of discontent among younger groups is the lack access to home ownership. Indeed, it is housing which sits

at the heart of much contemporary anxiety about fairness between the generations. Given a baby boomer at age 30 was 50 per cent more likely to own their own home than a millennial at the same age, such concern is understandable.

The corresponding sharp increase in private renting among younger groups brings with it issues around quality, security and stability. And the financial impact is clear. With more people in such accommodation and renting costs rising over time, millennials are spending an average of £44,000 more on rent in their 20s than baby boomers did. That figure is greater than the average first time buyer deposit today and primarily represents a transfer from young to old.

The good news is that families themselves often step in, using private intergenerational transfers to ameliorate the worst effects of housing scarcity. The Council of Mortgage Lenders estimates that while only 30 per cent of first time buyers had help from family in 2005, that figure had risen to 50 per cent in 2015. But this brings with it serious questions both of equity and social mobility, and of how long we can rely on the bank of mum and dad.

With little sign that 'generation rent' can just age its way to home ownership, a renewed focus on house building is likely to sit at the heart of a renegotiation of the social contract between the generations.

## The redistributive welfare state is key, but too little consideration is given to how this plays out across generations

It is the welfare state in its 20<sup>th</sup> century incarnation that has developed most clearly society's intergenerational role, by directly providing transfers between life stages in both cash and services. It is the embodiment of our national intergenerational contract.

In principle, everyone pays in during their working life, drawing down in early years and retirement for a broadly-neutral lifetime result. But the generosity of transfers and services changes over time – as do tax rates and the size of generations that are contributing or withdrawing. As a result, different generations can end up with net gains or losses. It is estimated that the average baby boomer will have a net gain more than twice as large as the average member of the much smaller 'silent' generation born before the boom.

But perhaps more concerning than trends that are partly driven by demography – and that are hard to witness year by year – is the failure to give due consideration to the generational impact of tax and welfare policy changes.

Relative protection of pensioner benefits in recent years, alongside restrictions on working age benefits, have already created a divergence in what younger and older generations can expect from the state when they fall on hard times. And looking at the tax and benefit plans the new Prime Minister and Chancellor have inherited shows that policies to be implemented over the next four years will take £1.7 billion from millennials while giving away £1.2 billion to the baby boomers.

These may be legitimate choices, but too little debate in this area means we are blind to the generational fairness or otherwise of such decisions. To the extent that younger generations will benefit from these same priority shifts in later life, this might be

considered a short-term rather than a long-term problem. But settlements have a tendency of changing over time, potentially benefiting some generations more than others. At a minimum we need to ensure policy makers and the public understand the intergenerational implications of the choices they make much better than they do now.

## Rewriting the intergenerational contract

While by no means exhaustive, the issues raised in this report are undeniably big. And they are ones that we too often fail to understand fully, let alone have answers to. If we want to strengthen rather than further undermine our social contract it is vital that we do better on this score.

Yes, there is much for younger generations to celebrate: from greater freedoms than their grandparents could ever have dreamed of, to technology and global connect-edness enriching their lives. But that does not take away from very real living standards pressures we see developing, pressures we can and should do something about.

Yes, some of these developments are determined by demography and the experience of differently-sized generations ageing through life stages. But others reflect choices we have made that exacerbate rather than close generational divides, and policy failures – from skills to housing – that have been allowed to endure.

Yes, these things are difficult, but there are reasons for optimism. For all the talk of generational war, people whatever their age share concerns for the fate of the next generation – for their children and grandchildren. That might explain why we're starting to see big increases in support for house building right across the generations.

And that's why we're confident that renewing the intergenerational social contract is both necessary and achievable. That is the task set for this Intergenerational Commission.



# Section 1

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## Introduction

*A combination of demographic, economic and cultural factors mean that intergenerational concerns are rising up the agenda, and the time is right for a broad and in-depth exploration of these issues. In this introductory section we recount the evidence commonly advanced for an intergenerational problem in the here-and-now and, crucially, the longer-term challenge this evidence points to. And we reflect on the significance of these themes in light of the results of the recent EU referendum.*

### Intergenerational concerns are rising up the agenda

Debates about inequality and fairness within society have gained significant traction over recent years. In the UK, this has been characterised by politicians of all parties emphasising the need to do more to rebalance the way in which the gains of growth are distributed. Nowhere is this focus better underlined than in Theresa May's first statement as Prime Minister, in which she set out a "mission to make Britain a country that works for everyone".<sup>1</sup>

That was also the theme of the Resolution Foundation's *Commission on Living Standards* which ran from 2010 to 2012. That work raised a number of areas in which more could be done to support and improve outcomes for households on low to middle incomes – from addressing low pay, to facilitating increased female employment and increasing the redistributive power of taxes and benefits. That agenda remains as relevant today as it ever has, with too many households doing little more than getting by.

But in recent years, attention has also been given to the fairness or otherwise of the social contract that exists between the generations. This focus does not detract in any way from wider issues around inequality within society, but reflects rising concerns about the very specific prospects facing younger generations in relation to the labour market, housing and their interaction with the state.

These concerns are driven by a combination of demographic, economic, and cultural factors and are by no means confined to the UK. Having long been in the background as an issue, the 2016 Budget flourish of the Lifetime ISA – available only to the under-40s to save for a house or top up pensions – is evidence that correcting perceived imbalances between generations is now seen as a challenge for government to address. It's no coincidence that the struggles of the young also got a mention in the Prime Minister's opening statement.

Crucially, these developments appear to run deeper than the here-and-now, and reflect more than the fall-out following the financial crash that began in 2008. In addition, the

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1 Rt Hon Theresa May, 'Statement from the new Prime Minister Theresa May', 13 July 2016

result of the recent referendum on membership of the European Union – underpinned as it was by very different preferences from the young and the old – paints the intergenerational challenge in a new light.

## Today's concerns reveal an uncertain outlook in the longer term

Perhaps the most prominent face of the intergenerational challenge is the housing choices of 'generation rent'. Having risen steadily since at least the 1950s, home ownership rates began declining around the turn of the century.<sup>2</sup> This was the result of rapidly rising house prices outstripping income growth and – more recently – the tightening of lending criteria in the aftermath of the financial crash.<sup>3</sup> As a result, the share of under-35s in the homeowner population has almost halved in 15 years, and ownership rates among young people on low to middle incomes have fallen from above 50 per cent in the late 1990s to one quarter in 2013-14.<sup>4</sup>

This creates short-term frustrations – with Britons overwhelmingly still aspiring to home ownership<sup>5</sup> – but it also raises longer-term concerns. Nearly half of non-owners *never* expect to be able to buy.<sup>6</sup> Such an outcome would leave these individuals dissatisfied and inhibit their lifetime opportunities. And it would also have serious implications for the public finances, not least in terms of an astronomical increase in the Housing Benefit (or equivalent) bill as the number of pensioners in rented accommodation soars.<sup>7</sup>

Prominent, too, has been the experience of young people in the labour market. The 2008-09 recession did not hit youth employment as hard as past downturns did, but pay was another story. Over the course of the generalised squeeze that took hold between 2009 and 2014, median earnings fell much more sharply among employees in their 20s and 30s than among older groups. Younger workers' pay levels rebounded relatively strongly in 2015 but as Figure 1 shows, even after accounting for this period of partial 'catch-up' growth, median earnings remained 11-12 per cent lower than they were in 2009. And even if this buoyant pace of recovery is maintained – which is by no means guaranteed – it would still be well into the 2020s before young people's pay is back at its previous peak.

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2 A Corlett, D Finch & M Whittaker, *Living Standards 2016: The experiences of low to middle income households in downturn and recovery*, Resolution Foundation, February 2016

3 S Clarke, A Corlett & L Judge, *The housing headwind: The impact of rising housing costs on UK living standards*, Resolution Foundation, June 2016

4 A Corlett, D Finch & M Whittaker, *Living Standards 2016: The experiences of low to middle income households in downturn and recovery*, Resolution Foundation, February 2016

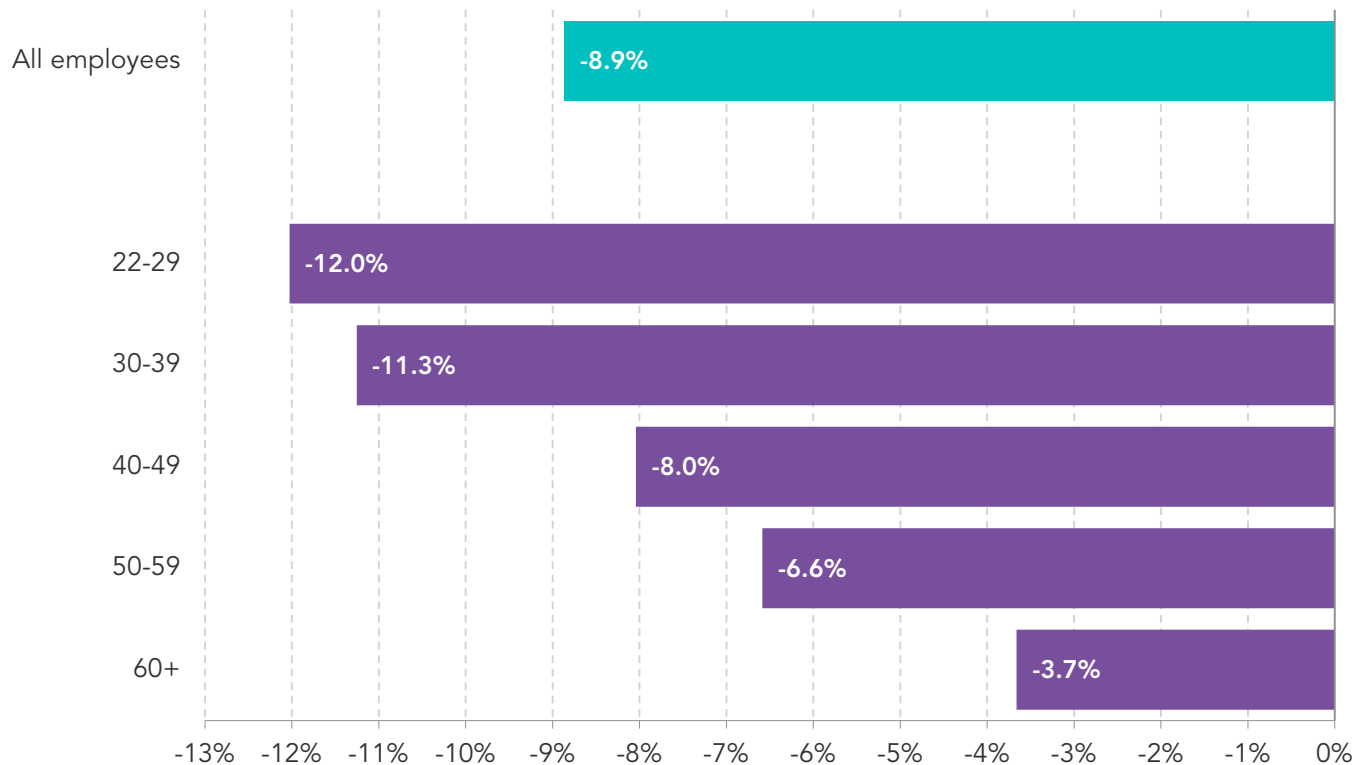
5 86 per cent of the population would prefer to buy their own home. Source: NatCen, *British Social Attitudes Survey 2012*

6 Source: Bank of England, *NMG Consulting Survey 2015*

7 Analysis in 2012 estimated a 153 per cent real increase in the pensioner Housing Benefit bill between 2009-10 and 2060-61 by projecting forward current tenure trends. See: J Lloyd, *The future cost of Housing Benefit for older people*, Strategic Society Centre, June 2012

Figure 1: Median pay during the downturn by age: UK, 2009-2015

Change in real hourly pay between 2009 and 2015 (RPIJ-adjusted)



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

Again though, this challenge may extend beyond even these decades of lost pay growth. In 2013 people aged 30 earned around £50 per week less in real terms than 30 year olds five years previously.<sup>8</sup> While by no means inevitable, consistently disappointing productivity and pay growth over the early part of the economic recovery, and fresh economic uncertainty associated with Brexit, raise the prospect that this gap remains open over time. The suggestion is that today's young people may be the first generation not to earn more than their predecessors in their peak earnings years and later life.

Finally, we have seen evidence of the uncertain outlook for younger generations in the breakdown of household wealth (including property value, pensions and financial assets) by age. Wealth among older groups has risen to new heights, with recently-retired 65-74 year old households overtaking those aged under 45 (a group more than twice their size) in terms of their share of the total wealth pie between 2008 and 2012.<sup>9</sup> While auto enrolment is helping to support increased pension saving among today's employees, the

<sup>8</sup> P Gregg, 'Making steady progress: Policies to help long-term earnings growth,' in G Kelly & C D'Arcy, *Securing a pay rise: The path back to shared waged growth*, Resolution Foundation, March 2015

<sup>9</sup> D Willetts, *The Pinch: How the baby boomers took their children's future – and why they should give it back*, Resolution Foundation, December 2015

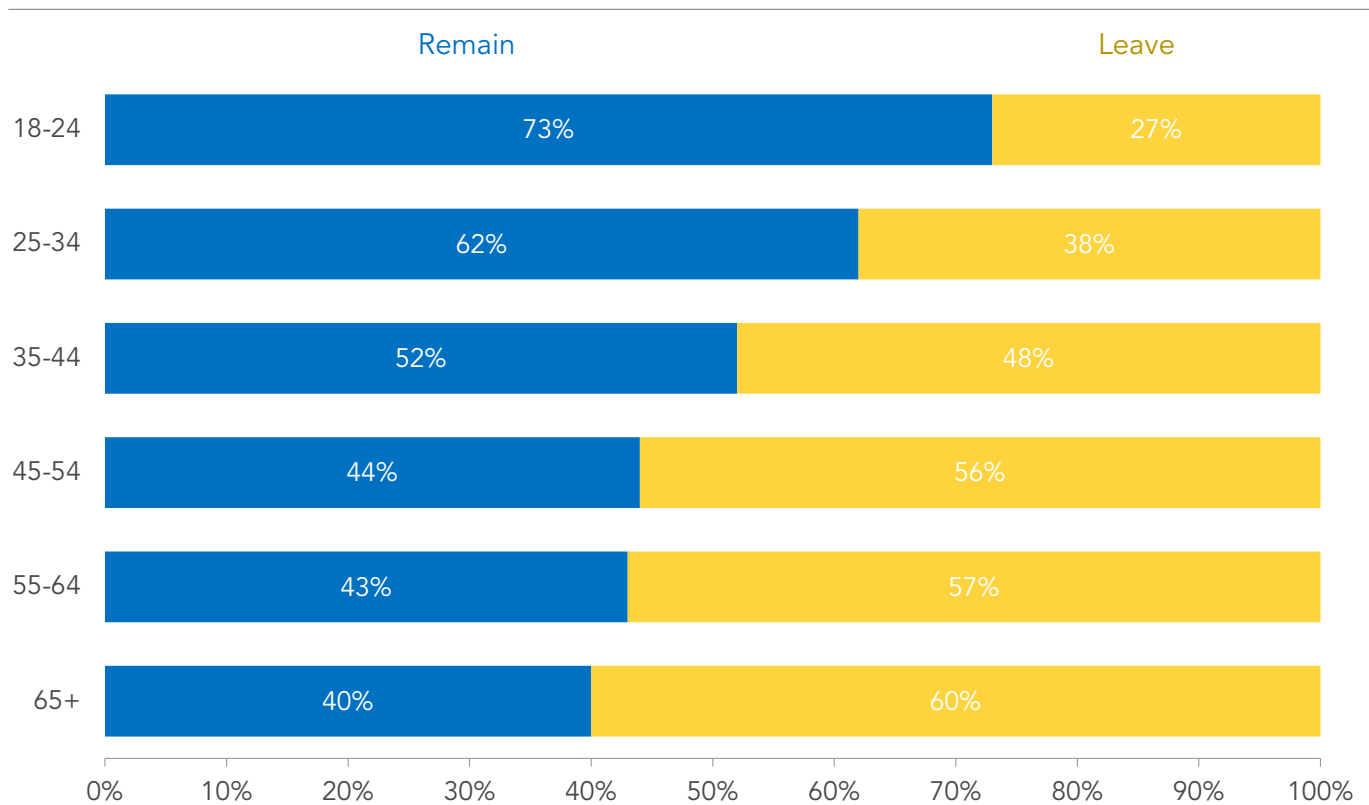
move away from generous company pension schemes and the challenging experiences in the housing and labour markets discussed above mean that the ability of younger groups to build up equivalent levels of wealth as they get older is open to question.

The prospect that they might not poses a challenge to these individuals, their families and the public finances that are today already grappling with rising state pension, health and social care costs that largely support older people.

### The EU referendum strikes a match under this debate

This range of intergenerational issues does not necessarily denote a conflict between generations. Indeed, older groups often express as much if not more concern for the prospects of their children and grandchildren than younger generations themselves do. However, one area in which a clear intergenerational division has become apparent is in relation to the recent referendum on Britain’s membership of the EU. Among the many splits identified following the vote – between regions and income groups for example – the clearest variation in voting patterns was by age, as Figure 2 shows.

Figure 2: Voting in the EU referendum by age: UK, 2016



Source: Lord Ashcroft Polls, EU Referendum 'How Did You Vote' Poll, 21-23 June 2016

Alongside the huge task of redefining the UK's relationship with Europe and place in the wider world, a key challenge for the government in coming years will be bringing the nation back together after such a divisive political moment. Clearly, addressing the concerns of those who generally did not support the outcome of the referendum, but who will live for longest in this new Britain, will be essential. Put simply, the outcome of the Brexit vote raises intergenerational issues from an economic and fiscal concern to a question of national political unity.

## Addressing the intergenerational challenge – the scope of the question

The time is right, then, for a broad exploration of the intergenerational challenge that explores the issues and reaches conclusions for strengthening and renewing the social contract between the generations. This will be the task of the Intergenerational Commission hosted by the Resolution Foundation. The purpose of this report is to set the context for the Commission's activities by providing an initial – and inevitably high-level – assessment of the problem, defining key concepts in the debate and setting the scope of the topics to be explored.

The following sections of this report advance evidence and arguments for this purpose. In particular, they set out a concept of the intergenerational challenge rooted in **differences in living standards between generations in the UK over lifetimes**. By living standards we mean 'material wellbeing', which broadly-speaking captures incomes (the result of a combination of employment, pay, and taxes and benefits); wealth, assets and debt; and the relative prices and consumption patterns that determine the goods and services that people enjoy.

This means that we do not intend to explore in detail all issues of intergenerational relevance, such as climate change and public service reform, and nor do we plan to address the intergenerational challenges facing other countries. However, we will draw insights and parallels from other places and other debates in order to inform our thinking.

## Navigating this report

In the remainder of this introductory report we set out a framework for thinking about generational living standards differences; present evidence for generational divergence; and explore the possibility of making progress. The report is set out over five further sections, as follows:

- **Section 2** introduces the concept of generations including the **demographic patterns** that partly underpin generational divergence, and sets **definitions and frameworks** for our subsequent analysis.
- **Section 3** explores evidence for and the drivers of different **labour market** outcomes across the generations.
- **Section 4** explores generational divergence in **household wealth**, focusing on housing and pensions.
- **Section 5** reviews the role of the **welfare state** in living standards outcomes for different generations, and the impact of recent tax and benefit policy changes on the young and old.
- **Section 6** concludes by considering the **necessity of active intervention** on the intergenerational front; the **possibility of making progress**; and finally sets out the scope of the policy recommendations that the Intergenerational Commission will work towards.

## Section 2

### Understanding generations

*Having established the context for a new focus on intergenerational issues, in this section we introduce a definition of generations for use throughout our analysis which draws its key insights from demographics. We set out what we mean by the word generation; explore how birth rate and survival patterns can drive different generational experiences; establish the generations we will refer to on the basis of these insights; and set a framework for understanding a person's experience that differentiates between generations or cohorts, life stages, period effects and intra-generational variation.*

#### What is a generation?

The dictionary definition of a generation is **all the people born and living around the same time, regarded collectively**. In addition, given that the origin of the word relates to family, we often think of the gap between generations as roughly spanning the age difference between parents and their children (although in practice the common generation span of around 20 years no longer matches up with childbearing age).

Crucially, generations should be distinguished from age groups (or life stages). A generation may currently be young, for example, but this will of course change over time: its defining feature is its **years of birth**.

When delineating particular generations comprising those born in between two specific points in time (rather than just talking about 'generations' in a general sense) two other concepts have been advanced.

The first is that generations have some degree of **collective identity**, in terms of shared economic experience, shared values or cultural norms. In their work defining generations throughout US history, William Strauss and Neil Howe refer to this as 'peer personality', which they define as common beliefs and behaviour, and perceived membership of the same group.<sup>10</sup> In this sense then, the identification of particular generations in public discourse can have an important feedback effect.

The second relevant concept is that the **relative size** of generations when they are born and as they age can play an important role in determining these shared experiences. In particular, big generations are often followed by small ones and vice versa,<sup>11</sup> and these differences in size have important implications for experiences in the labour market and interactions with the state. How?

#### Size matters

We said at the outset that what underpins the social contract and relationships within families is an intergenerational contract. It's fairly easy to see how this works well if you have relatively consistent cohort sizes. Families and redistributive states establish

<sup>10</sup> W Strauss & N Howe, *Generations: The history of America's future, 1584 to 2069*, Perennial, 1991

<sup>11</sup> T Malthus, *An Essay on the Principle of Population*, 1798

a balance such that generations in early adulthood, prime age and older working age adequately support those in childhood, retirement and old age, practically and financially. Everyone is happy with this arrangement because they see that previous generations did the same for them when they were children and expect that future ones will do so when they are old.

But what if there is a birth spike?<sup>12</sup> Suddenly there are more children to feed, which is a struggle for those of prime age, and may also be a struggle for the children, for example if they face more competition for places at good schools.

What happens when this big cohort reaches working age is more problematic. The conventional wisdom put forward by demographers such as Richard Easterlin has been that it is disadvantageous to be part of a large cohort as the competition continues, for jobs and wages.<sup>13</sup> This feeds off the classic lump of labour fallacy, however, and an alternative position is that we should not regard labour demand as fixed or finite. In particular, a youthful and growing population such as the one we describe can borrow and consume more, stimulating sufficient demand such that there is plenty of work to do for adequate pay.<sup>14</sup>

This big cohort may in fact feel a positive benefit as it moves into prime age. Because birth spikes tend to be followed by birth troughs, members will find themselves in the middle of a demographic sweet spot in their families, communities and nation states, with relatively fewer children and old people to support. The share of children and elderly people relative to those of working age is low and life feels prosperous, creating a strong temptation to pay less in taxes in favour of building up personal wealth or spending time on more enjoyable activities than work. It takes a particularly prudent family, or a state with a particularly sophisticated and long budgeting time-horizon (and one that can't be overly swayed by the democratic weight of this big cohort in the middle), to predict and plan for a reversal in this situation.

But the reversal comes as the big cohort moves into retirement. Dependency rises as they begin to rely on the smaller cohorts coming behind them for support. And because they retain democratic weight, they have some ability to ensure that the productivity of the new working age generations is used to support them.

In short, then, lumpiness in population numbers can drive different experiences at the peaks and troughs. And perhaps counterintuitively the challenges may be particularly felt not by the large cohorts but by those who come after.

## Sizing generations in the UK

On this basis, it makes sense to define the generations we refer to in our analysis both with reference to population fluctuations, and with a view to cultural identities and received terminology in public discourse (which are themselves in a large part driven by

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12 For a fuller description of this thought experiment, see: D Willetts, *The Pinch: How the baby boomers took their children's future – and why they should give it back*, Atlantic, 2010

13 R Easterlin, *Birth and Fortune: The Impact of Numbers on Personal Welfare*, Basic Books, 1980

14 J Keynes, 'Some Economic Consequences of a Declining Population', *Eugenics Review* 29:1, 1937



these fluctuations). Figure 3 shows births per year in the UK since 1896, with commonly-used generational cut-offs distinguished based on US discourse and David Willetts's work on the UK's generational cycle in *The Pinch*.<sup>15</sup>

- The forgotten generation, born 1896-1910
- The greatest generation, born 1911-1925
- The silent generation, born 1926-1945
- The baby boomers, born 1946-1965
- Generation X, born 1966-1980
- The millennials, born 1981-2000
- The latest generation, born 2001-2015.

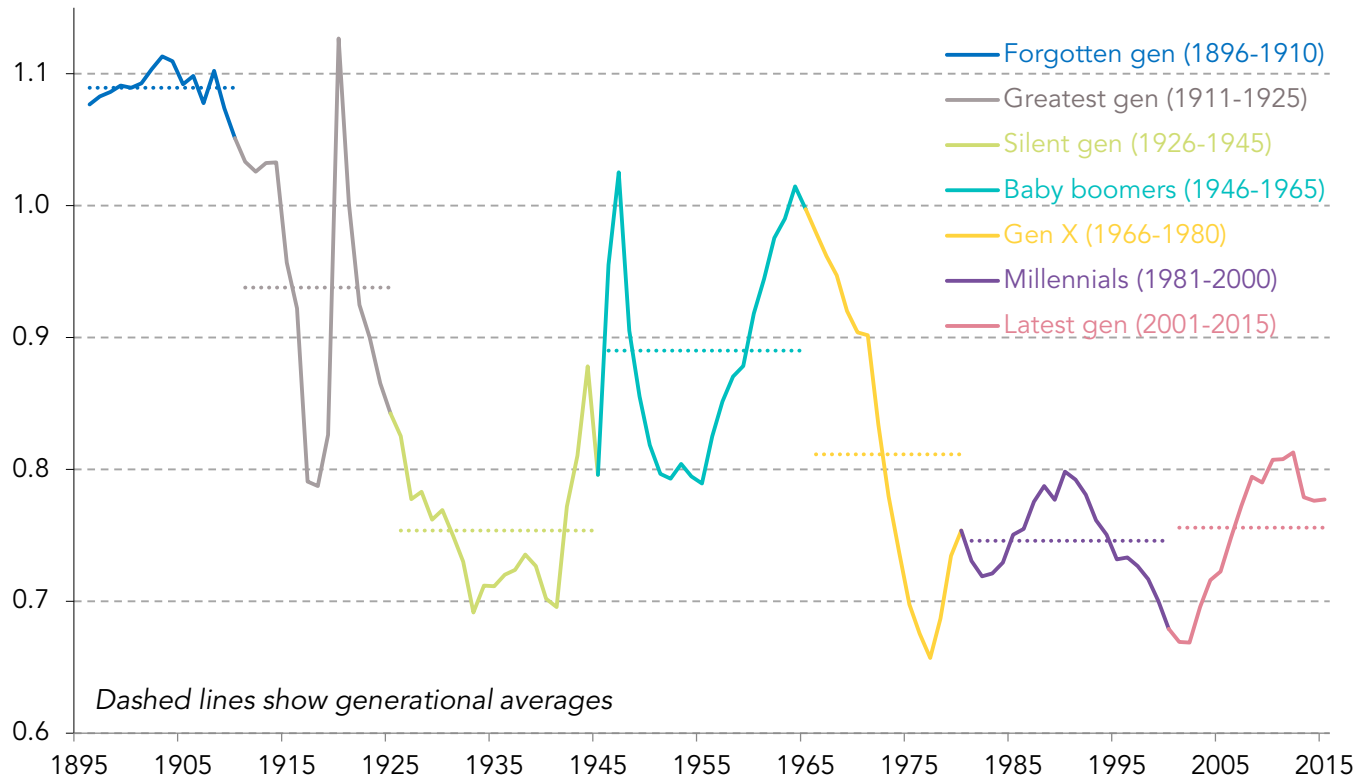
As well as the high birth rates in the early 20<sup>th</sup> century and the dip in the interwar period, immediately clear are the twin peaks in the middle. During the 20 year period of 1946-65 that we refer to as the baby boom, births per year averaged 890,000. The two generations following the boomers – generation X and the millennials – are successively smaller (an average of 810,000 and 750,000 births per year respectively).

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15 Precise birth year cut-offs and terminology differ across analyses, we have sought to adopt the most common definitions and terms that fit with the UK's demographic patterns. For a selection of approaches, see: Cardiff University, *Professional Development Membership Scheme: The Power of 'Generational Insight'*; W Strauss & N Howe, *Generations: The history of America's future, 1584 to 2069*, Perennial, 1991; R Fry, 'Millennials surpass Gen Xers as the largest generation in U.S. labor force', *Pew Research Center FactTank*, May 11 2015; P Bump, 'Here Is When Each Generation Begins and Ends, According to Facts', *The Atlantic*, March 25 2014; The Center for Generational Kinetics, 'Generational Breakdown: Info About All of the Generations', accessed 30 June 2016.

Figure 3: Birth patterns across the generations: UK, 1896-2015

Births per year, millions



Notes: Provisional data for 2015.

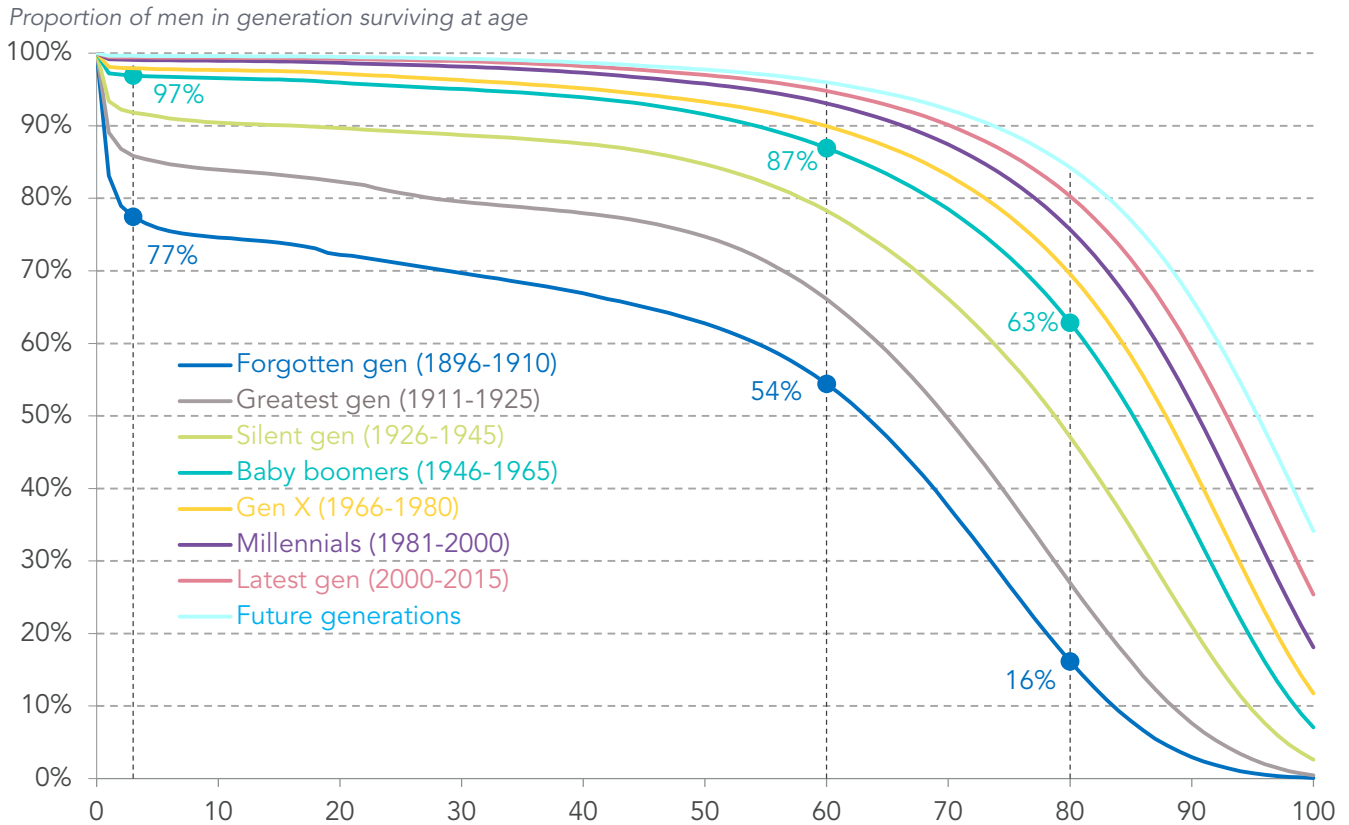
Source: ONS, Characteristics of Birth, England & Wales, 1838-2015; ONS, Birth summary tables, England & Wales, 2015; NISRA, Northern Ireland live Births, 1887-2015; NRS, Births Time Series Data, Scotland

## Boom and then swell

Of course, relative generational size isn't just a function of birth rates, but also survival as generations age. Figure 4 shows the latest picture on longevity (for men only), combining outturns and forecasts. It shows large gains for each successive generation up to the baby boomers, among whom 87 per cent of men are expected to reach age 60, compared to 54 per cent of the forgotten generation.

After the baby boomers, relative improvements are expected to slow according to the latest estimates from the Office for National Statistics. Of course, these expectations may be wrong (life expectancy estimates have proven too low in the past), but the suggestion is that of the generations alive today, the baby boomers have experienced the double impact of high birth numbers at the start and large survival improvements on the way through.

Figure 4: Improving male survival rates by generation: UK, 1896-2064

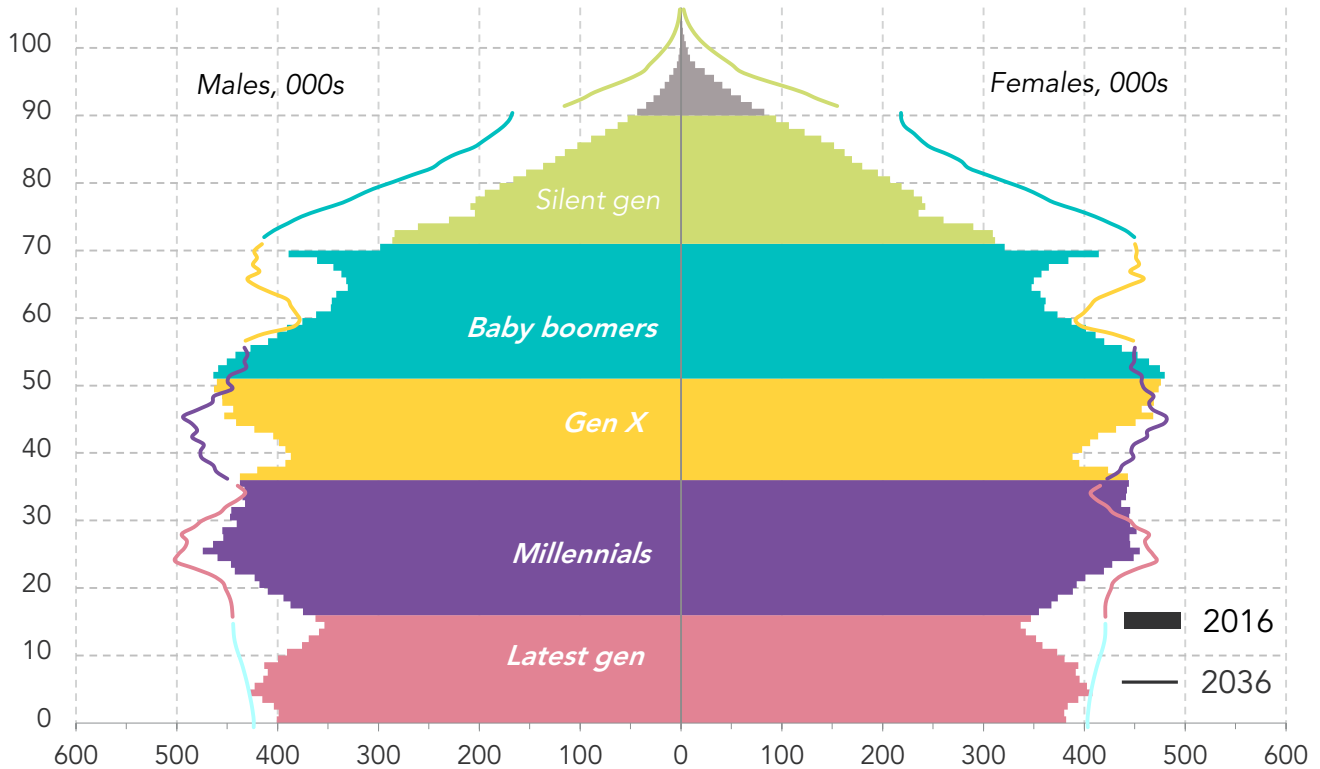


Notes: Survival rates for England and Wales only are used pre-1951; the survival rate for the mid-birth year of each generation is taken; mortality assumptions relate to deaths within the UK, and so don't account for armed forces deaths overseas.

Source: RF analysis of ONS, UK life tables (1951-2064); ONS, England & Wales life tables (1841-2064)

This combination of birth patterns and survival rates is expected to drive an ageing population structure in the UK. This is illustrated in the population pyramid in Figure 5, which compares the current age structure to that projected for 20 years into the future. Recalling the argument above about the strains that large generations moving out of working age and into retirement can put on families, communities and states, demographics suggest that the biggest intergenerational pressures may be round the corner.

Figure 5: Age structure of the population by generation: UK, 2016 and 2036



Source: RF analysis of ONS, Mid-year population estimates; ONS, 2014-based UK population projections

## A framework for understanding a person’s economic and social position

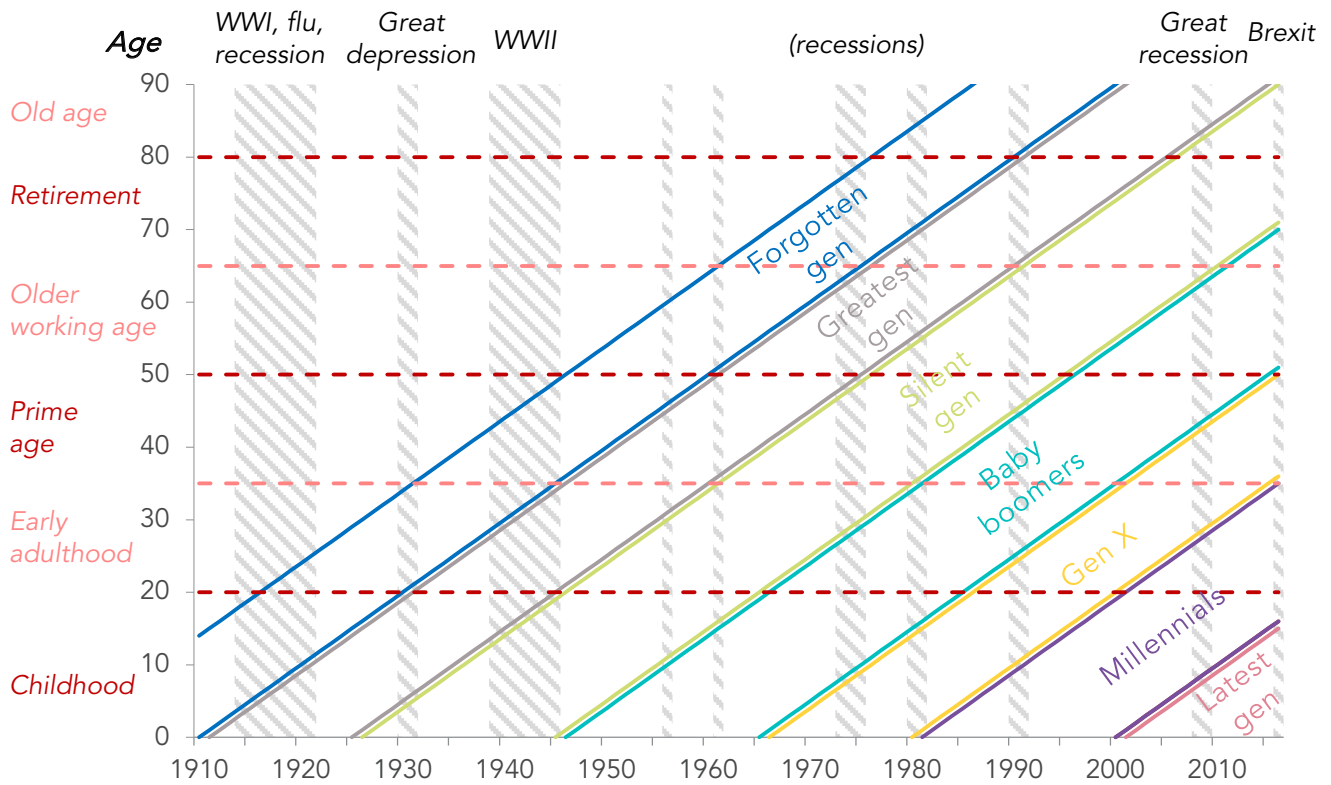
While the definition of generations we have established is helpful, knowing the generation someone was born into doesn’t tell you all that much about their experiences of life. Again building on the work of Strauss and Howe, we adopt a fuller framework for understanding generational dynamics, comprising the following:

- Generations as we have defined them are quite wide (spanning 15 or 20 years), in some instances it will be important to understand differences between sub-groups within these. For this purpose we refer to **cohorts**, which comprise consistent five-year birth spans.

- As generations age they move through different **stages of life**. This is clearly a continuous process, and experiences at different ages will not be the same for all generations (nor for all of those in the same generation). Nonetheless, some broad phases can provide a helpful analytical starting-point:
  - Childhood, aged 0-20
  - Early adulthood, aged 21-35
  - Prime age, aged 36-50
  - Older working age, aged 51-65
  - Retirement, aged 66-80
  - Old age, aged 81 and over.
- Cutting across generations and life stages are what Strass and Howe refer to as **period effects**, but we might equally call exogenous events, or shocks. In recent history we might think of wars, recession, terrorist attacks, the advent of the internet, and most recently the decision to leave the EU as period effects that had or will have a major economic, social or cultural impact. Crucially, these events can affect different generations experiencing them at different life stages very differently – a key aspect that our analysis will seek to uncover.
- Finally, the residual is that even within the same cohort, at the same life stage and in light of the same period effects, experiences can differ. This is obvious of course, but it's important to bear in mind changes in the relative divergence at different points in time. In other words, how much **intra-generational or intra-cohort variation** there is, and how this compares relative to *inter-generational* or *inter-cohort* variation. These considerations are important for understanding levels of inequality and social mobility. We don't deal with them in this introductory report, but they will be the subject of future outputs of the Intergenerational Commission.

This analytical framework, which underpins both the analysis in this report and the future work of the Commission, is summarised in stylised form in Figure 6.

Figure 6: A framework for intergenerational analysis: generations, life stages, and period effects



It shows how, for example, what we term the forgotten generation had their childhoods in the same period as the Great War, Spanish flu and the 1920-21 recession; were hit by the Great Depression while they were in early adulthood; and were mostly in their 30s when WWII began. Most recently, the millennials have moved from childhood to early adulthood at the time of the financial crisis and subsequent recession and pay squeeze.

We now have a framework for thinking about generational divergence, and an understanding of the demographic underpinnings that can put pressure on the intergenerational contract. With this in place, in the following three sections we assess divergence in living standards outcomes and its causes in three key areas: the labour market, housing wealth, and the welfare state.

## Section 3

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### The labour market

*Having defined what we mean by generations and set the analytical context for understanding the differences between them, in the next three sections we return to some of the themes mentioned in the introduction to take a more forensic look at how living standards compare. We turn first to the labour market, where the dominant story is of a worrying earnings outlook for younger generations, seemingly a result of both cyclical and structural trends. On measures of employment and unemployment, however, the picture is much more positive. In both cases, we can pinpoint policies, decisions and wider developments that have contributed to these outcomes, reminding us that neither should be considered inevitable.*

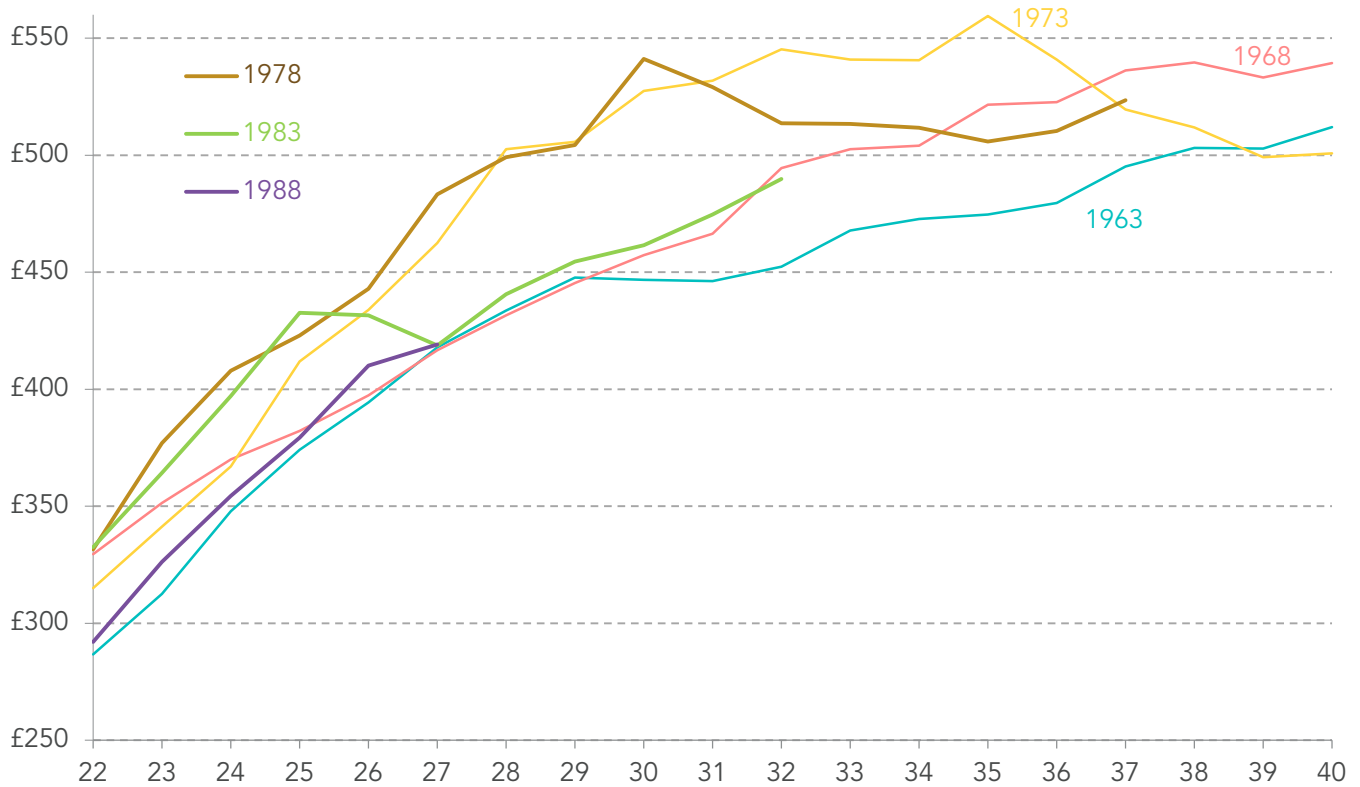
#### Earnings of younger generations took a hit during the post-crisis downturn

As we outlined in the introduction, one of the most visible signs of intergenerational divergence has been the disproportionate impact of the post-financial crisis downturn period on young people's pay. This is concerning because pay gains are usually most rapid at the beginning of careers – reducing or removing such early career progression can have long-lasting scarring effects.

As Figure 7 shows, the post-crisis fall in pay is evident across a series of single-year birth cohorts. But across the 1963-1978 cohorts, it hits at ages when we would expect earnings progression to be flattening out anyway. In contrast, the pay squeeze visibly knocked the 1983 cohort off course just as its members entered the crucial pay progression years of their late 20s. And it resulted in a much lower starting point for the 1988 cohort who entered the labour market just as the squeeze was taking hold. As a result, at age 27 those born in 1988 were earning the same as 27 year olds a quarter of a century before them.

Figure 7: Median pay by age for single-year birth cohorts: UK, 1985-2016

Median real weekly pay for all employees (RPIJ-adjusted to 2016 prices)



Notes: For the years in which it is available, published Annual Survey of Hours and Earnings pay estimates (which cover the UK as a whole, as opposed to the microdata which only covers Great Britain) are used as control totals, and the results from each individual dataset are indexed to those from the Annual Survey of Hours and Earnings to create a consistent series over time.

Source: RF analysis of ONS, Quarterly Labour Force Survey; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey Panel Dataset

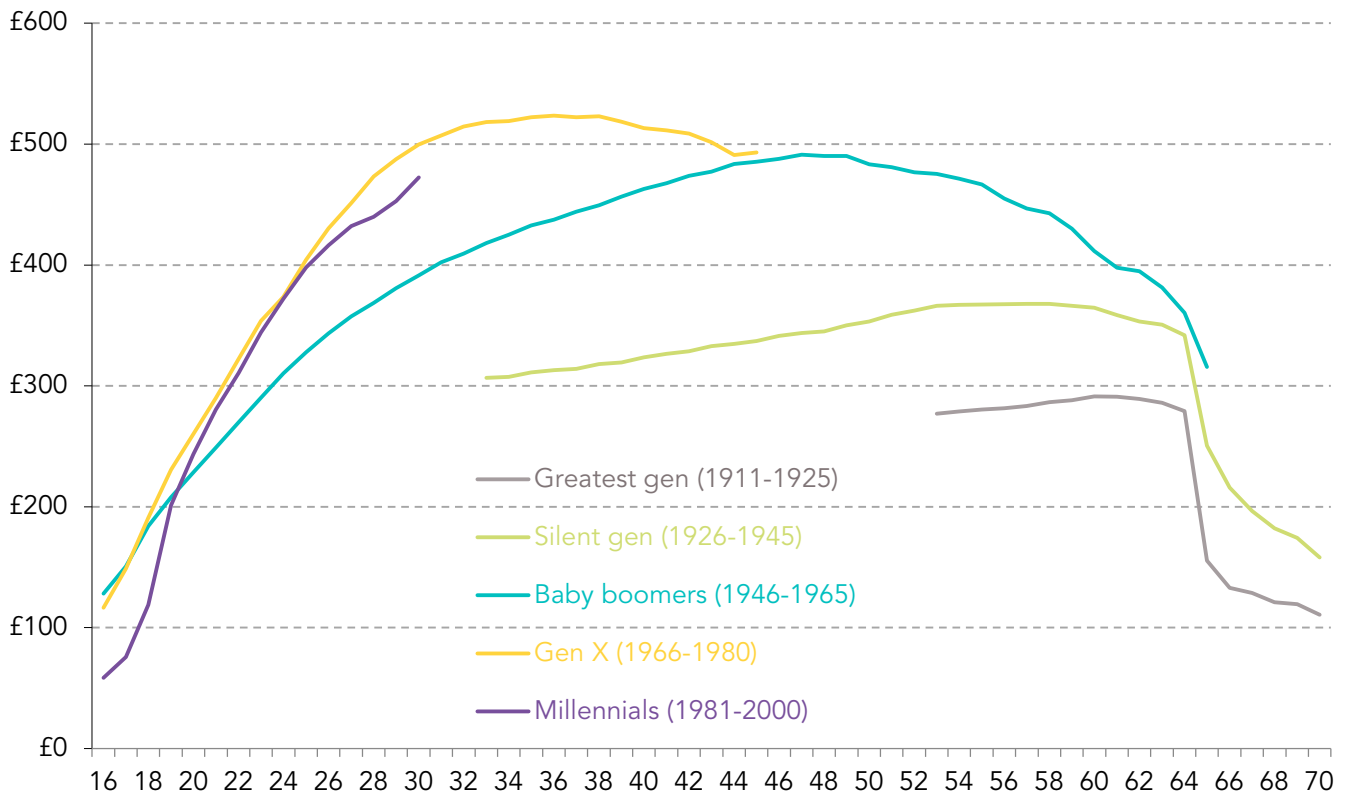
Because in normal times earnings growth outstrips inflation, the expectation is that each generation will earn more than the one before at any given age. Figure 8 gives a similar picture to Figure 7 but zooms out to cover the entirety of careers, and aggregates across entire generations. It shows that generation-upon-generation earnings gains are exactly what happened over the course of the 20<sup>th</sup> century, with the silent generation earning more than the greatest generation in their 50s and early 60s; the baby boomers making particularly large gains on the silent generation from their 30s onwards; and generation X outperforming the boomers, at least until their late 30s when the pay squeeze hits their trajectory.<sup>16</sup>

16 The pattern in Figure 8 is similar when measuring hourly pay, and for men and women separately (although the fact that the squeeze hit men harder means that earnings trajectories for male millennials and members of generation X have suffered slightly more compared to previous generations; for example, men in generation X earn £30 per week less than male baby boomers at age 45).



Figure 8: Median pay by age for each generation: UK, 1975-2016

Median real weekly pay for all employees (RPIJ-adjusted to 2016 prices)



Notes: Figures for each generation are derived from a weighted average of estimates by single year of age for each single-year birth cohort within that generation; generations are included if at least five birth years are present in the data; for the years in which it is available, published Annual Survey of Hours and Earnings pay estimates (which cover the UK as a whole, as opposed to the microdata which only covers Great Britain) are used as control totals, and the results from each individual dataset are indexed to those from the Annual Survey of Hours and Earnings to create a consistent series over time.

Source: RF analysis of ONS, Quarterly Labour Force Survey; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey Panel Dataset

But the squeeze appears to have fundamentally disrupted the story for millennials, the first generation that has so far earned less than the one before at every age. Indeed, **the typical millennial working throughout their 20s has earned £8,000 less than a typical person in generation X.**

## But the roots of generational earnings stagnation preceded the pay squeeze

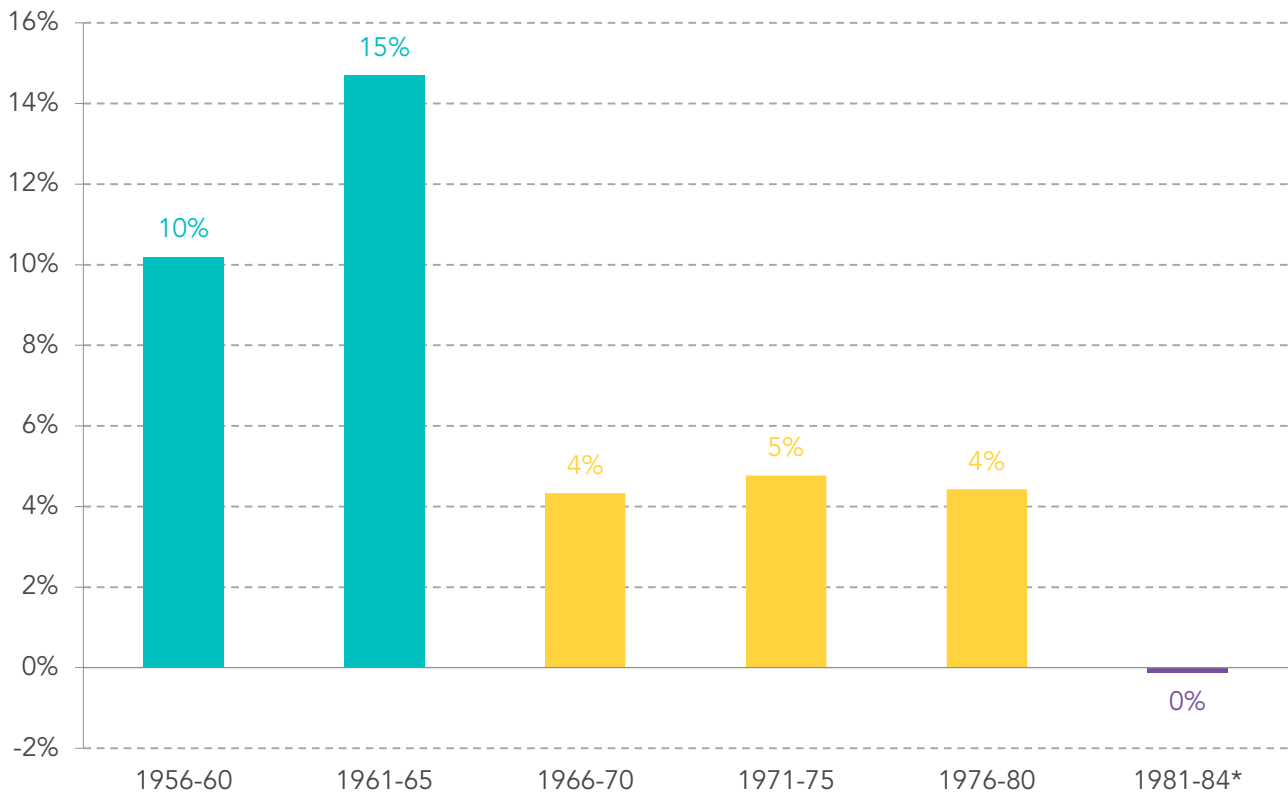
While a large part of this faltering earnings start for millennials is down to the pay squeeze, there are signs that the generational earnings slowdown preceded it. Figure 9 shows this by comparing the last two baby boomer cohorts, the cohorts in generation X, and (most of) the first millennial cohort at age 25 (thereby excluding the pay squeeze that started in 2010). Measuring earnings gains on the preceding cohort, we find a clear pattern of much slower growth in the three cohorts of generation X compared to what the baby boomers experienced, and stagnation for the first millennial cohort.

The slowdown in overall earnings growth that preceded the financial crisis will have contributed to the millennial cohort's experience, but the longer-term picture is of

diminishing returns from cohort or generational earnings gains beginning in the 1990s. Rising higher education participation may be having an impact here, with more 25 year olds in the recent cohorts still finding their feet in the labour market, but nonetheless that pattern is concerning.

Figure 9: Median earnings at age 25 compared to the previous five-year cohort: UK, 1981-2009

Growth in median real weekly pay for all employees between cohorts (RPIJ-adjusted)



Notes: Figures for each cohort are derived from a weighted average of estimates by single year of age for each single-year birth cohort within that cohort; for the years in which it is available, published Annual Survey of Hours and Earnings pay estimates (which cover the UK as a whole, as opposed to the microdata which only covers Great Britain) are used as control totals, and the results from each individual dataset are indexed to those from the Annual Survey of Hours and Earnings to create a consistent series over time; (\*) the first millennial cohort spans only four birth years, in order to avoid the impact of the post-crisis downturn.

Source: RF analysis of ONS, Quarterly Labour Force Survey; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey Panel Dataset

## Suggesting a tougher labour market for young people than in the past

What's causing this slowdown? One factor we might point to is the long-term decline in the rate at which businesses train their young staff. Off-the-job training intensity has fallen 30 per cent below its early 21<sup>st</sup> century peak for 18-29 year olds (but is only 16

per cent down for those aged 50 and over).<sup>17</sup> This is troubling because training at the beginning of careers – when workplace skills are least developed and productivity gains are usually most rapid – is likely to drive earnings potential in years to come.

In addition, a structural decline in job mobility has hit the young particularly hard. The rate of job-to-job moves for 18-29 year olds has fallen by more than one third since 2000, whereas it is down by only one fifth for the over 50s. Moving from one job to another usually heralds a big pay rise for the individual, and this is especially relevant to young people, as frequent moves are key to the steep pay progression trajectory we observed in Figure 7 when young people are gaining a foothold in the jobs market. For example, for 18-29 year olds over 2007-2014, ‘job stayers’ averaged 4.4 per cent median annual nominal pay growth, ‘job switchers’ 11.8 per cent. Unsurprisingly, these figures are higher than those for all ages (2.7 per cent and 6.1 per cent respectively), and crucially the ‘switching premium’ relative to those who stay put is greater when young.<sup>18</sup> In this light, the mobility slowdown has a concentrated effect on younger generations.

## With the legacy of older generations holding more recent ones back further

However, the worrying earnings picture isn’t just the result of such broad labour market developments. The legacy of a series of decisions made by firms and governments in relation to pension commitments to older generations appears to have created further downward pressure on the pay of younger ones.

The fact that younger workers have very limited access to the generous ‘defined benefit’ occupational pensions that were standard for many workers in previous generations may feel unfair in itself. But the impact runs deeper still. The circumstances that led to these schemes closing – consistent underestimates of rising life expectancy; low stock market returns; a long-term decline in interest rates; and overconfidence on the part of both companies and the government (meaning that both raided pension funds for other projects in the 1980s and 1990s) – resulted in large funding gaps. As a consequence, many firms now have to set aside large sums of money from today’s revenues to fund yesterday’s promises. According to the Intergenerational Foundation, this runs to as much as £35 billion per year.<sup>19</sup>

Importantly, a substantial amount of this money will form the retirement income of past workers and those already in retirement.<sup>20</sup> In other words, billions of pounds each year is being extracted from the productivity (and therefore the potential earnings pots) of today’s workers to pay the retirement incomes of yesterday’s. While a similar principle underpins the State Pension – each generation’s taxes pay for the retirement of previous generations – the fact that younger workers are much less likely to hold defined benefit pensions means that this private sector generational transfer won’t be repeated.

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17 L Gardiner, *The RF Earnings Outlook: Q3 2015*, Resolution Foundation, December 2015

18 L Gardiner, *The RF Earnings Outlook: Q4 2015*, Resolution Foundation, April 2016

19 M Hitchens, *DB Pensions: Choking Hazard: How defined-benefit schemes are throttling the UK economy*, Intergenerational Foundation, June 2016

20 B Bell, *Wage stagnation and the legacy costs of employment*, CentrePiece, Autumn 2015

## Creating the risk of a lifetime earnings penalty

From a living standards perspective, the key question is how this picture will develop in future. Will the presence of a substantial earnings hit during the crucial years of early adulthood, when pay ought to rise most rapidly, create ‘path dependence’, with lost ground not made up over time? Evidence from the US suggests it might: lifetime wage penalties exist for graduates entering weak jobs markets.<sup>21</sup>

As an initial and very rough assessment, we construct a thought experiment with both an optimistic and a pessimistic scenario for millennials’ future pay. An optimistic take is that following the trauma of the recent pay squeeze, millennials’ pay progression reverts to the path the baby boomers took decades before them. A more pessimistic scenario would be that pay progression for millennials is initially a balance of boomer and generation X experiences, with final salaries converging towards those of generation X (for this purpose we also assume that earnings progression in generation X tracks that of the baby boomers for the remainder of their working lives).

While these estimates are clearly very rough, we suggest that both are plausible. For example, our optimistic scenario would be consistent with productivity growth reverting to its pre-recession average and feeding through to pay in future, with no major economic downturns hitting pay in the way that the recent recession did.

Our pessimistic scenario becomes tenable if we factor in a number of potential clouds on the horizon. These include the lower trend productivity growth forecast by the Office for Budget Responsibility at this year’s Budget. And they include an assumption that the ‘decoupling’ of median pay from productivity (whereby typical pay growth hasn’t kept pace with output per worker) which has been evident since the mid-1990s (and which owes much in recent years to the plugging of legacy defined benefit deficits) persists for the foreseeable future.<sup>22</sup> Any economic deterioration associated with Brexit – both in terms of a short-term demand effect associated with increased uncertainty and a longer-term supply hit – would also hit the millennials.<sup>23</sup>

By combining outturns and these illustrative optimistic and pessimistic scenarios with the employment rates of each generation (assuming the millennials and generation X match baby boomer employment in future), we can estimate the total gross lifetime earnings a typical member of each generation will receive:

- In today’s prices, we estimate that baby boomers will earn a lifetime total of £740,000 between the ages of 16 and 64.
- If generation X follows the baby boomers’ trajectory for the remainder of their careers, they will earn 13 per cent more (£835,000).
- Our optimistic outlook for millennials would result in earnings of £890,000, gaining just 7 per cent on generation X.

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21 P Oreopolous, T von Wachter & A Heisz, ‘The short- and long-term career effects of graduating in a recession: hysteresis and heterogeneity in the market for college graduates’, *American Economic Journal: Applied Economics* 4:1, January 2012

22 M Whittaker, *A recovery for all? The evolution of the relationship between economic growth and pay before, during and since the financial crisis*, Resolution Foundation, September 2015

23 For example, see: M Ebell & J Warren, ‘The Long-Term Economic Impact of Leaving the EU’, *National Institute Economic Review* 236, May 2016

- But our more pessimistic outlook entails a slight *fall* of 1 per cent compared to generation X in the lifetime earnings of millennials (down to £825,000).

Even in our optimistic scenario, the lifetime earnings gains the millennials make on generation X are far lower than the gains generation X made on the boomers coming before them. And crucially, this thought experiment suggests **a possibility that the millennials could be the first generation to earn less than their predecessors over the course of their working lives.**

It's worth mentioning that we take no specific account of self-employment here.<sup>24</sup> However, we know that its prevalence has risen rapidly in recent years even as the associated earnings (which were much lower in the first place) have plummeted.<sup>25</sup> Continued increases in self-employment and growth in disaggregated forms of work in the 'gig economy' raise the prospect of lower earnings and less earnings security for millennials and generation X through the remainder of their careers. This could lower the trajectories in the scenarios we present above.

In sum, the generational earnings picture is worrying. The heightened impact of the post-crisis downturn on more recent generations, and signs of a structural slowdown in earnings gains of successive cohorts on their predecessors, raise the prospect that young people who have entered the labour market in recent years will be the first generation not to exceed the earnings of generations before them.

## But overall labour income among younger generations has been supported to some extent by improved employment outcomes

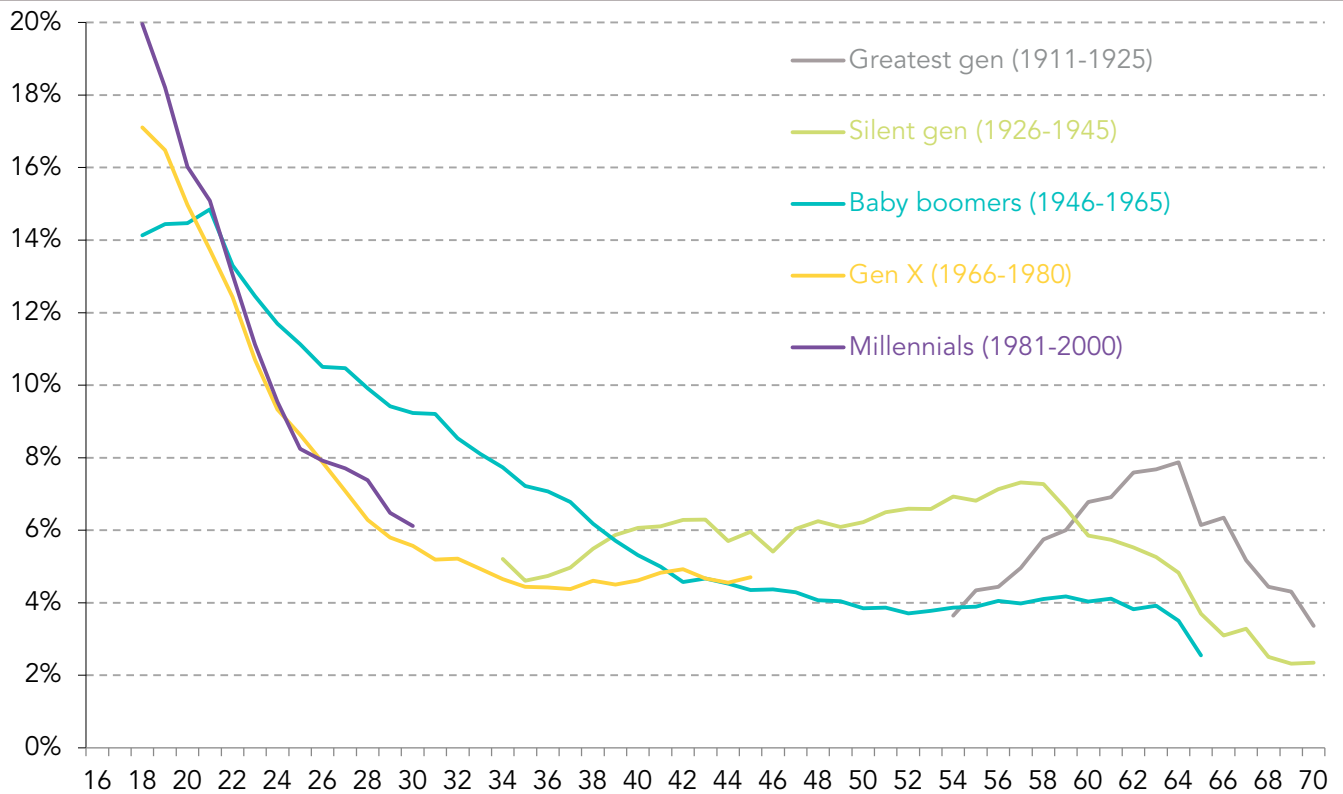
In contrast to the worrying news on pay, labour market activity among younger generations in general paints a more positive picture. This reflects both the fact that the recent downturn was much less damaging in unemployment terms than those of the 20<sup>th</sup> century, and the huge strides made on female labour market participation since the boomers were young.

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<sup>24</sup> Therefore, because we compute lifetime earnings using overall employment rates, we implicitly assume that self-employed earnings match employee earnings, and more importantly that the prevalence of self-employment and the relative earnings of the self-employed do not change over time.

<sup>25</sup> A Corlett & L Gardiner, *Low Pay Britain 2015*, Resolution Foundation, October 2015

Figure 10: Unemployment rates by age for each generation: UK, 1975-2016



Notes: Figures for each generation are derived from a weighted average of estimates by single year of age for each single-year birth cohort within that generation; generations are included if at least five birth years are present in the data; published unemployment rates (disaggregated by sex and whether working age or retirement age) are used as control totals in order to create a consistent series over time, particularly important as historic *Annual Labour Force Survey* data uses slightly different definitions of unemployment to the International Labour Organisation definition now commonly used.

Source: RF analysis of ONS, *Quarterly Labour Force Survey*; ONS, *Annual Labour Force Survey*; ONS, *Labour Market Statistics*

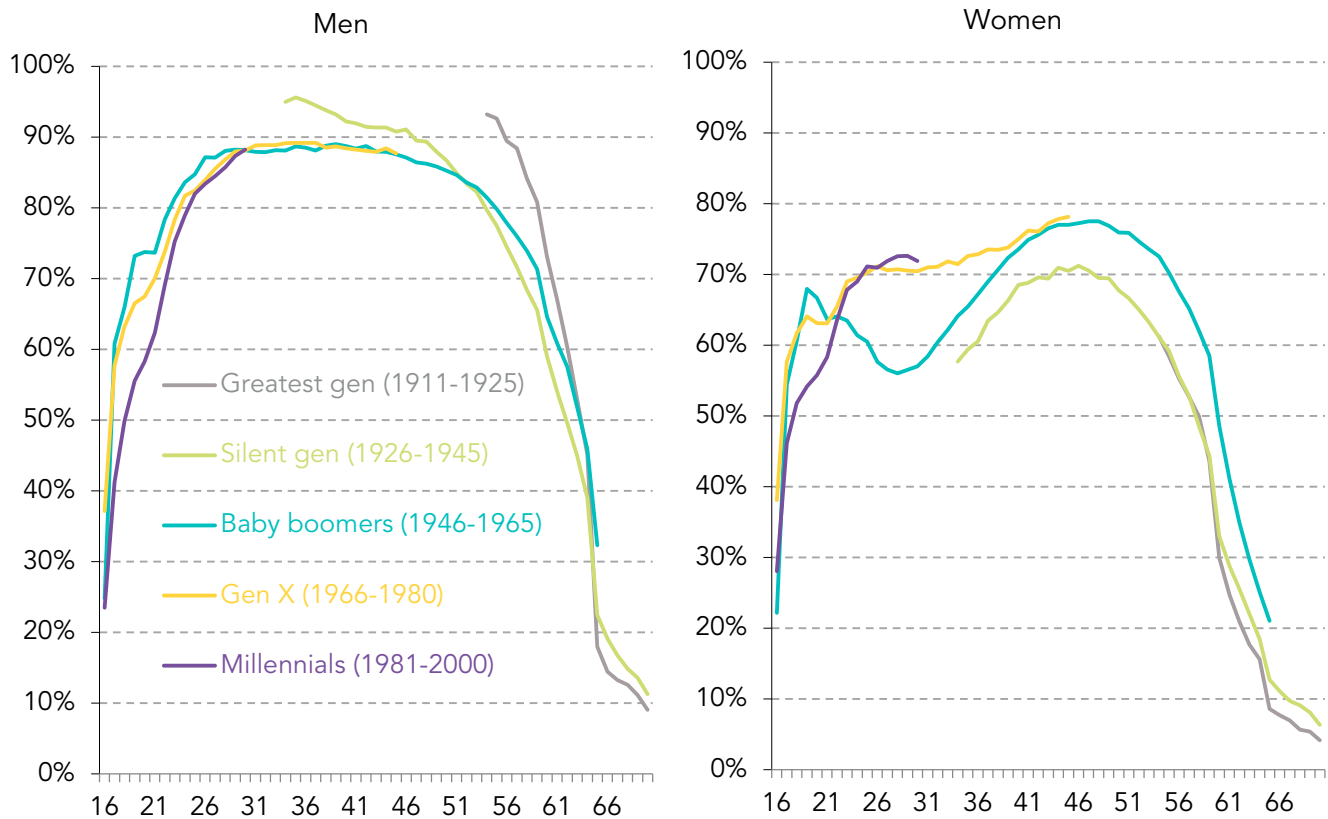
Figure 10 summarises the unemployment rates experienced over the life course for each generation. The long period of high unemployment during the 1980s in particular is evident in its impact on the baby boomers in their late 20s and 30s, and on the silent generation and greatest generation in later life. For these two generations, this is the de-industrialisation-driven unemployment that was a precursor to (early) retirement, particularly for lower-paid workers.

Turning to more recent generations, Figure 10 shows high unemployment at the very beginning of working lives for the millennials and generation X. This will partly relate to members of these groups entering the jobs market during the 1980s and 1990s recessions and the recent downturn. In addition, it will reflect rising higher education participation keeping many young people out of the labour force, but signalling a tougher time for those who do enter in their teens. Nonetheless, the overall message is that more recent generations (particularly generation X) have had a relatively good run so far. If sustained periods of very high unemployment can be avoided and future recessions look more like the recent one than the 1980s and 1990s (a very big if), they will suffer far less from the disruptive experience of unemployment than the generations coming before them.

## With gains in female employment particularly encouraging

In part a flipside to unemployment, and more directly relevant to living standards outcomes at a given point in time, is employment levels. These are shown disaggregated by sex in Figure 11.

Figure 11: Employment rates by age and sex for each generation: UK, 1975-2016



Notes: Figures for each generation are derived from a weighted average of estimates by single year of age for each single-year birth cohort within that generation; generations are included if at least five birth years are present in the data; published employment rates (disaggregated by sex and whether working age or retirement age) are used as control totals in order to create a consistent series over time.

Source: RF analysis of ONS, Quarterly Labour Force Survey; ONS, Annual Labour Force Survey; ONS, Labour Market Statistics

Apart from lower employment in the late-teens and early 20s for generation X and particularly the millennials (again largely as a result of the welcome expansion of higher education participation, as well as some unemployment effects), the main take away from Figure 11 is the highly divergent employment experiences of men and women across the generations.

For women, we see very clearly labour market progress broken down in three generational steps. While, as far as we can tell, women in the silent generation and greatest generation had similar employment outcomes, the baby boomers have experienced better employment rates than the silent generation over the life course, by a consistent factor of about 5 to 7 percentage points at any given age.

The next phase of progress was the huge employment gains of women in generation X on the baby boomers around childbirth. And the final phase (evident for men too but more pronounced for women) is lower employment in the late-teens and early 20s for the millennials compared to generation X, due to expanding participation in higher education.

Importantly, the rapid gains for women that we have observed are due in no small part to policy decisions. From equal pay legislation in the 1970s; to the greater availability of and financial support towards formal childcare; to employment rights around childbirth which have increasingly kept women attached to their original employers, a proactive approach to more equal gender relations has been evident.

These outcomes shouldn't be considered a given. Many other developed nations – notably the USA – have done less and experienced much smaller labour market gains for women in the face of similar demographic and industrial pressures.<sup>26</sup> The result has been that many women in younger generations have had opportunities that female boomers and those who came before them would never have dreamed of. As well as a more equal society, policies related to gender parity have been a key tool for generational progress.

The story for men is much more uniform, apart from the fact that something fundamental seemed to shift between the silent generation and the baby boomers, for whom employment rates have stayed below 90 per cent across the life course. This reflects the fact that the early 1970s is in most estimations the last time that we were at (male) full employment.<sup>27</sup> This kind of full-capacity labour market is just not something that most baby boomers or more recent generations have experienced.

## But the overall labour market picture for younger workers remains concerning

Given the importance of female employment to overall living standards,<sup>28</sup> the negative consequences of unemployment and the centrality of education to national productivity gains and individual opportunities, generational progress on labour market activity measures has been positive. More recent generations have so far experienced somewhat less disruption from high unemployment, and have (and will continue to) benefit from a more equal sharing of opportunity across the sexes. Rather than fuelling generational divergence, labour market activity appears thus far to have built a firm base for continued living standards gains for generations to come.

Nevertheless, the picture on pay that we have set out remains concerning. The failure of median earnings to keep pace with workers' output and the prospect of much flatter career pay trajectories risk becoming a source of growing disillusionment. The drivers appear part-cyclical, part-structural, and policy intervention can undoubtedly make some difference. Understanding and mitigating the new labour market challenges faced by younger cohorts will be a key task of the Commission.

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26 P Gregg & A Corlett, *An ocean apart: The US-UK switch in employment and benefit receipt*, Resolution Foundation, June 2015

27 P Gregg & L Gardiner, *A steady job? The UK's record on labour market security and stability since the millennium*, Resolution Foundation, July 2015

28 Resolution Foundation, *Gaining from growth: The final report of the Commission on Living Standards*, October 2012



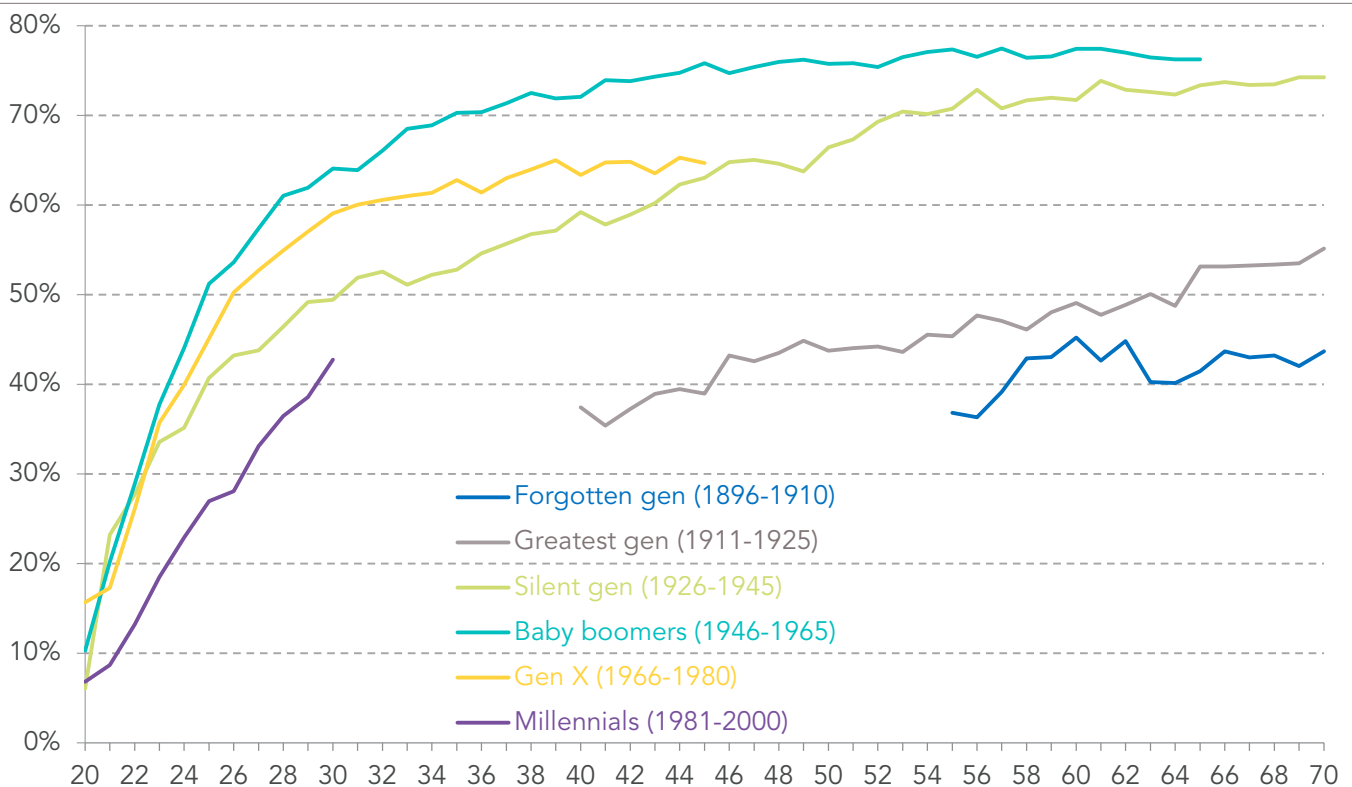
## Section 4

### Household wealth

*What we bring home from the labour market is not the only determinant of living standards. Wealth – both individual and at the household level – is at least as important in the long run. That’s particularly true in terms of the economic security enjoyed by each generation as it approaches retirement and the associated implications for the state. In this section we explore two big components: housing and pensions, showing a generational divergence in each case.*

**A sharp reversal in home buying means ‘generation rent’ is less likely to own than even the pre-war silent generation**

Figure 12: Home ownership rates by age for each generation: UK, 1961-2016



Notes: Figures for each generation are derived from a weighted average of estimates by single year of age for each single-year birth cohort within that generation; generations are included if at least five birth years are present in the data; results from other datasets are indexed to those from the Family Resources Survey to create a consistent series over time.

Source: RF analysis of ONS, Labour Force Survey Household Datasets; DWP/ ONS, Family Resources Survey; ONS, General Household Survey; ONS, Family Expenditure Survey (IFS datasets)

The second half of the 20<sup>th</sup> century was characterised by the arrival of mass home ownership, with clearly divergent experiences across different generations. As Figure 12 shows, members of the silent generation were far more likely to own their own homes than their forbears, and this progress continued with the baby boomers: at age 40, roughly 70 per cent of this generation owned their home, compared with less than 40 per cent of the greatest generation at the same age.

However, this forward march has since reversed, with both generation X and the millennials less likely than previous generations to own their own homes. At age 30, baby boomers were 50 per cent more likely to own their own home than millennials were at the same age. Put another way, 30 year old millennials have lower home ownership rates than the baby boomers did at age 24. Indeed, they even have lower levels of ownership than silent generation which came some 55 years earlier.

This pattern has of course been driven to a large degree by rapid increases in house prices, with the ratio of average house prices to annual earnings rising from 6.4 in 2002 to 11 in 2016.<sup>29</sup> Changing credit conditions have also played a role, with the typical deposit put down by first time buyers rising from 5 per cent in the 1990s to 10 per cent in 2007. Following the tightening of lending criteria post-financial crisis, the typical deposit now stands at 17 per cent.<sup>30</sup>

Coming on top of these factors, the rising cost of renting creates a potential vicious circle for those struggling to access home ownership. That is, with more of their income being diverted towards rents, younger generations can find themselves less able to save for a deposit.

Rental costs rose substantially from around 1980 due to growth in the private rented sector and the weakening of regulation. Combining the two (related) trends of lower home ownership and higher rents, we estimate that the average millennial spent £25,000 more in real terms on rent in their 20s than the previous generation, and £44,000 more than the average baby boomer did.<sup>31</sup> While it's wrong to view rent as 'wasted' money, it's easy to understand why millennials aspiring to ownership would be frustrated by this situation. Indeed £44,000 is comfortably more than the average first time buyer deposit in today's market.<sup>32</sup>

## Affecting wellbeing in the here and now and changing the picture on asset accumulation

Falling home ownership for younger generations is a concern because it means many more years spent in the private rented sector. Housing costs in private rented accommodation account for a greater share of incomes than in other tenures, so this creates a direct hit to living standards.<sup>33</sup> In addition, renting privately is associated

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29 RF analysis of ONS, *House Price Index*; ONS, *Annual Survey of Hours and Earnings*

30 RF analysis of Council of Mortgage Lenders data

31 RF analysis of DWP/ ONS, *Family Resources Survey*; ONS, *Family Expenditure Survey (IFS datasets)*

32 Halifax Building Society estimate that the average first time buyer deposit was £33,000 in 2016. See: S Croucher, 'UK house prices: First-time buyer deposits rocket 88% in less than a decade', *International Business Times*, 11 January 2016

33 S Clarke, A Corlett & L Judge, *The housing headwind: The impact of rising housing costs on UK living standards*, Resolution Foundation, June 2016

with instability and all-too-often poor quality accommodation.<sup>34</sup>

But from a wealth perspective the longer-term challenge is that many millennials are unable to put together the nest eggs that their predecessors built up and then received a windfall from when house prices began rising rapidly. This means that assets are becoming increasingly concentrated in the hands of older generations.

Accentuating this is the fact that a rapidly growing number of households are landlords,<sup>35</sup> and half of all rent that goes to private landlords (as opposed to institutional owners) – or around £4 billion per year – goes to baby boomers.<sup>36</sup> In other words, millennials' spending on housing is not only not contributing to their personal wealth in the way that housing spending by their predecessors did, but is actively boosting the wealth and assets of the baby boomers who came before them.

## Family transfers are helping some, but this strategy may run out of road

Of course, many in older generations recognise the challenge their children face. That ownership among millennials isn't lower still owes much to the help received by some young people from family to get the deposit for a house together. Estimates from the Council of Mortgage Lenders suggest that the proportion of first time buyers getting help from parents or grandparents has risen from around 30 per cent in 2005 to more than 50 per cent in 2014.<sup>37</sup> And a survey by Legal & General has estimated that the 'bank of mum and dad' will transfer £5 billion for house purchases during 2016, putting it among the top 10 mortgage lenders in the UK.<sup>38</sup>

This is good news. Families supporting one another in this way upholds the intergenerational contract and injects cash into the pockets of those more likely to spend it. And the desire to do the best for younger and older family members should be nurtured. But transfers of this nature can run into problems of their own, for two reasons.

First, there is the issue that some families are far better resourced to provide this kind of support than others are. It's not that families with fewer resources don't want to support each other. Indeed, research by the Social Market Foundation found that more than half of low income adults had received financial support as an adult from a parent. But when compared to families on higher incomes, these gifts tend to be much lower in value and more often reactive to everyday living costs, rather than strategically planned around life events like buying a house.<sup>39</sup> The implication is that although the role of the family in providing intergenerational support is positive, overreliance risks entrenching inequalities across generations and hampering social mobility.

Second, while intergenerational support within the family is already a challenge for those on lower incomes and a concern from a social mobility perspective, the prospects even for higher income families look increasingly limited. Legal & General's research

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34 Department for Communities and Local Government, *English Housing Survey: Headline Report 2014-15*, February 2016

35 Office for National Statistics, *Economic Review: April 2016*, April 2016

36 RF analysis of DWP/ ONS, *Family Resources Survey*, 2012-14

37 B Clarke, *New CML data shows nearly half of first-time buyers didn't use the 'bank of mum and dad'*, Council of Mortgage Lenders, March 2015

38 Legal & General, *The Bank of Mum and Dad*, 2016

39 R Shorthouse, *Family fortunes: The bank of mum and dad in low income families*, Social Market Foundation, October 2013

highlights that releasing equity from their own properties isn't a favoured option among parents and grandparents lending to younger family members. Rather, they access capital through other sources including pensions, savings and investments. Without a shift in attitudes towards equity release (and attractive mechanisms for this), the combined impact of rising life expectancies, care costs and house prices will mean the next generation runs into liquidity issues when their own children want to buy.<sup>40</sup> In short, the bank of mum and dad may increasingly be insufficiently funded in all but the very wealthiest families.

## Auto enrolment is spreading pension coverage, but generous company pensions are a thing of the past

Alongside the home ownership boom, nowhere is the wealth division between the generations clearer than in the rise and fall of generous company pension schemes.

Strong worker bargaining power and a favourable tax environment led to large increases in pension scheme membership during the 1950s, 1960s and 1970s, as well as a shift towards 'defined benefit' or 'final salary' arrangements. But the affordability issues mentioned in the previous section mean that company pensions have been in retreat in recent decades. In 2015 only three FTSE100 companies offered a defined benefit pension to new employees, compared to all 100 just over 20 years ago in 1993.<sup>41</sup>

The number of active members of defined benefit schemes thus plummeted from 4.6 million in 2000 to just 1.6 million in 2014. In contrast, the number of active defined contribution members remained broadly flat at around 1 million for much of the period after 2000, before jumping to 3.2 million in 2014 as the effects of auto enrolment started to be felt. Welcome though the sizeable increase in occupational pension members associated with auto enrolment is, the total number of active members across all types of occupational pensions remained some way lower in 2014 (4.9 million) than in 2000 (5.7 million).<sup>42</sup>

And the shift from defined benefit to defined contribution has significant consequences for the size of pension pots being established and the relative contributions made by employees and employers. As Figure 13 shows, the average contribution rate associated with defined benefit schemes amounted to around 21 per cent in 2014, with close to 16 per cent of that coming from the employer. In contrast, the average contribution associated with defined contribution schemes was less than 5 per cent, with employers providing just 2.9 per cent.

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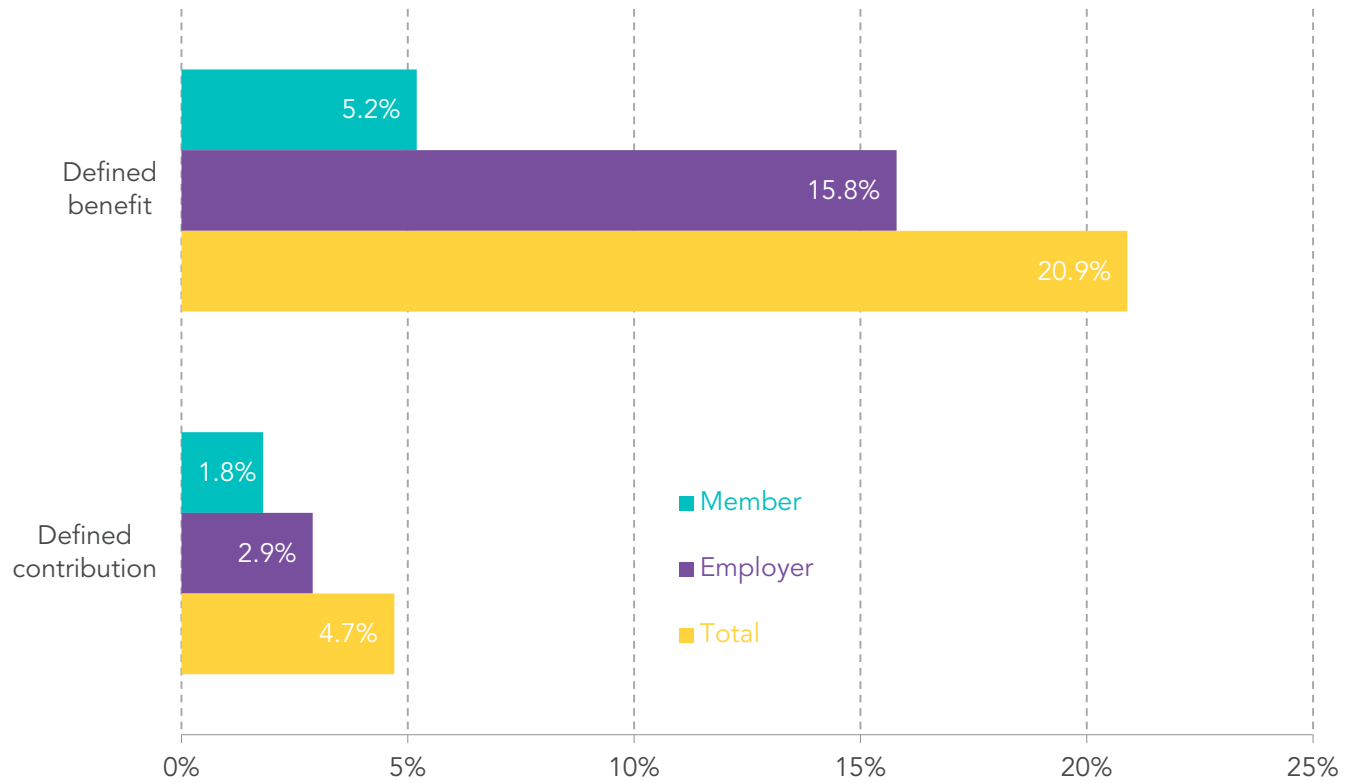
40 Legal & General, *The Bank of Mum and Dad*, 2016

41 M Hitchens, *DB Pensions: Choking Hazard: How defined-benefit schemes are throttling the UK economy*, Intergenerational Foundation, June 2016

42 Office for National Statistics, *Occupational Pension Schemes Survey: 2014*, September 2015

Figure 13: Contribution rates to private sector occupational pension schemes: UK, 2014

Weighted average contribution rate by source



Notes: Includes open, closed and frozen schemes and those where standard contributions were zero; excludes schemes with fewer than 12 members; weighted-average contribution rates across all schemes were calculated based on the estimates for numbers of active members contributing at each rate.

Source: ONS, Occupational Pension Schemes Survey: 2014, September 2015

With younger workers much less likely to have access to defined benefit schemes, these starkly different average contribution rates have obvious implications for pension wealth across the generations. As Figure 14 sets out, the proportion of individuals holding wealth in private pensions (occupational and personal) has increased modestly across all age groups over recent years, but the median wealth held by those savers has risen much more quickly among older groups.

Figure 14: Pension wealth by age: GB, 2006-08–2012-14



Source: ONS, Wealth and Assets Survey, Waves 3 and 4, Table 6.10

Median pension wealth actually *fell* by 12 per cent among those 16-24 year olds reporting having *some* pension wealth. In contrast, it increased by around one-third (32 per cent) among 45-54 year olds, more than one-quarter (28 per cent) among 55-64 year olds and a huge two-thirds (63 per cent) among 65-74 year olds. In part this is likely to be the compositional effect of wealthy baby boomers moving up the age groups, but it also highlights the huge disparity in pension wealth across generations. The ratio of wealth in the 55-64 group to wealth among 16-24 year olds increased over the period from 29x to 41x.

In sum, while it's welcome and essential that auto enrolment is spreading coverage, defined benefit pensions have delivered a wealth dividend to older generations that is unlikely to be repeated. Faced with a muted earnings trajectory thus far (partly as a result of the need to plug deficits in these generous pension commitments, as we saw in the previous section) the ability of younger generations to build up the kind of pension assets their predecessors have looks limited.

## Taken together, falling asset holding among younger generations risks stymying opportunities and storing up trouble for the future

While these trends in ownership and pension wealth are stark, taken together they paint an even gloomier picture. As Andy Haldane has highlighted, *all* of the £2.7 trillion increase in aggregate wealth recorded since 2007 can be accounted for by the over-45s, with two-thirds accruing to the over-65s. In contrast, wealth has fallen by around 10 per cent among those aged 16-34.<sup>43</sup>

The generational divide on wealth is clear. House building in the 20<sup>th</sup> century, and the rise and fall of generous company pensions, both came at exactly the right time for certain generations, the baby boomers now moving towards retirement in particular. In contrast, young generations are finding it difficult to get into home ownership and have the weight of ensuring adequate retirement savings squarely on their own shoulders.

The concern is not just that this affects living standards in the here-and-now as younger generations scramble to get a housing deposit and a pension together. It is that they have less ability to weather storms over the course of their lives, suffer from greater instability, and face poorer retirements. In addition, the danger is that accumulated wealth becomes increasingly concentrated in and passed down through fewer and fewer families. And such outcomes have national consequences in terms of lower consumption and a greater burden on the state to support people in old age.

Importantly, while it might seem like the baby boomers were just lucky, getting into the housing market and company pension schemes at the right time, we shouldn't conclude that there's no way out of this situation. Active decisions including how many houses we build, how we encourage people to save, how we regulate the defined benefit pension market and the way we treat wealth and inheritance in the tax system have contributed to the situation we find ourselves in, and can shape the generational wealth picture in future. Understanding the choices we face as a society to give today's younger generations the chance to build up the same assets as their predecessors will be a subject that the Intergenerational Commission addresses in detail.

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43 A Haldane, 'Whose Recovery?', *Bank of England*, 30 June 2016

## Section 5

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### The welfare state

*Alongside market- and family-generated income and wealth, the other key determinant of an individual's living standards is the interaction they have with the state over the course of their life. Partly, this is a question of the public services and infrastructure they have access to, but incomes and living standards are also more directly affected by interactions with the tax and benefit system. In this section, we explore the role of the welfare state across generations and we highlight the generational implications of planned tax and benefit policies, which have gone largely undiscussed.*

#### Earlier generations received a net lifetime benefit from the welfare state

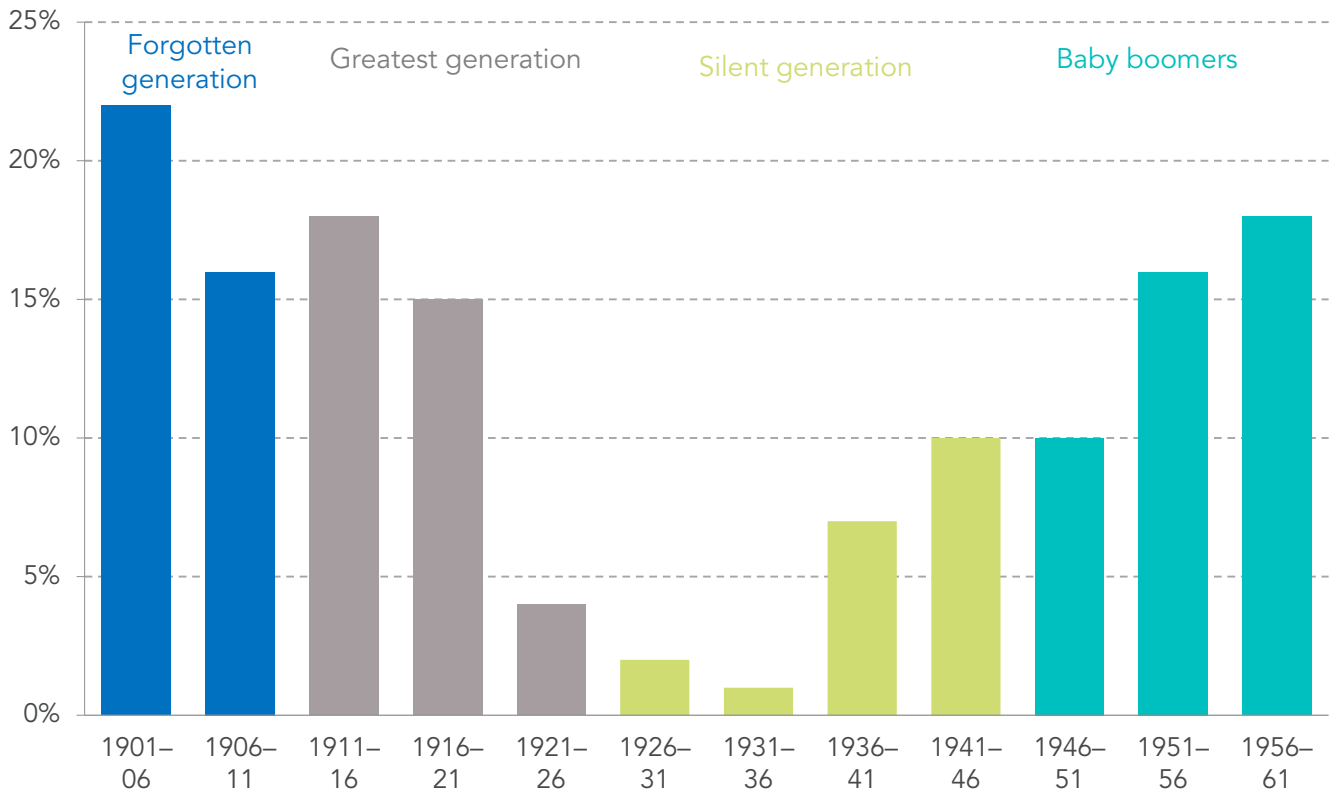
The net impact of the welfare state over a lifetime is a tricky thing to measure. For an initial insight we turn to previous analysis by Professor John Hills which sought to estimate lifetime receipts from, and contributions to, the welfare state for successive cohorts from earlier generations.

The results of this analysis are reproduced in Figure 15, which shows a high net benefit from the welfare state for the large birth cohorts of the forgotten and greatest generations, falling for the much smaller silent generation, and then rising again for the baby boomers (although it should be noted that for the more recent cohorts, these estimates are quite sensitive to the assumptions used and therefore indicative only).



Figure 15: 'Net withdrawals' from the state by five-year cohort: UK, 1901-2051

Proportion more withdrawn from the welfare state than contributed



Source: J Hills, *Inequality and the State*, Oxford University Press, October 2004

In Section 2 we described a situation in which a family or community redistributing resources from prime age people to the young and old can come under strain as a result of uneven cohort size, and it's notable from Figure 15 that this is exactly how the UK welfare state has functioned during the 20<sup>th</sup> century.

### With outcomes the product not just of demographics, but of policy too

Of course these outcomes won't just be determined by demographics. The introduction of the welfare state as we know it at the beginning of the century and the timing of recessions and wars will have played their role. But at the very least we see a correlation between the net benefit generations get from the state and their size, and we might speculate therefore that the smaller generations following the boomers will have a lower net withdrawal than they did. Getting an accurate long-term picture for more recent cohorts will be a task the Intergenerational Commission turns to.

In light of these observations regarding the welfare strains of unevenly-sized generations, it is worth reconsidering the efficacy of the short-term fiscal rules commonly favoured by Chancellors. For example, the Coalition government's 'fiscal mandate' rested upon being on track to achieve a surplus in the cyclically-adjusted current budget by the end of a rolling five-year forecast horizon. More recently, the Conservative government's

'fiscal charter' enshrined into law the principle that governments must target a surplus every year in 'normal' times, although the new Prime Minister has now abandoned this commitment.

The pace, scale and scope of fiscal tightening implied by these rules has been the subject of some debate. But little to no mention has been made of what role they play in upholding the generational account, beyond a simple assumption that reducing public debt now may serve future generations better in the long run. In practice of course, it is not just the level of debt but its composition (particularly in relation to the split between investment and consumption) which matters for future generations. At the very least, the fiscal debates which have defined much of the recent past must become more alive to intergenerational perspectives.

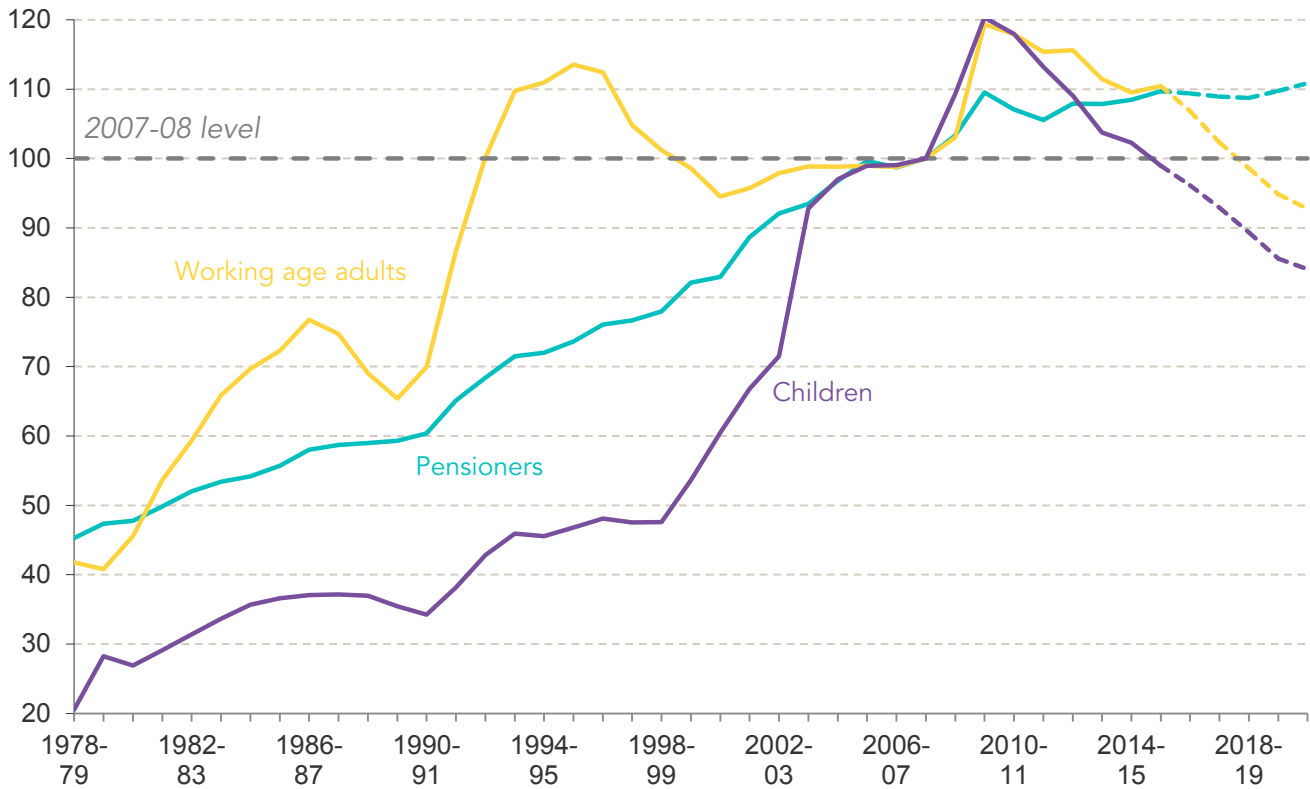
## Current policy is directing extra resources to older groups as a result of a shift in the relative generosity of benefit payments

Drilling down from the comprehensive but dated perspective in Figure 15, we can get a more up-to-date picture on the welfare state's relative treatment of different generations by looking at the value of benefits for different groups.

Figure 16 shows per-person benefit expenditure since 1978 (moving beyond aggregates which are of course affected by population ageing), and forecasts for the remainder of this parliament based on the Office for Budget Responsibility's March 2016 expectations. We see that while there were (cyclically-driven) peaks and troughs, overall working age and pensioner benefits increased in value at roughly the same rate up to the onset of the financial crisis.

Figure 16: Benefit expenditure per head of population: GB, 1978-79-2020-21

Per-head real value of benefits (2007-08=100, RPIJ-adjusted)



Notes: Spend on children includes tax credit expenditure and historic equivalents for families with children; population ages are 0-15 for children; 16-State Pension Age for working-age adults and State Pension Age-plus for pensioners; projections pre-date EU referendum and so precise levels are likely to change in future; however current policy would suggest that the broad shape of the trend continues.

Source: RF analysis using DWP, Benefit expenditure and caseload tables 2016; ONS, Mid-year population estimates; ONS, 2014-based population projections; OBR, Economic & Fiscal Outlook March 2016

However, since 2009 (when inflation temporarily plummeted due to the fall in interest rates, driving the spike in per-head benefit values) there has been a deterioration in the value of working age benefits of nearly 10 per cent, due to freezes and cuts to allowances. Children’s benefits show an even sharper decline. In contrast, the ‘triple lock’ and other protections have upheld the value of pensioner benefits at their 2009 level. In short, the state is allocating more resources to pensioners not just because there are more of them around, but also because of a deliberate increase in relative generosity.

Of course, this analysis doesn’t give a like-for-like comparison of the value of benefits for generations across life stages. But it does suggest that the welfare state is drawing away from younger generations at a time when they are already dealing with stagnant pay and difficulties building up personal wealth.

### With any post-Brexit inflation spike likely to exacerbate that shift

It’s worth highlighting that the estimates in Figure 16 are based on forecasts that didn’t account for leaving the EU. While the impact of this move remains highly uncertain,

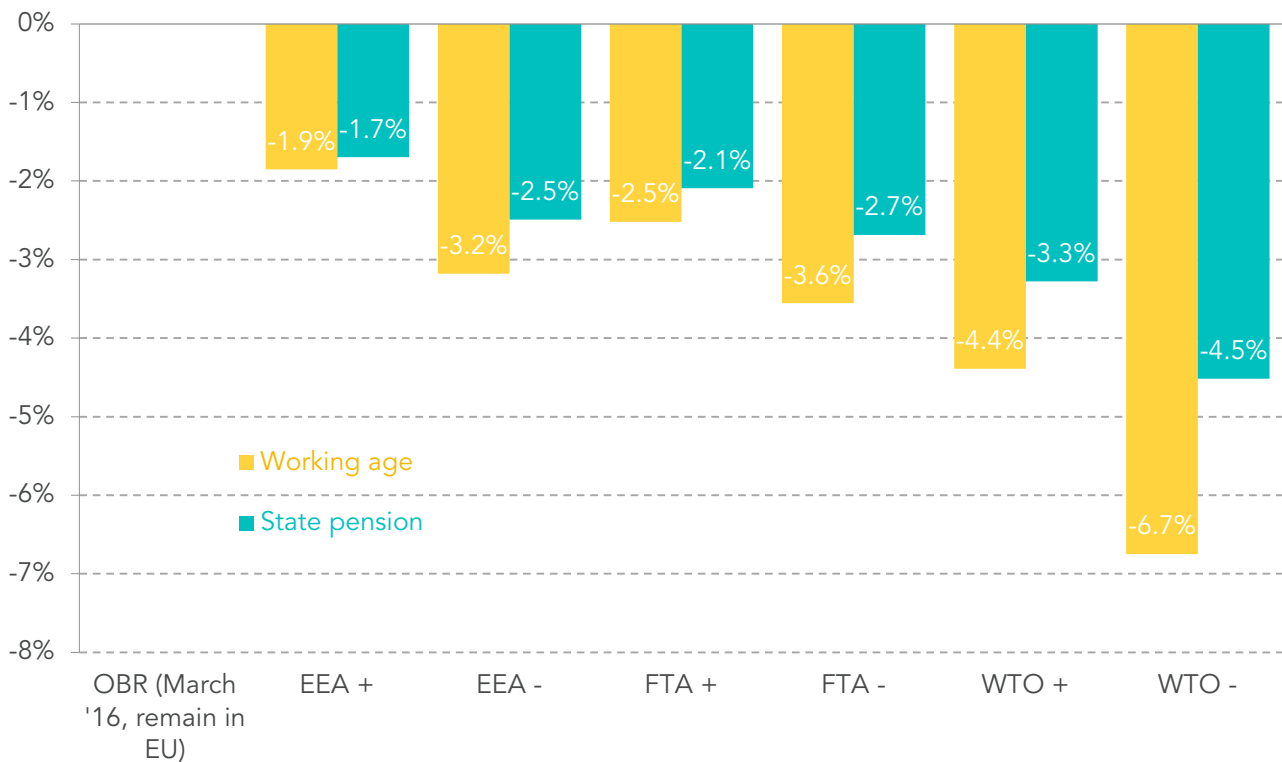
there is reason to suspect that the coming years will make the picture starker still for working age benefit recipients.

With the value of sterling having fallen sharply since 23 June, it appears likely that inflation will spike in the near term. This has the effect of increasing the potency of the four-year nominal freeze applied to working age benefits from 2015-16. Further out, the scale of this impact will depend on the terms of any post-Brexit trade arrangement.

By way of illustration, we consider the effects of inflation on the real value of working age benefits over the coming years with reference to a series of NIESR scenarios.<sup>44</sup> Our estimates suggest that payments could plausibly be reduced by between £1 billion and £3.2 billion between 2015-16 and 2020-21. This means the planned £3.3 billion savings associated with the four-year working age benefit freeze could roughly double to £6.5 billion.

Figure 17: Impact of leaving the EU on the value of benefits, under various post-Brexit trade scenarios: UK, 2020-21

Real reduction in the value of benefits between 2015-16 and 2020-21, relative to March 2016 OBR forecast (CPI-adjusted)



Notes: Scenarios based on inflation and nominal earnings projections in NIESR's assessment of the long-term economic impact of leaving the EU; working age benefits frozen in cash terms between 2015-16 and 2019-20; state pension uprated by nominal earnings (which – in relation to the 'triple lock' – is higher than CPI inflation or 2.5 per cent in each year in all scenarios).

Source: RF analysis of OBR, *Economic and Fiscal Outlook*, March 2016; M Ebell & J Warren, 'The Long-Term Economic Impact of Leaving the EU', *National Institute Economic Review* 236, May 2016

The state pension is also expected to be lower as a result of Brexit than if we had remained in the EU but, as Figure 17 shows, the impact will be lessened by the link to

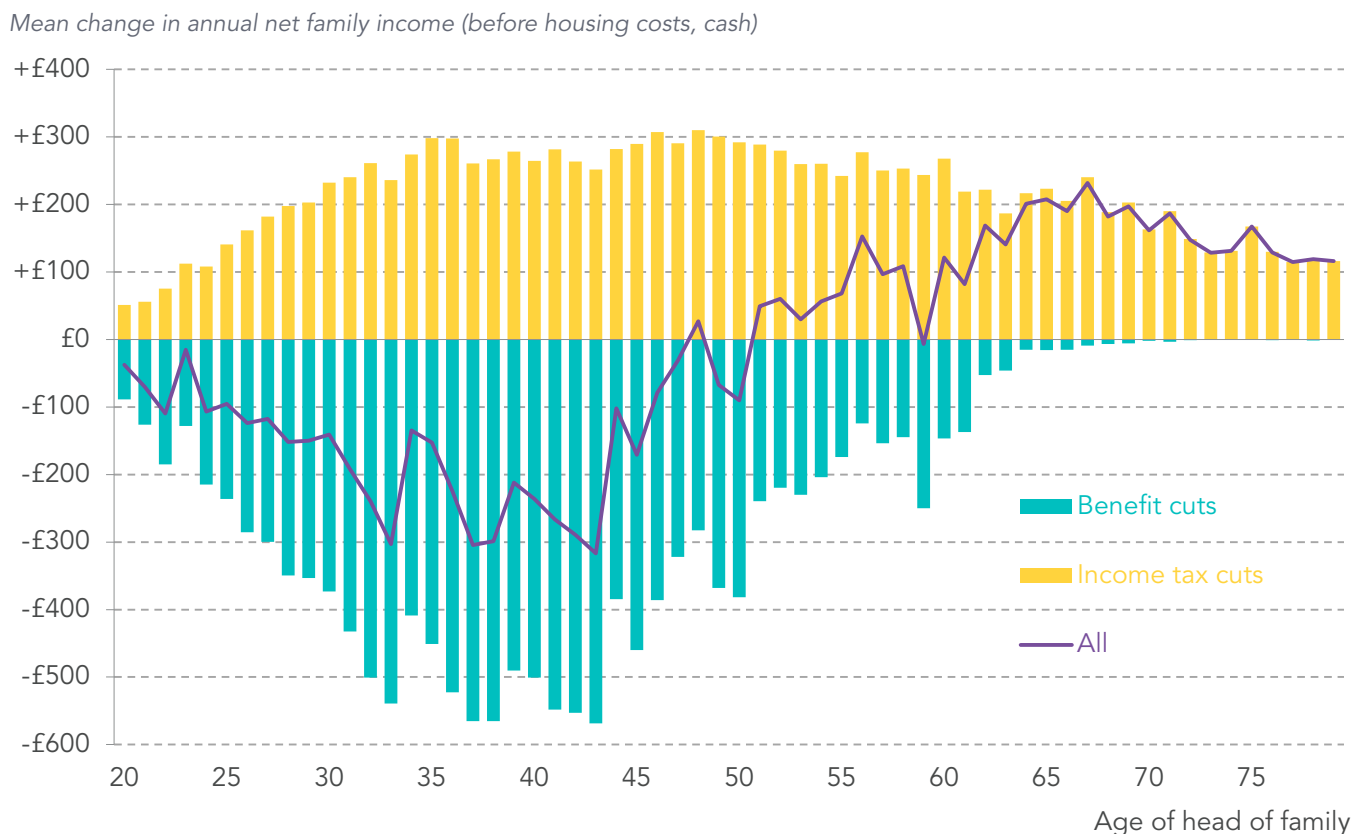
<sup>44</sup> M Ebell & J Warren, 'The Long-Term Economic Impact of Leaving the EU', *National Institute Economic Review* 236, May 2016

nominal earnings provided by the ‘triple lock’. The clear message is therefore that the recent decision to leave the EU is likely to make the divergence in the value of benefits for younger and older people more pronounced still.

### Allied with tax policy, welfare shifts mean discretionary commitments will continue to redistribute from young to old in the coming years

Of course, the redistributive role of the state goes beyond the generosity or otherwise of its welfare payments. How it funds its spending via taxation matters too. We must therefore consider the ‘package’ of measures in place at any time.

Figure 18: Key tax and benefit policy being implemented in this parliament, by age: UK, 2020-21



Notes: Income tax cuts based on 2015 Conservative Manifesto commitments to a £12,500 Personal Tax Allowance and £50,000 Higher Rate Threshold (compared to a scenario in which both rise in line with CPI inflation from their 2016-17 values); benefit cuts include freezes to the value of various working age benefits and cuts to Universal Credit, assuming half the UC population are new or changed claims and half benefit from transitional protection at this point (compared to a scenario in which UC cuts are reversed and benefits rise in line with CPI inflation from their 2016-17 values).

Source: RF analysis based on OBR, *Economic and Fiscal Outlook*, March 2016, using the IPPR tax-benefit model

The new Prime Minister has inherited a set of tax and spending policy commitments (in part a result of the drive to meet the fiscal rules mentioned above) that weigh heavily on certain age groups while benefitting others. As Figure 18 illustrates, the combined effect of planned tax reductions and welfare cuts (assuming a pre-Brexit economic backdrop) through to the end of the parliament is a net takeaway from people in their 30s and a net

giveaway to people aged around 45 and over. In total, these policies entail a £1.7 billion reduction in the incomes of millennials (who will be aged 20-39 in 2020-21) contrasted with a net £1.2 billion increase in the incomes of baby boomers (aged 55-74 in 2020-21).

And of course these direct tax and benefit interventions come on top of shifts in the pattern of spending on public services. Alongside the restrictions placed on overall departmental spending since 2010, there has been a rebalancing of expenditure towards some services and away from others – with clear generational consequences. For example, ahead of this year’s Budget, our assessment was that the share of total government spending directed towards health and older people would reach 42 per cent by 2020, up from 34 per cent in 1997. In contrast, the share of total spending on education and the economy was set to fall from 22 per cent to 19 per cent.<sup>45</sup>

## The failure to more fully consider the generational implications of fiscal policy represents a policymaking blind spot

The policy changes and benefit values discussed above are of course a snapshot. Even if the precise details of existing arrangements alter in the future, future generations should benefit from the higher baseline associated with increased spending on older people today. The total lifetime withdrawal or contribution, as in the presentation in Figure 15, might be expected to balance out.

But tax and welfare policies do not tend to be anything like that durable. And more importantly, in the short-term these changes come on top of the challenges millennials are facing in the labour market and in accumulating wealth, and sit uncomfortably with a Brexit decision that they didn’t support but must now live with for longest. The implication is that the actions of the welfare state are accentuating rather than ameliorating generational imbalances. And whatever we might think of these shifts, the fact that their generational consequences have until now gone largely undiscussed represents a policymaking blind spot.

As with the issues covered in the previous two sections, the existence of important generational effects within the welfare state – while requiring further investigation – points to the need to reconsider the social contract that currently exists between the generations. That’s what we turn to in the next section.

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<sup>45</sup> Unpublished update to A Corlett, D Finch & M Whittaker, *Shape shifting: the changing role of the state during fiscal consolidation*, Resolution Foundation, first published November 2015

## Section 6

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### A new intergenerational contract

*In the previous sections we introduced current intergenerational debates; arrived at a definition of generations partly rooted in demographic patterns; and presented evidence for the worsening outlook for more recent generations in the labour market, in their household wealth, and in interactions with the welfare state. In this final section, we briefly consider the prospects for improving things from a generational perspective, and conclude by setting out the scope of the solutions that the Intergenerational Commission will work towards.*

#### A problem that needs solving?

Before turning to the possibility of progress, we must acknowledge that not everyone is convinced that the challenge we have set out so far is a real one. The intergenerational debate has its doubters, and the counterarguments warrant serious consideration.

In rejecting intergenerational debates, some point to the dazzling consumer gains that young people in the UK today benefit from: even millennials on modest incomes have smartphones that a boomer could only have dreamed of at the same age. In the same vein, the naysayers hail the opportunities for global dialogue and entertainment that technology and globalisation have brought. And they highlight progress in equality and opportunity for groups including women, gay people and ethnic minorities – millennials are freer and more equal than any generation before them.<sup>46</sup>

There is no doubt that equalities, freedoms, and the wheels of modern capitalism have continued their upward march (which should continue for future generations as well), and that as a global community we feel more connected. But given our focus on living standards it is the argument around consumption gains that is the most pertinent.

Essentially, the suggestion is that the way we measure new goods and services undervalues their utility, and so people have more than we think they do. We will explore the evidence for this in more detail in future. At this point we think there is a reasonable chance that even if there are some ‘unmeasured’ consumption gains that make life better for more recent generations than metrics like real earnings would suggest, these are insufficient to ‘fix’ the living standards challenge overall. Millennials may have smartphones, iPads and go on holiday more than their parents did, but the ‘big ticket’ items like houses and jobs with secure career paths remain out of reach for too many.

A second counterargument rests on the idea that the averages we have focused on so far mask a range of experiences. While at the aggregate the baby boomers now entering retirement appear to be doing rather well, there are a large number of retired households for whom life is a struggle. Around 1.6 million pensioners are poor on relative low income

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<sup>46</sup> J Ganesh, ‘The millennials do not know how lucky they are’, *Financial Times*, 18 March 2016

measures, and one quarter do not own their own home and so haven't benefitted from the huge asset gains that other boomers did.<sup>47</sup> Focusing on intergenerational concerns obscures this challenge.

With pensioner poverty nonetheless having plummeted relative to working age poverty and pensioner incomes now above those of working age households,<sup>48</sup> we don't think this argument destroys the intergenerational case. It does, however, highlight the importance of the *intra*-generational analysis that we have signalled for future work. And it reminds us that any efforts to redress the balance between generations should be accompanied by a focus on those with the lowest living standards within them.

Finally, in the face of the perceived intergenerational challenge, some would counter that growth will always make us all substantially richer in the long run, and that this will outweigh any temporary living standards woes due to the downturn or the timing of asset price increases.

While rising prosperity should of course be expected over a long time horizon, there is enough concern around about the prospects for the pace of global growth that we shouldn't assume it will deliver sufficiently and quickly enough to wipe out the challenges we have presented.<sup>49</sup> In addition, even strong growth doesn't negate the question of how it is shared. Nor does it automatically solve structural problems such as the housing shortage that appear to be driving some of the divergence in outcomes.

## A solvable problem?

Having argued that the current challenge is real and won't necessarily solve itself, the next question is whether there's anything we can do? A common response is that there isn't, because this is fundamentally about the interests of one group in society pitted against the interest of another, and the power lies with the older generations who are content with things as they stand. This aligns with the arguments we presented in Section 2 – big cohorts such as the baby boomers have democratic weight, especially when they are older and more likely to vote.

However, we don't think this zero-sum, 'generational war' approach fits with reality or accurately reflects how people view their place in their family and society. We have said that the social contract is above all an intergenerational contract, and it's accepted that older generations want the best for their own children and grandchildren, just as younger generations want the best for their grandparents.

Crucially this intergenerational concern extends beyond the family to society as a whole. Qualitative studies have demonstrated this by asking people to imagine they run a forestry business, and to consider three arguments for not cutting down trees in a woodland this year. First, so that the local community can then enjoy the woodland. Second, because if you keep it for the future you can make even more profit for your company in the long run. And finally, because they only reason the woodland is there is

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47 Department for Work and Pensions, *Households below average income: An analysis of the income distribution 1994/95 to 2014/15*, June 2016

48 When measured on an after housing costs basis. See: P Johnson, *Pension policy – where have we been, where are we going?*, Institute for Fiscal Studies, October 2015

49 For example, surrounding the publication of R Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War*, Princeton University Press, January 2016

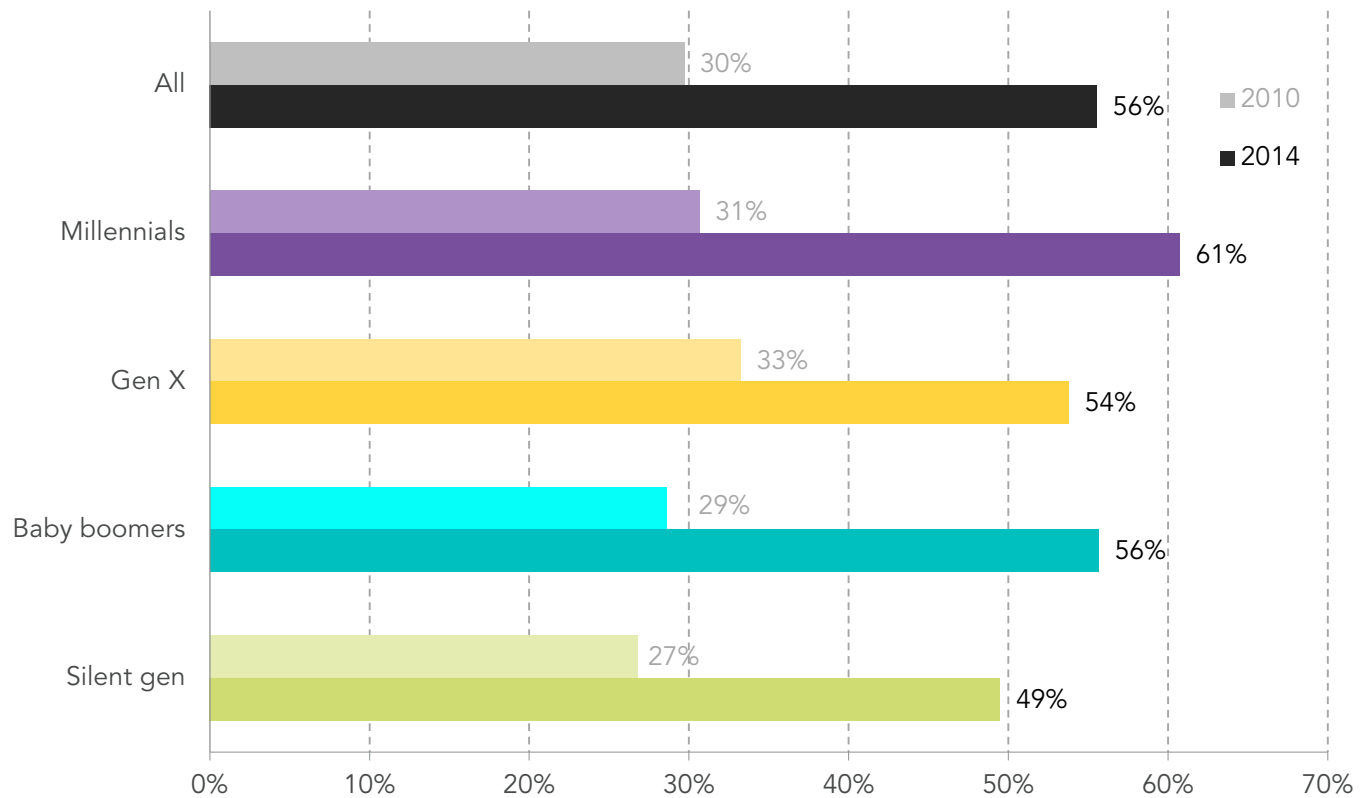


because previous generations have refrained from cutting the trees down, and you must not cut the trees down so that future generations can enjoy it. The third argument turns out to be the most powerful of the three.<sup>50</sup>

And even if generations have a natural inclination towards self-interest in some areas, attitudes can shift. Nowhere is this clearer than in the recent softening of attitudes towards local house building. Between 2010 and 2014, the proportion of people saying they would support more house building in their local area has jumped from just 30 per cent to a majority of 56 per cent. As Figure 19 shows, this shift has been just as large for the baby boomers (who generally own their homes and therefore might lose out from an increase in local housing supply) as it has for millennials (who generally don't own).

Figure 19: Changing attitudes towards local housebuilding by generation: UK, 2010 and 2014

Proportion saying they would support more homes being built in their local area



Source: RF analysis of NatCen, British Social Attitudes

The suggestion is that as the challenge of intergenerational divergence becomes more visible, society as a whole realises its duty to tackle it.

Of course, this doesn't mean there are no barriers to progress. In many cases, members of each generation will naturally favour protecting their own interests. This may be exacerbated by actual physical and cultural divides: there is evidence that society

50 D Willetts, *The Pinch: How the baby boomers took their children's future – and why they should give it back*, Atlantic, 2010

is less integrated across the generations than it was in the past or than it is in other European countries.<sup>51</sup> In addition, lower voter turnout among younger generations can serve to inflate the political challenge and give a sense of a lack of engagement to other generations.

If we are to create the conditions for change, part of the solution has to be to think deeply about issues of integration and political engagement, as well as better understanding the attitudes of generations towards one another. Alongside an in-depth understanding of current living standards problems and the long-term challenges they signal, we think that this can lead to a much more powerful narrative than ‘generational war’ being established as a basis for change.

## The institutions for change

If change is both necessary and possible, then how can we think about making a difference? There are numerous actors and organisations that have an impact on living standards outcomes in different periods and at different life stages. In general, though, and as we have seen in the discussion in the preceding sections, there are three big players:

- **The state:** in its central function of determining the fiscal landscape, collecting taxes and providing welfare support (as was discussed in Section 5); and in its wider role providing public services including education, health and social care.
- **Markets:** in terms of the broad developments in how markets function (such as the structural labour market developments discussed in Section 3 or consumption patterns mentioned earlier in this section), and in terms of how firms within markets interact with their staff (for example, via the pension arrangements we discussed in Section 4).
- **Families:** in terms of family members’ role supporting one another over the life course (for example, the wealth transfers within the family that we discussed in Section 4).

As we have seen, changes in the way these institutions operate can quite significantly alter the experience of each generation relative to those who came before and will come after. We plan to structure the work of the Commission around their respective roles over the life course in order to come to a comprehensive understanding of how the intergenerational contract can be renewed.

## Working towards a new intergenerational contract

The groundswell of public discourse and a body of evidence are aligning around a need to focus on the intergenerational challenge facing society in the UK. Hot-topics including the nature of the long-overdue earnings recovery, how we tackle the housing crisis and whether we can bridge some of the divisions laid bare by the recent EU referendum all point in this direction.

What’s essential is a comprehensive understanding of the problem not just in the here-and-now but as it is likely to develop into the future, along with creative ideas

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51 Social Integration Commission, *How integrated is modern Britain?*, 2015; D Willetts, *The Pinch: How the baby boomers took their children’s future – and why they should give it back*, Atlantic, 2010

about how society can tackle it. And crucially, we need to work towards positive ways for achieving these ends that abandon the generational war narrative and instead offer a renewal of the intergenerational contract that underpins our society.

These will be the tasks of the Intergenerational Commission hosted by the Resolution Foundation over the next 18 months. We will delve deeply into the UK evidence; engage with a wide range of individuals and institutions; and learn lessons from other countries and disciplines to come to a comprehensive understanding of the challenge and the way forward. At the end of this process, the final report of the Intergenerational Commission will deliver a set of recommendations that both address the imbalances that have taken hold between existing generations to put today's children and young adults on a surer footing, and that ensure that intergenerational concerns sit at the heart of decision making processes and civil discourse in the longer term.

*The Resolution Foundation has convened an Intergenerational Commission to explore the questions of intergenerational fairness that are currently rising up the agenda. In order to improve understanding of these issues, the Foundation has brought together leaders from business, academia and policy-making to devise a means of repairing the social contract between generations.*

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