

# THE PINCH

*How the baby boomers took their children's future – and why they should give it back*



DAVID WILLETTS

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took their children's future –  
and why they should  
give it back*

David Willetts

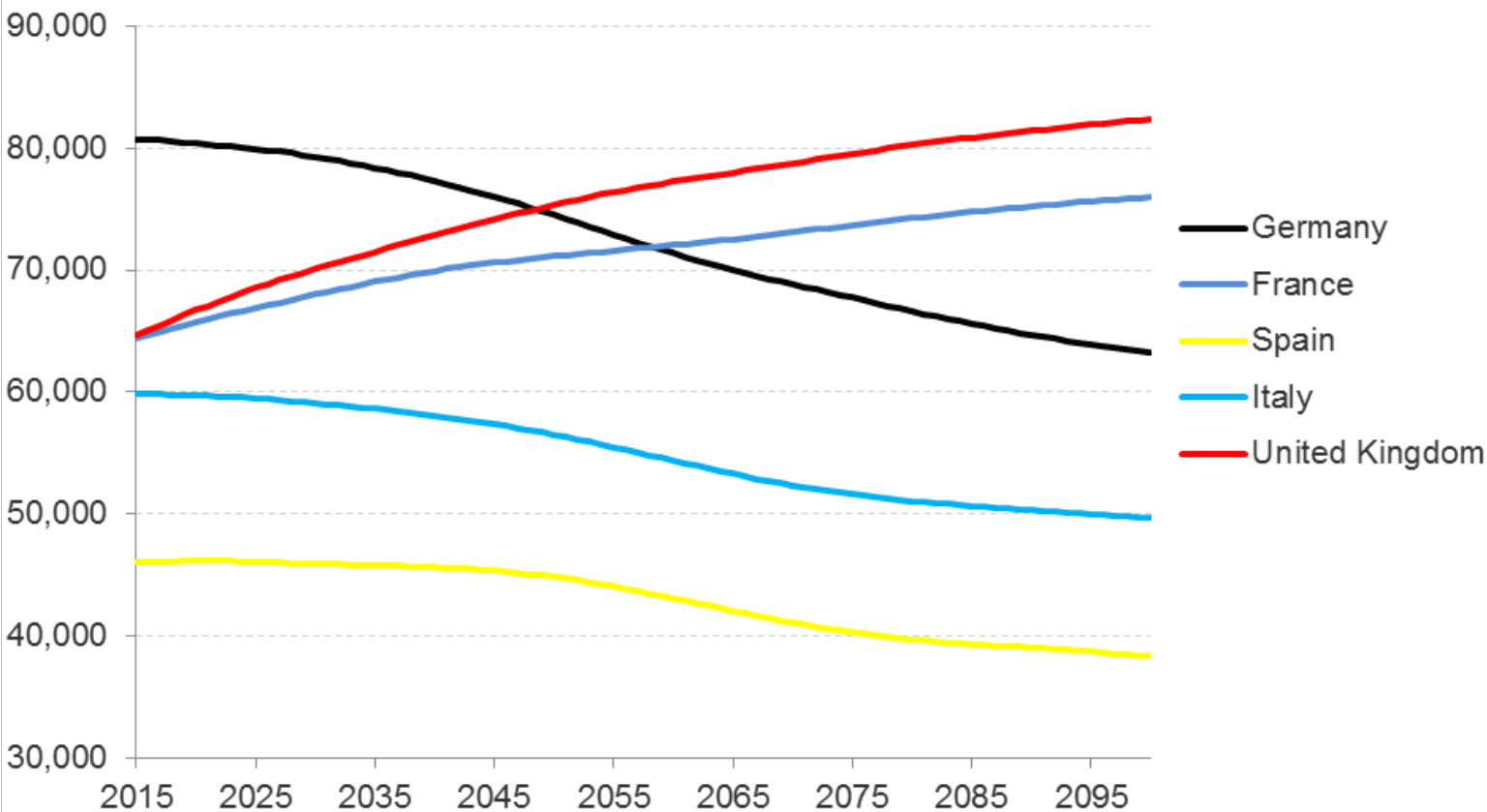
Keele University  
December 2015

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# The UK is expected to become the largest country in the EU by the middle of this century

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*Total population estimates by country, annually for 2015-2100 (thousands), medium fertility variant*

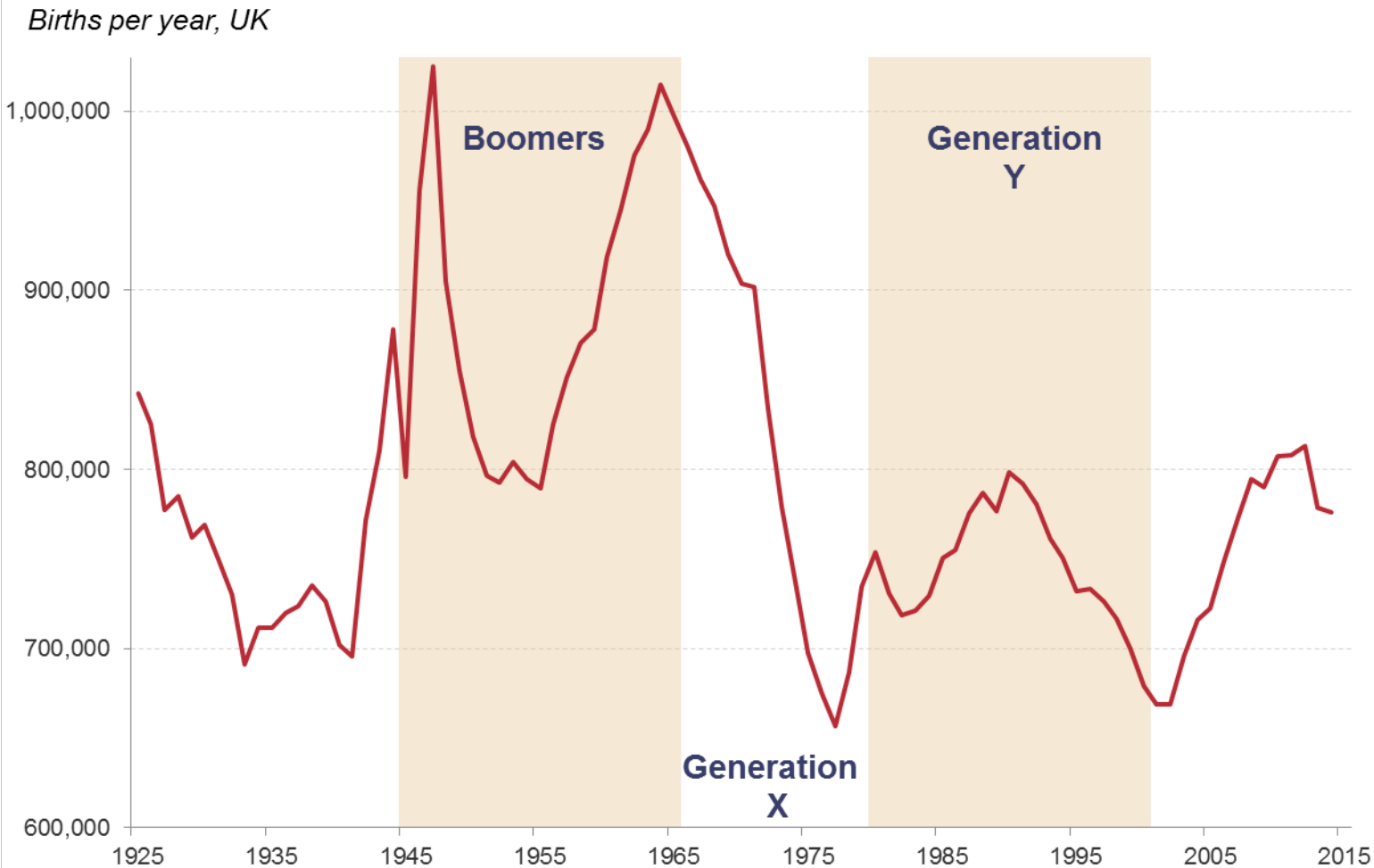


Source: UN, World Population Prospects

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# Over the last century, Britain has gone through baby boom and bust

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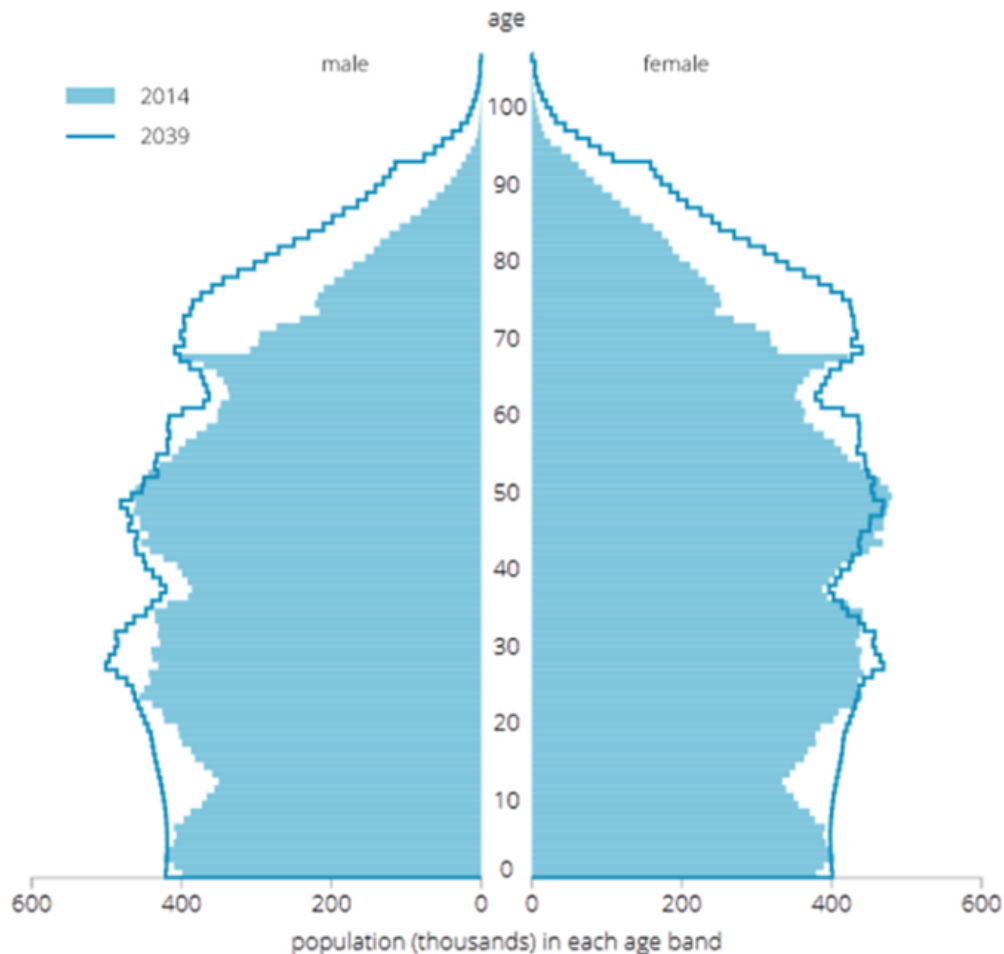
Definitions of generations vary

But the period of births/year topping 800,000 (or even 1m) post-war was clearly exceptional

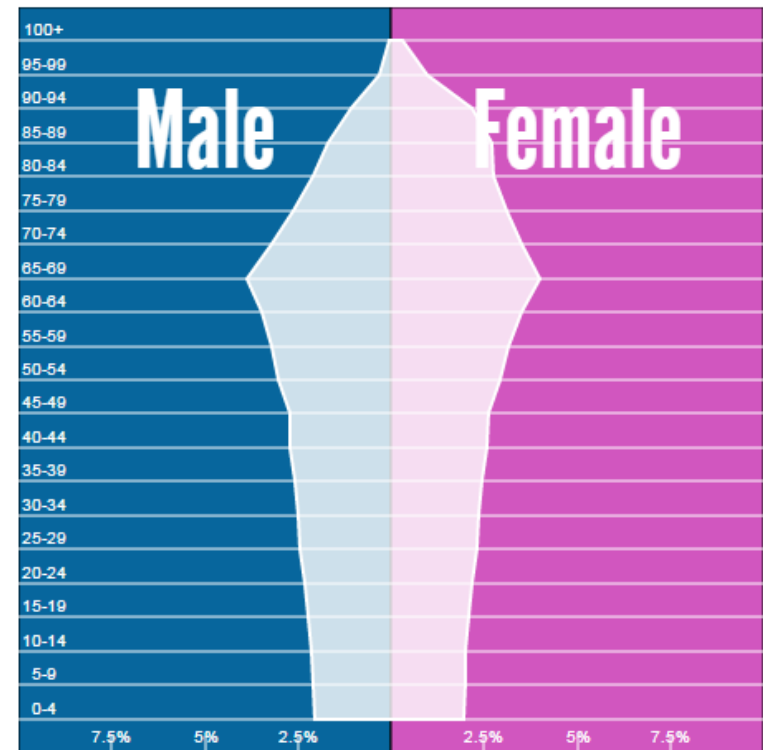
# A greater demographic strain is set to emerge, though the UK remains better placed than others

RF

Figure 1: Age structure of UK population, mid-2014 and mid-2039



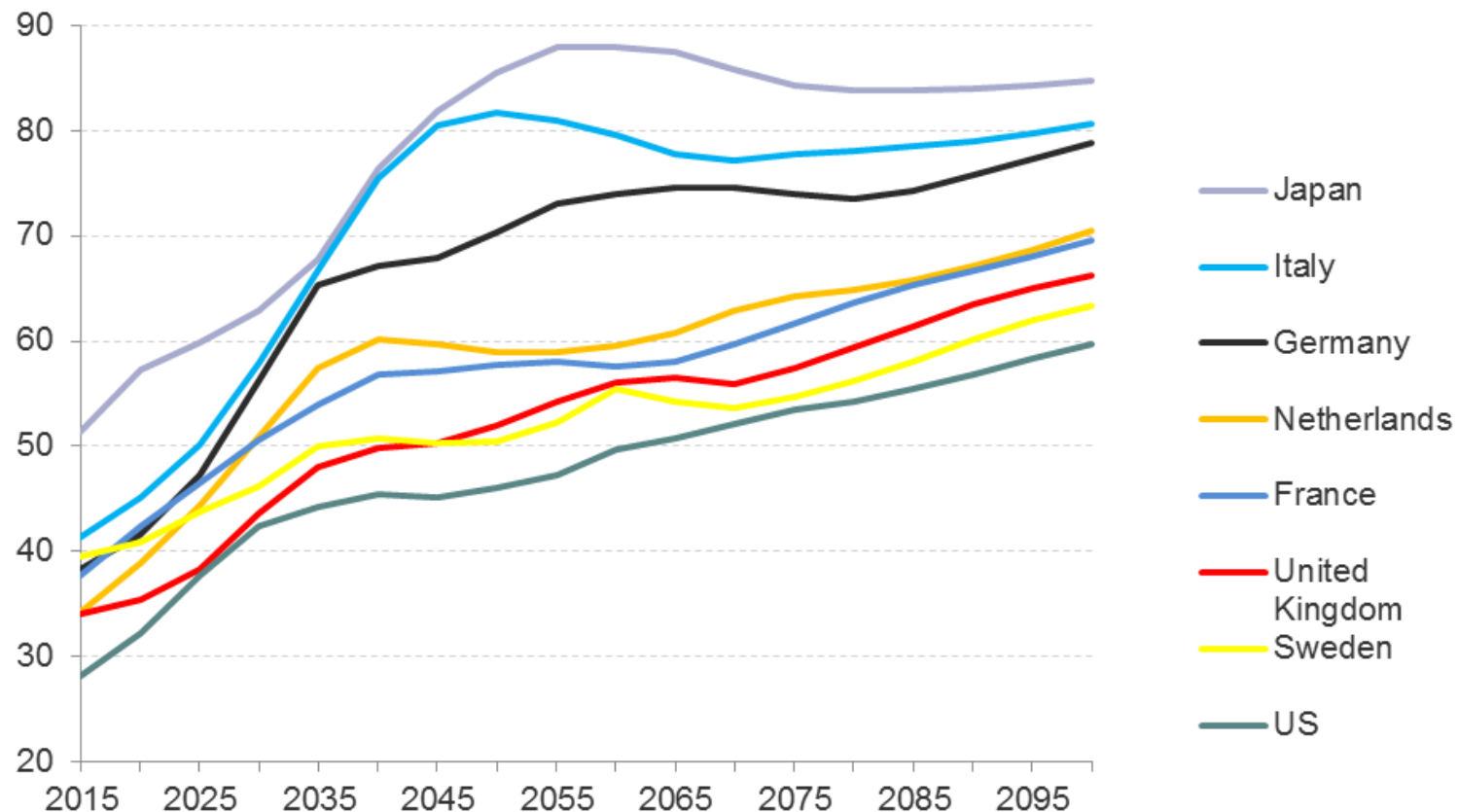
## Japan 2040



# The ratio of older people to those of 'prime age' set to rise but less dramatically than elsewhere

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*Old-age dependency ratio (ratio of population 65+ per 100 population 25-64)*



Source: UN, World Population Prospects

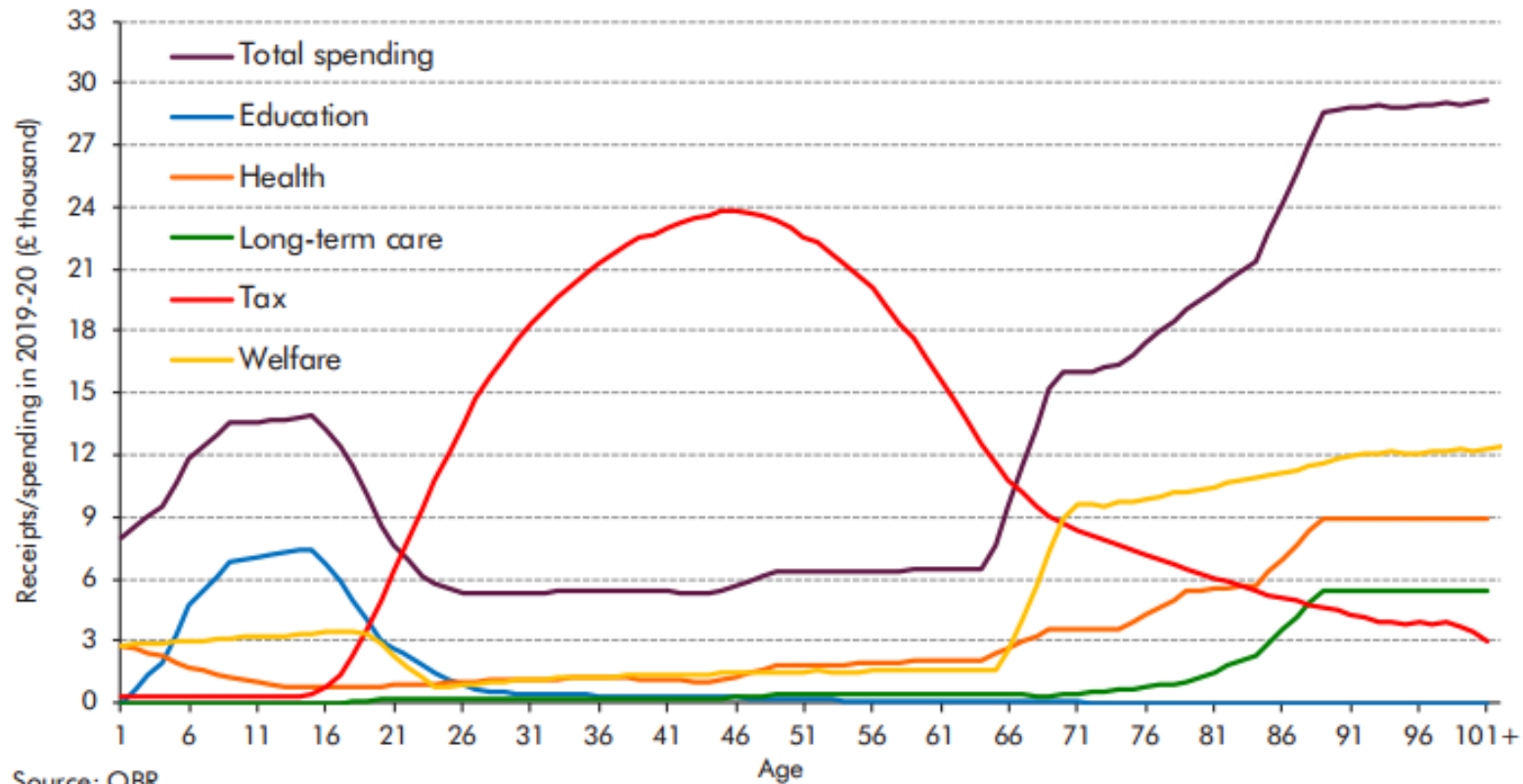
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# THE WELFARE STATE

# We pay in and take out at different parts of our lives

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## Representative profiles for tax, public services and welfare spending



Source: OBR

## But baby booms can break the contract



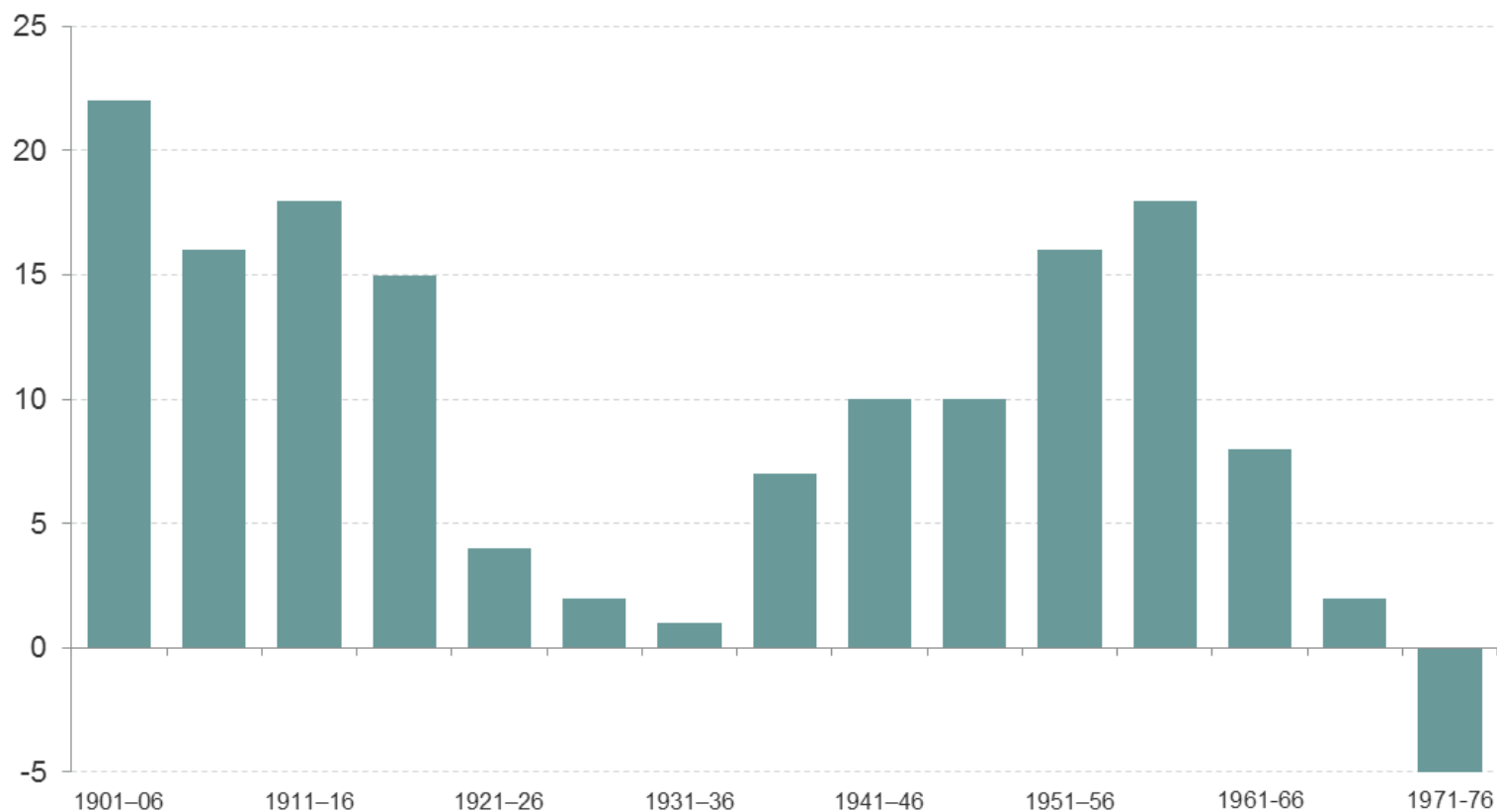
- **“Giving goods to an older person is figuratively giving goods to yourself when old.”**  
(Paul Samuelson, 1958)
- Balancing the budget across the economic cycle with stable public spending commitments benefits the baby boom



# As a result, some generations have received much more from the welfare state than they put in

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*Percentage more withdrawn from the welfare state than contributed by cohort*



Source: J Hills, 'Distribution and redistribution',  
Inequality and the state, 2004.

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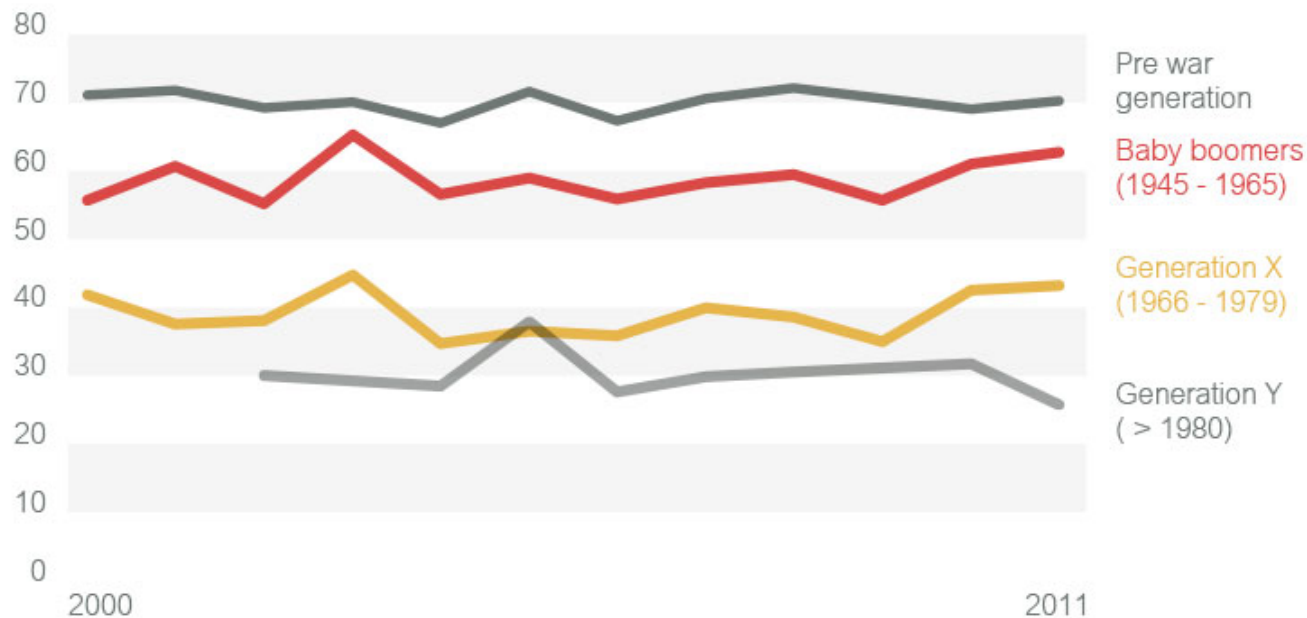
# This may be reflected in the generational divide in views on the welfare state

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## Pride in the welfare state

*The creation of the welfare state is one of Britain's proudest achievements*

% agree



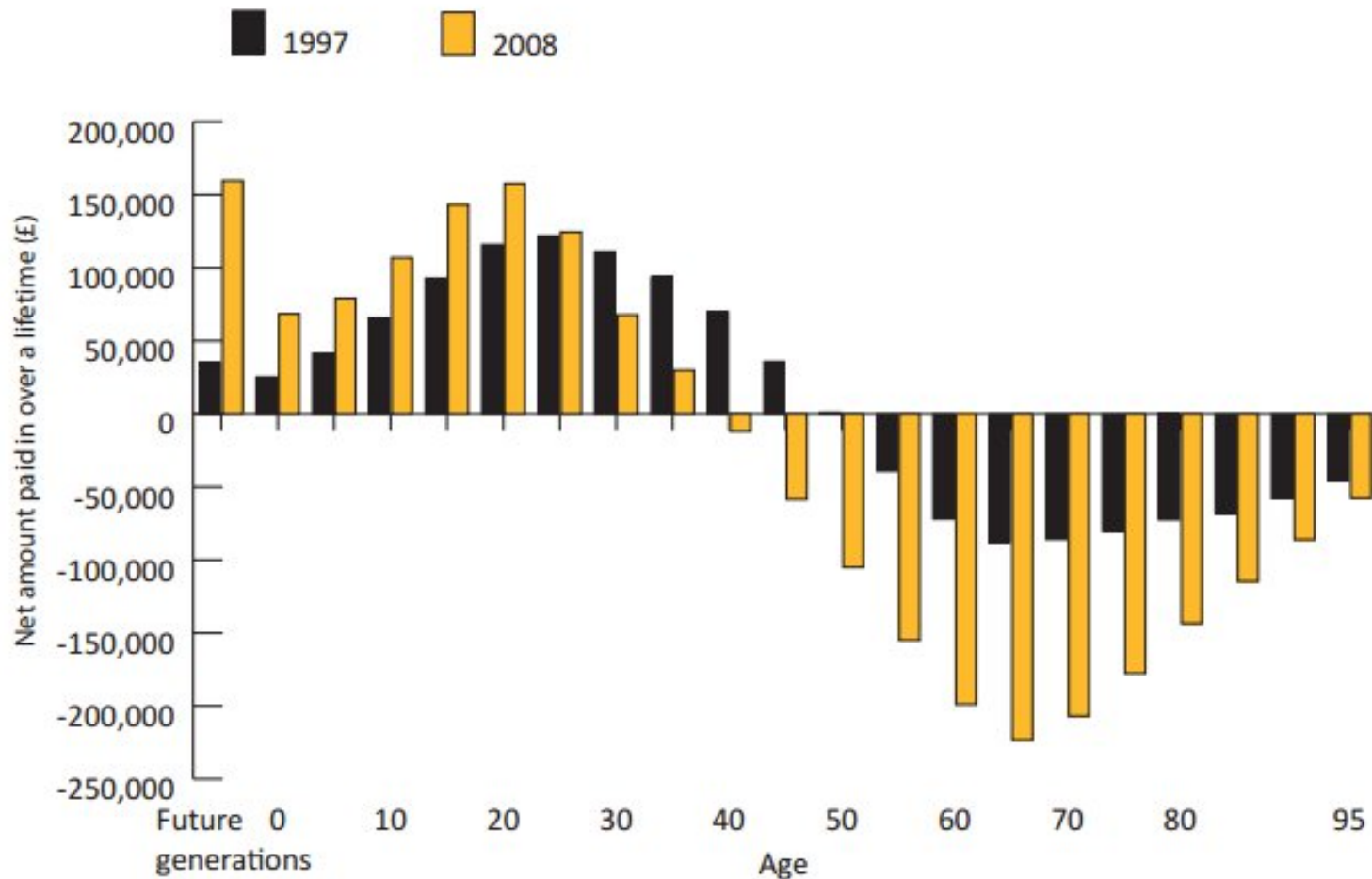
Source: Ipsos MORI reanalysis of British Social Attitudes data

Older generations, including the baby boomers, have a much more positive outlook on the creation of the welfare state than Generations X and Y

## And the burden on younger generations appears to have grown over time

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Figure 9: Generational accounting from two academic papers



The difference between the 1997 and 2008 calculations may suggest that changes over the intervening decade have turned even those who were previously expected to be in surplus into a burden on future generations

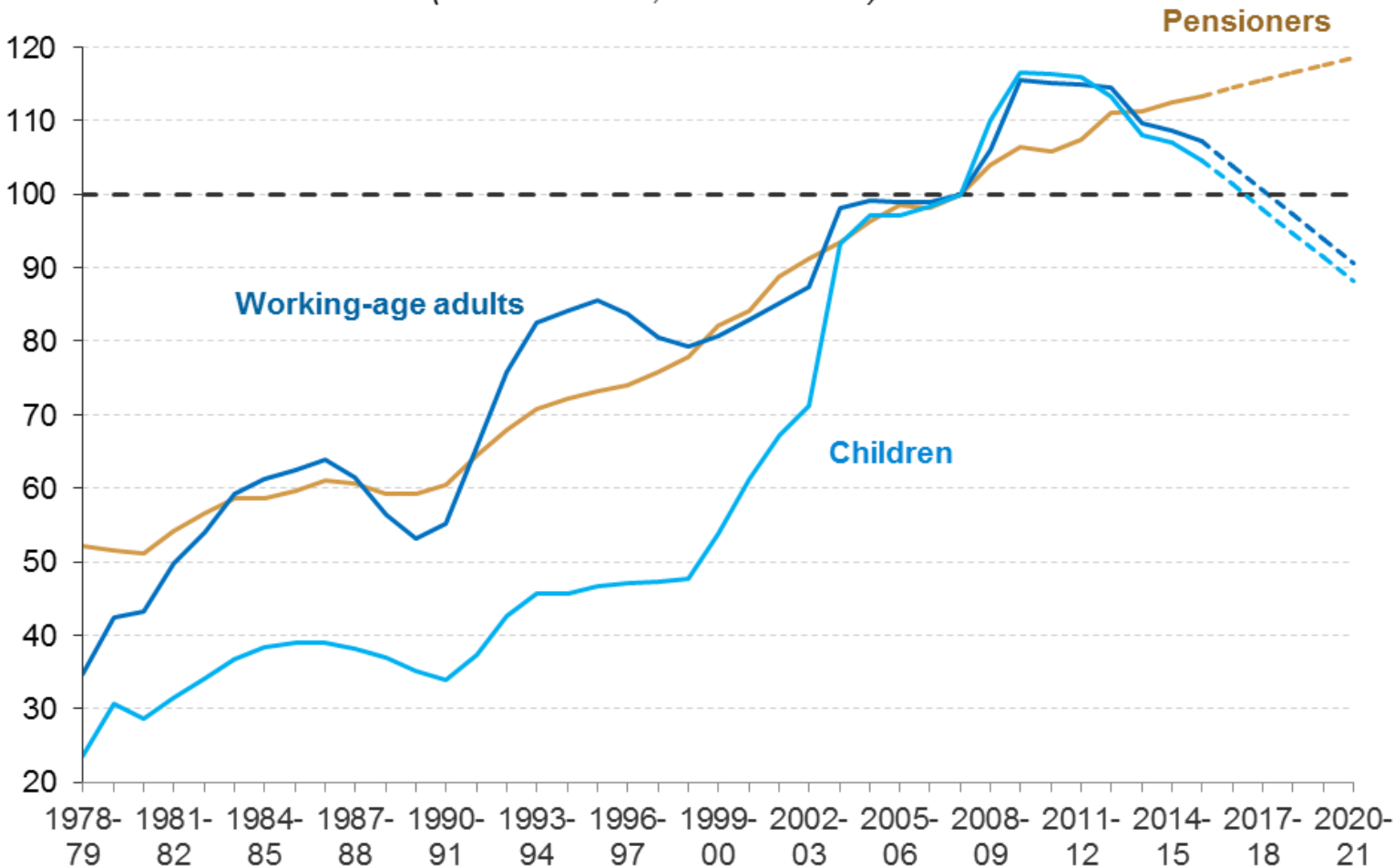
Source: T Papworth and A Corlett, 'Intergenerational fairness: What is it? Does it matter?' 2014.

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# Pensioner benefits have been protected (and then some) while others' benefits have been cut

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*Per-head value of benefits (2007-08=100, GDP deflator)*



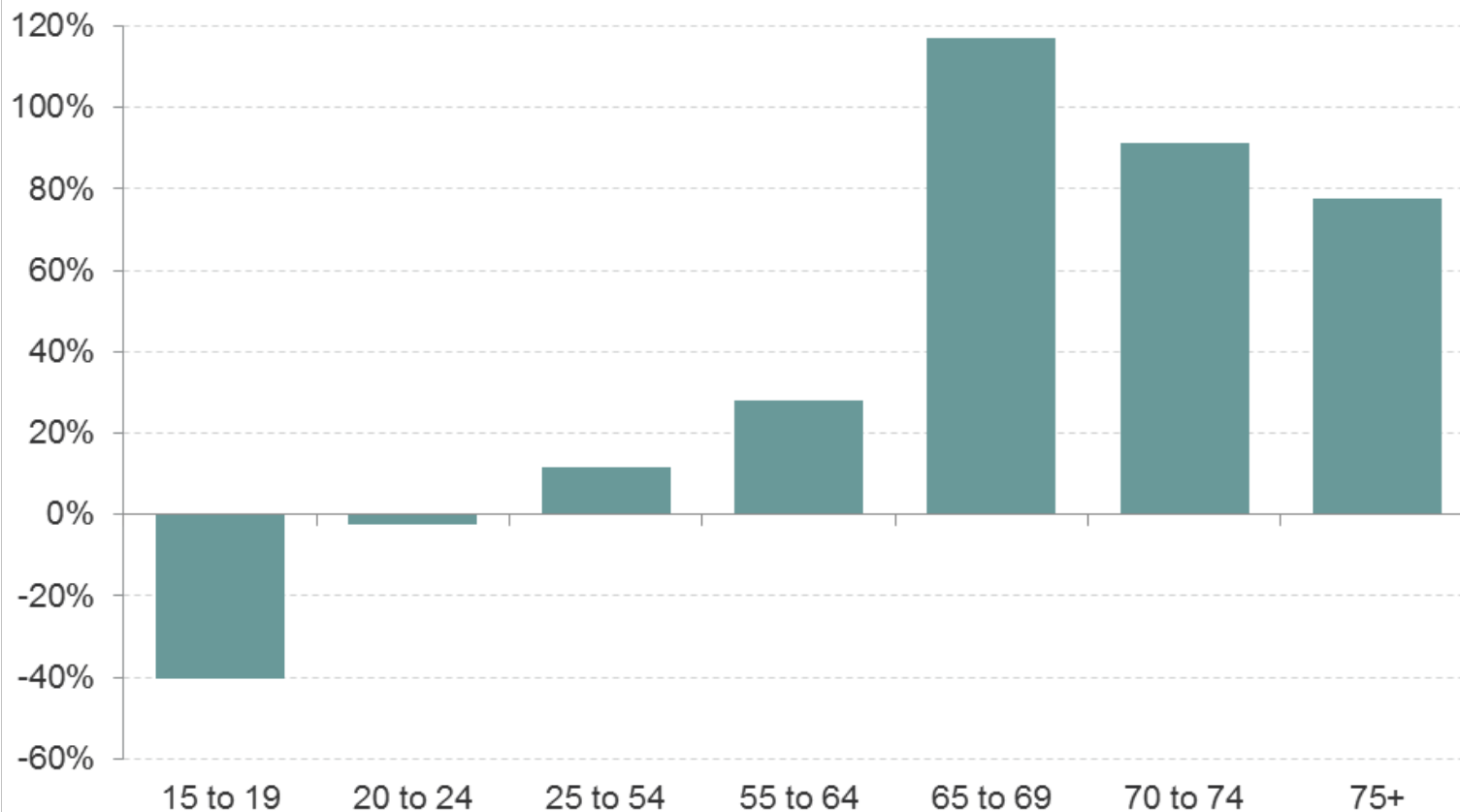
The pension triple lock already costs £6bn pa more than a straight earnings link

# THE LABOUR MARKET

# Employment of older workers has reached a record high and of under 25s a record low

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*Total percentage change in employment rate within age group, 1984-2014*



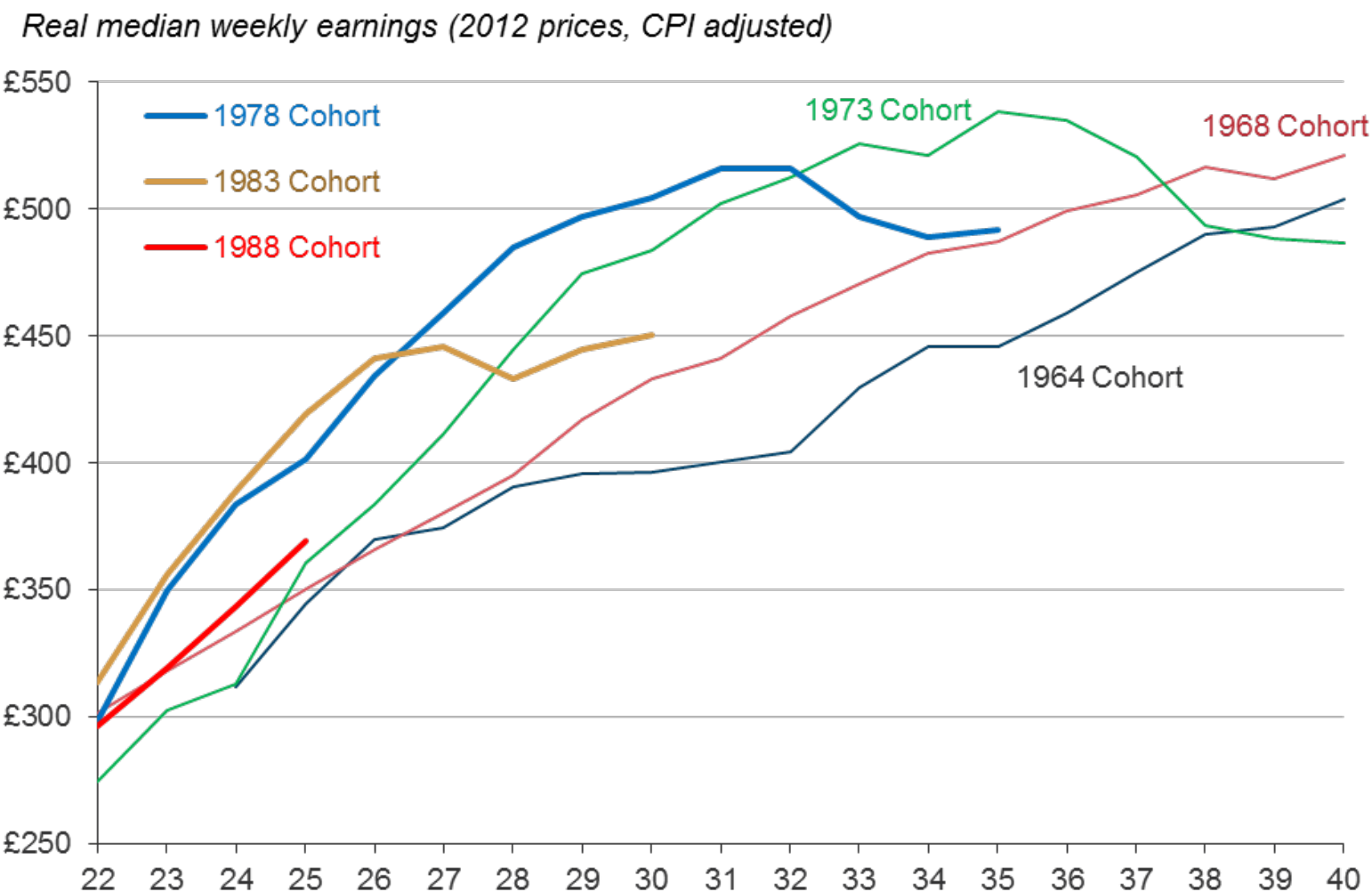
Much of the fall for the young is a positive trend, with education continuing for longer

# Recent cohorts are earning significantly less than they might have expected

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Successive cohorts tend to earn more than their predecessors – but that hasn't applied for those currently in their 20s

Members of the 1988 cohort are earning around £50pw less on average than those who entered the workplace 10 years earlier



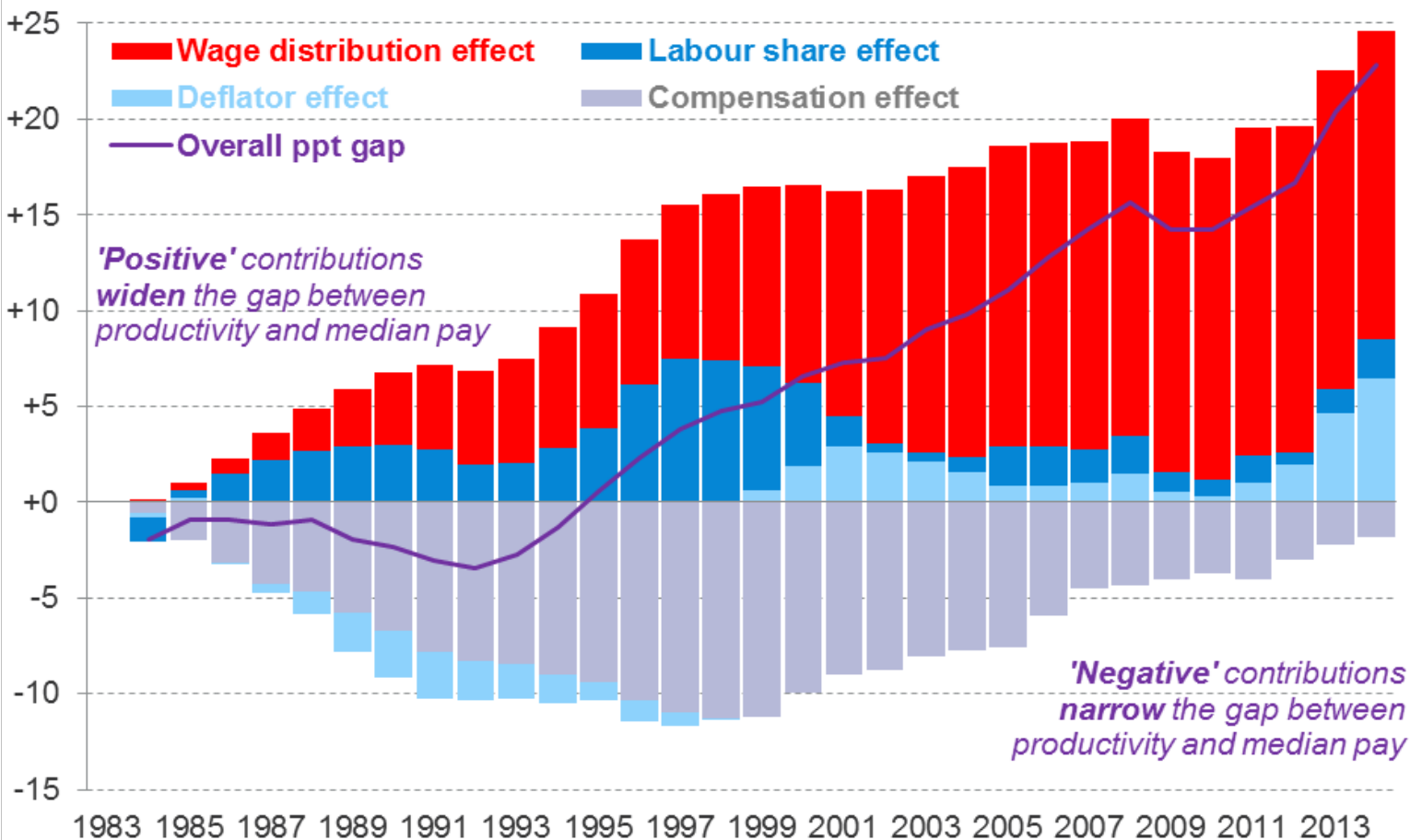
Source: P. Gregg in *Securing A Pay Rise*

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# And the DB pension scheme deficits of yesterday's workers are weighing on the wages of today's

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Contributions to **cumulative percentage point gap** between indices of productivity (GVA deflator) and median pay (RPIJ deflator) - 4-year averages



Taking the period since 1983, a 23ppt gap has opened up between productivity and median pay

The distribution of pay accounts for around 70% of this 'wedge'

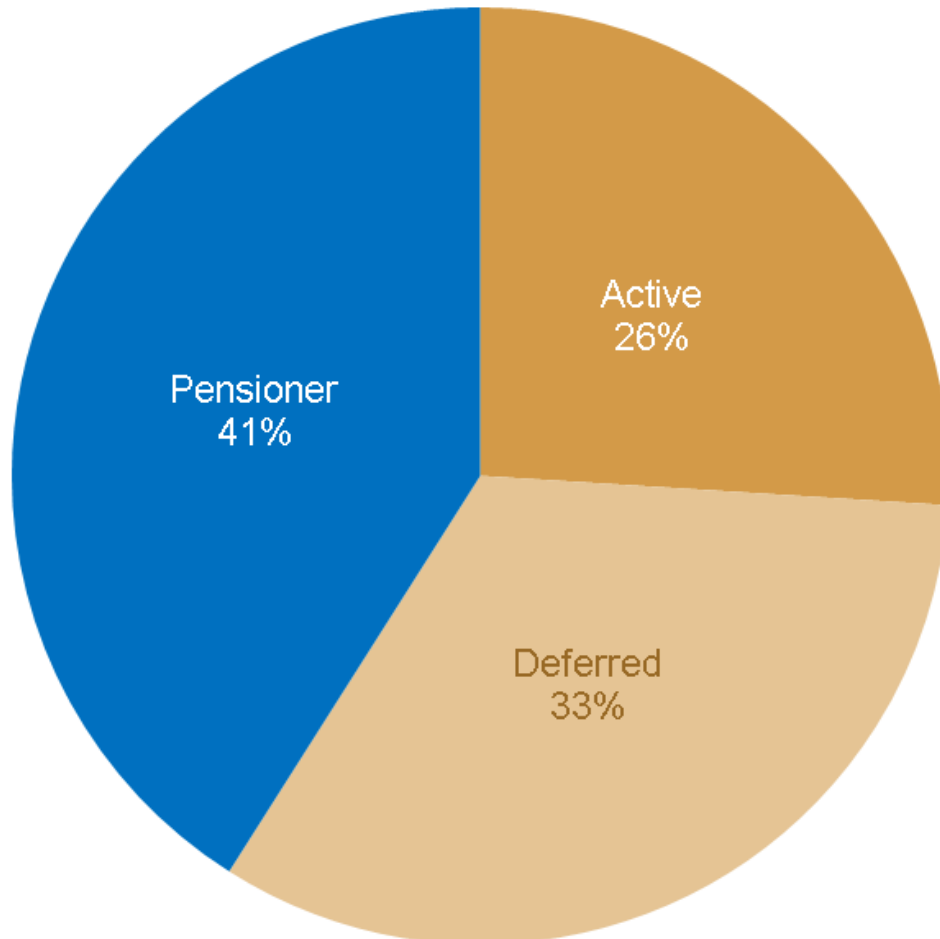
Means wage disappointment since 2002 is only a little over half due to productivity stagnation



# Only 26 per cent of the liabilities of defined benefit relate to currently employed workers



*s 179 liabilities by active, deferred and pensioner members*



Work by Brian Bell shows that a significant share of the 'non-wage compensation' of employees actually relates to employer pension contributions designed to plug the gap in closed DB schemes

While many of those classified as deferred may still be in employment in other firms, the potential burden on wages is not spread evenly across employers and industries

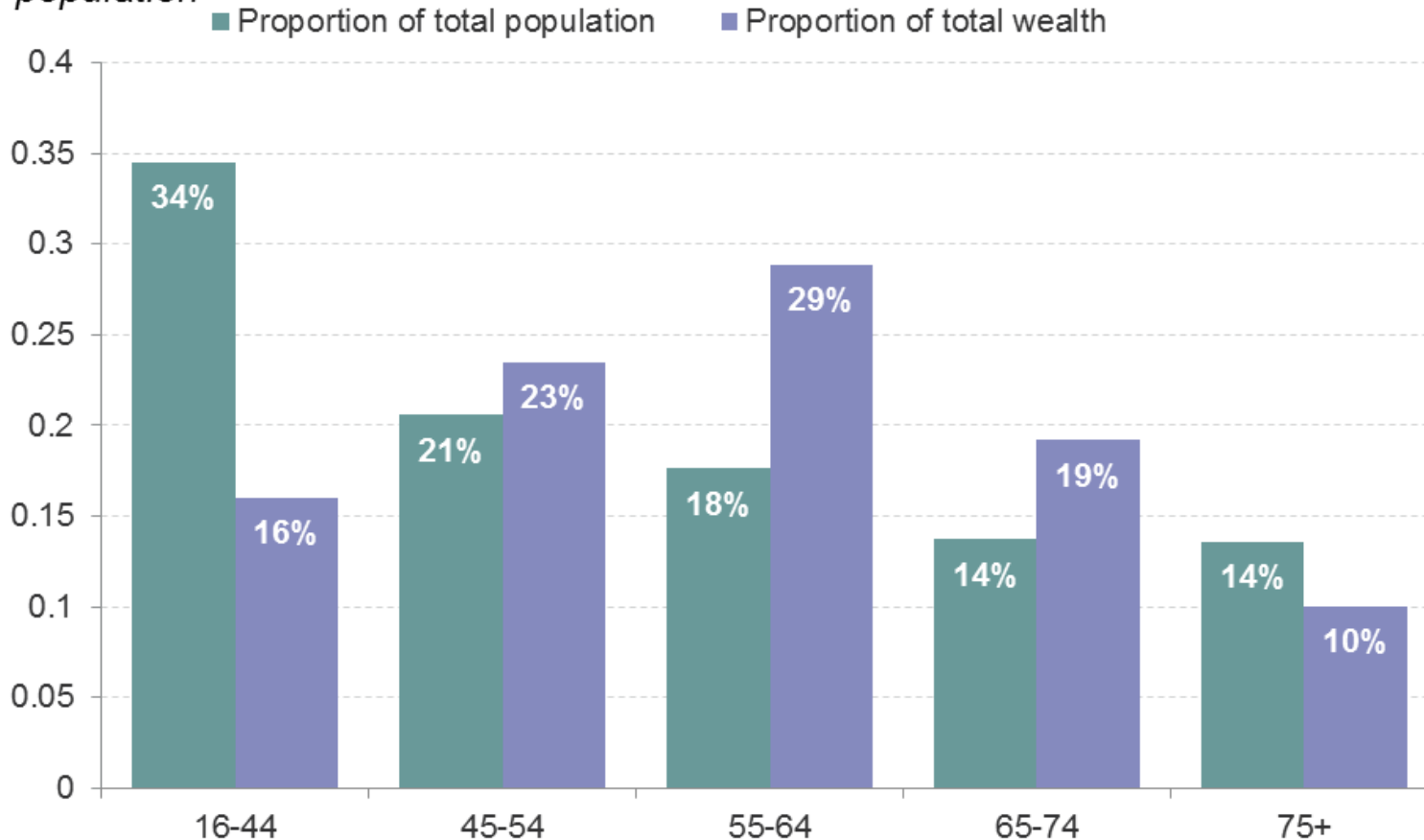
# WEALTH

# Who owns our £9.4 trillion of wealth?

## Disproportionately those aged 55-64

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*Distribution of total household wealth by age group versus share of population*



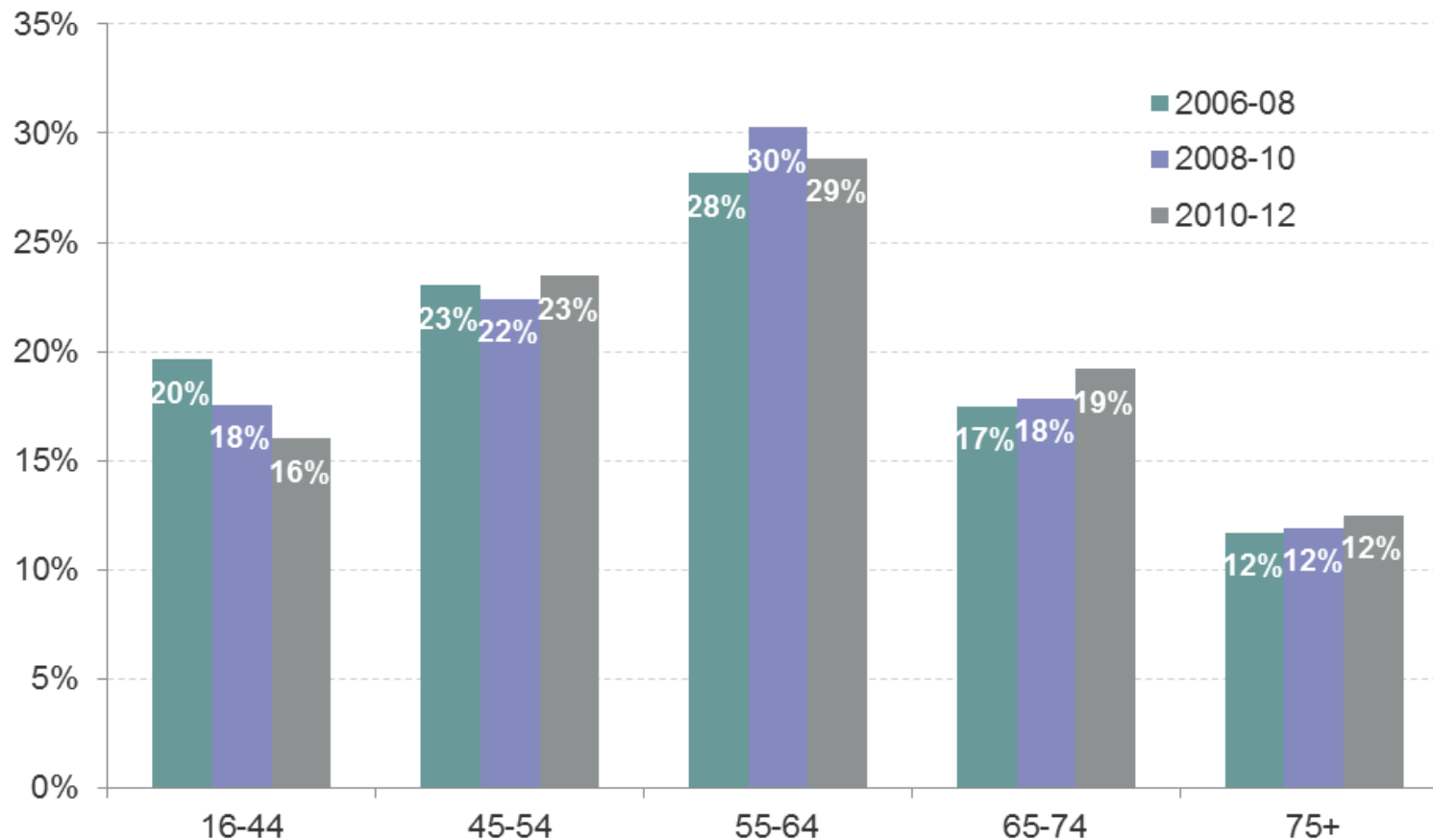
Includes:

- Liquid financial assets
- Owner-occupied housing
- Buy to let and physical assets
- Pensions

# Younger households' slice of the wealth pie has shrunk since the beginning of the crisis

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*Share of household wealth by age of household reference person*

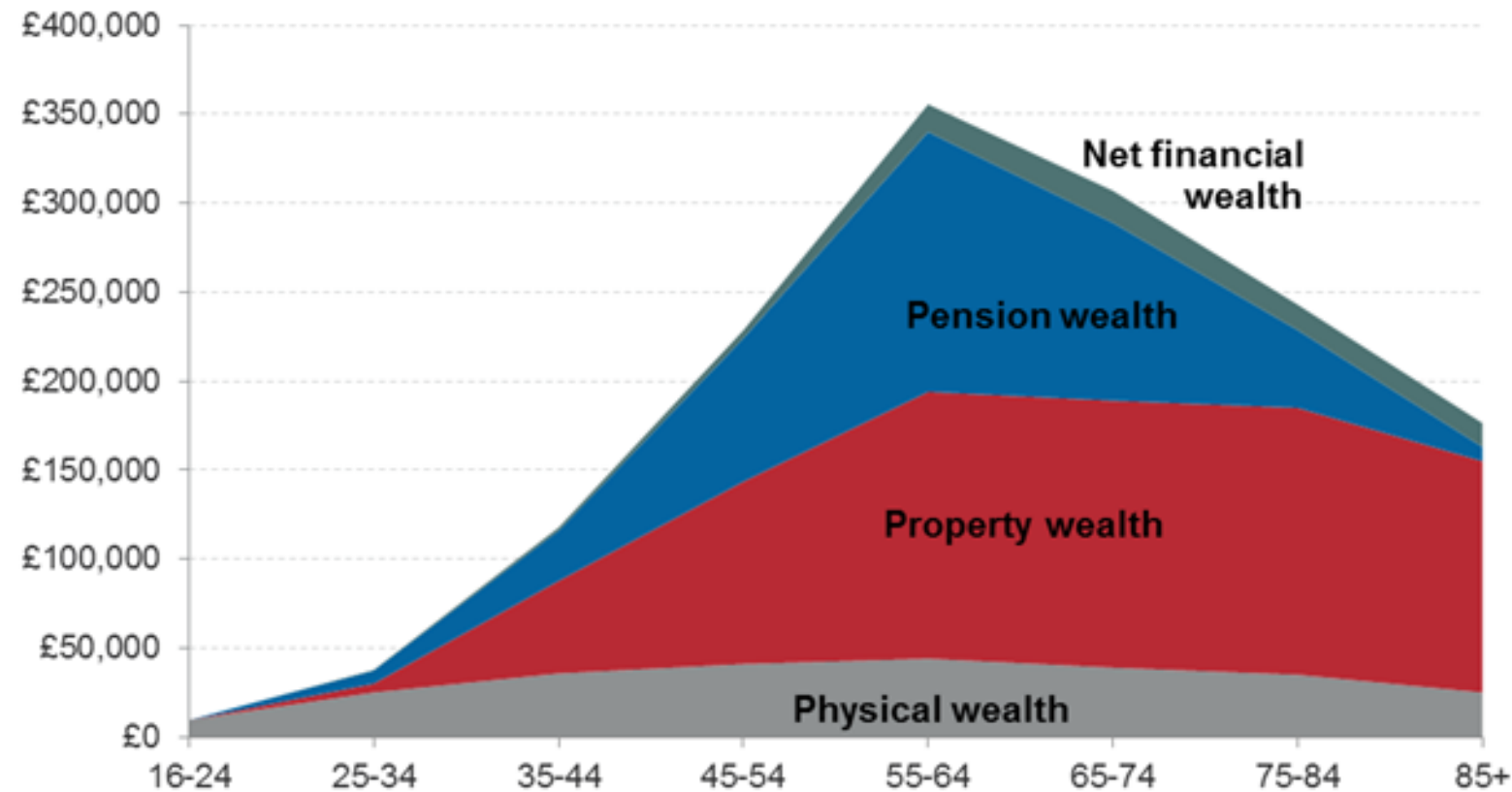


Since the recession, households aged under 45 now hold less wealth than those aged 65-74, despite there being 2.5 times as many of them

# Property and pension wealth form the majority of older households' wealth

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*Median household wealth by age (median for each wealth type)*

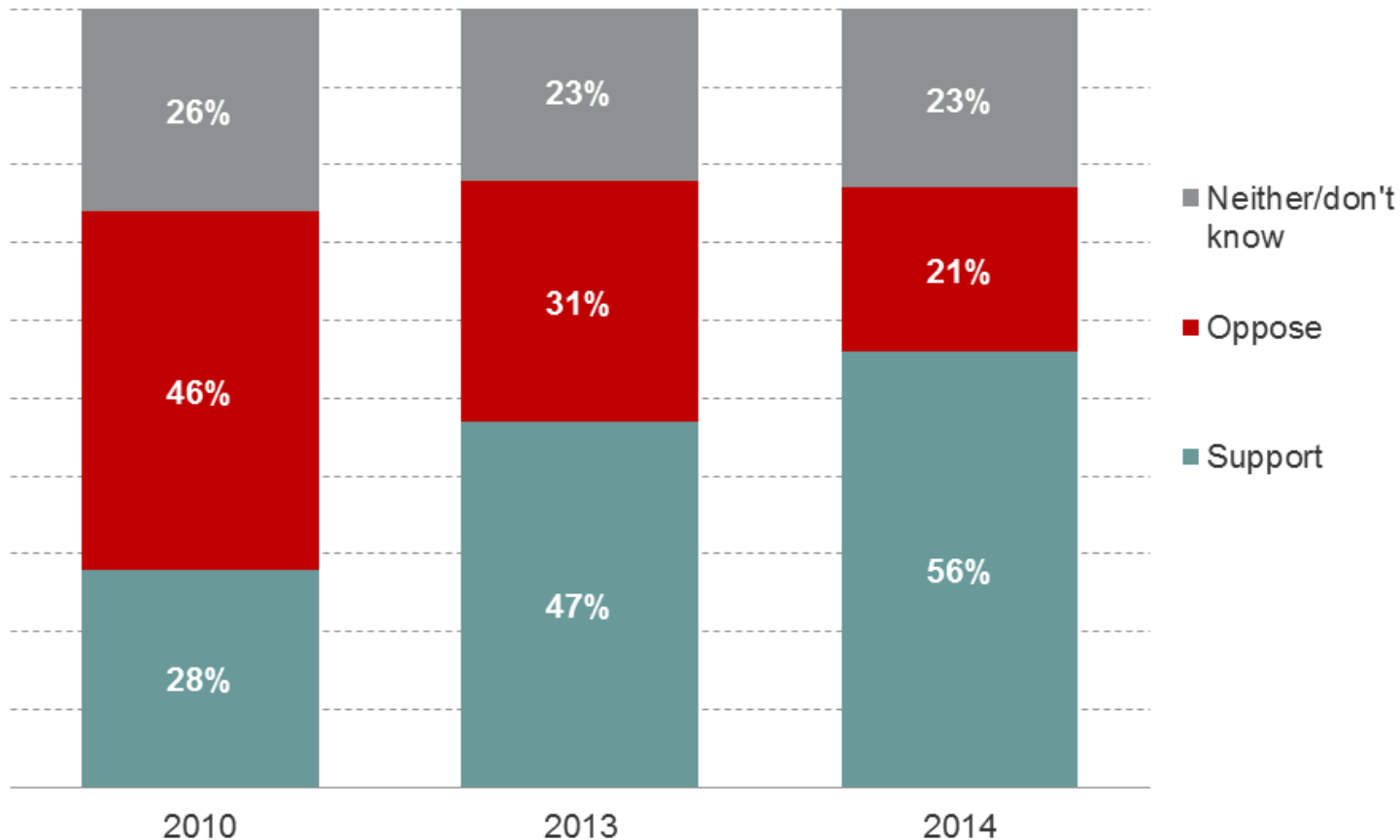


Today's less generous pension schemes raise questions around whether this will continue to be the pattern with younger cohorts

## Though opposition to house-building has softened in recent years

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Would you support or oppose more homes being built in your local area?



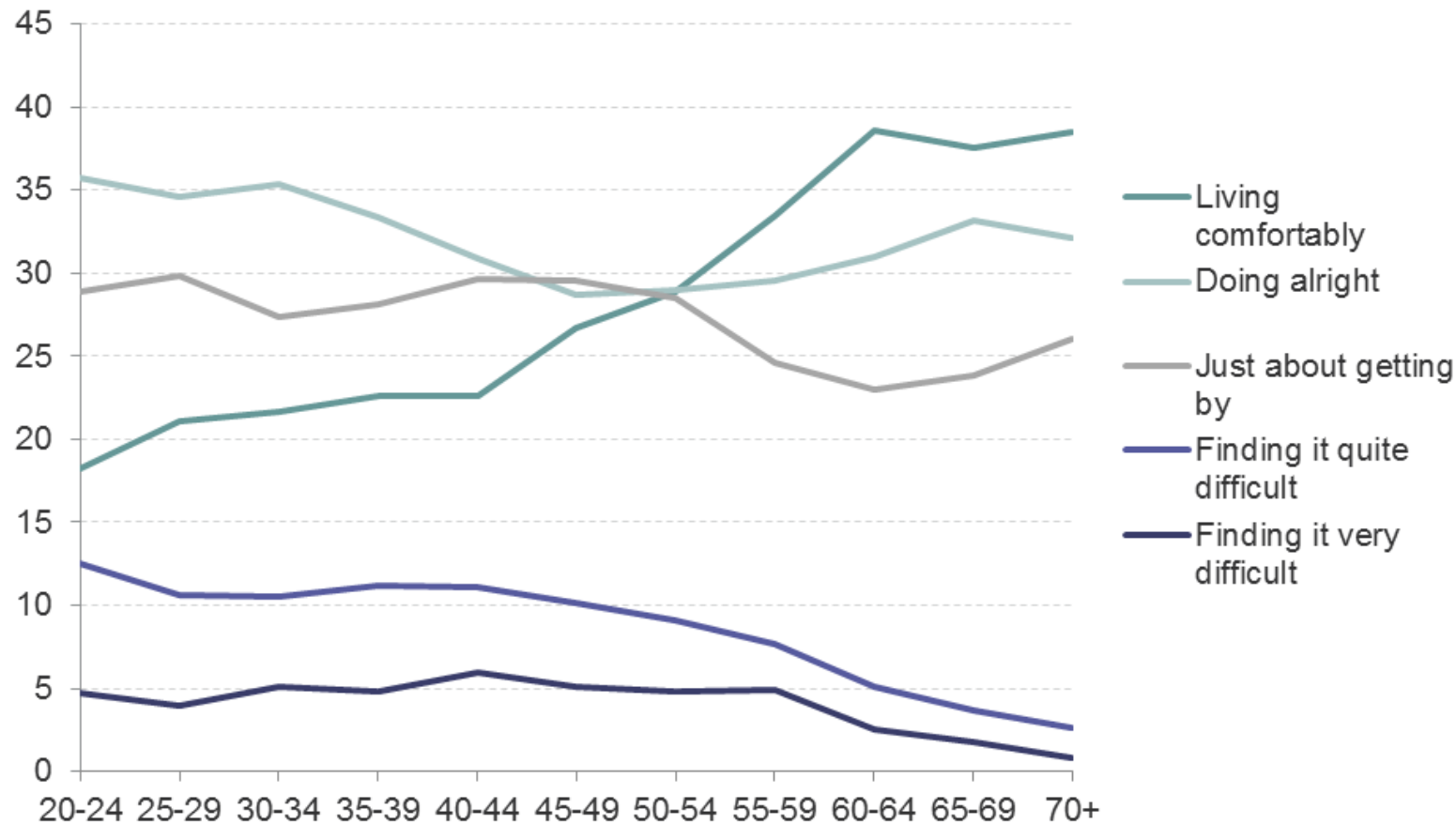
Source: British Social Attitudes Survey 2014

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## Nonetheless, younger people are more likely to report having financial difficulties

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*Self-reported financial situation by age group*



Source: Understanding Society

## Why do the boomers own so much?

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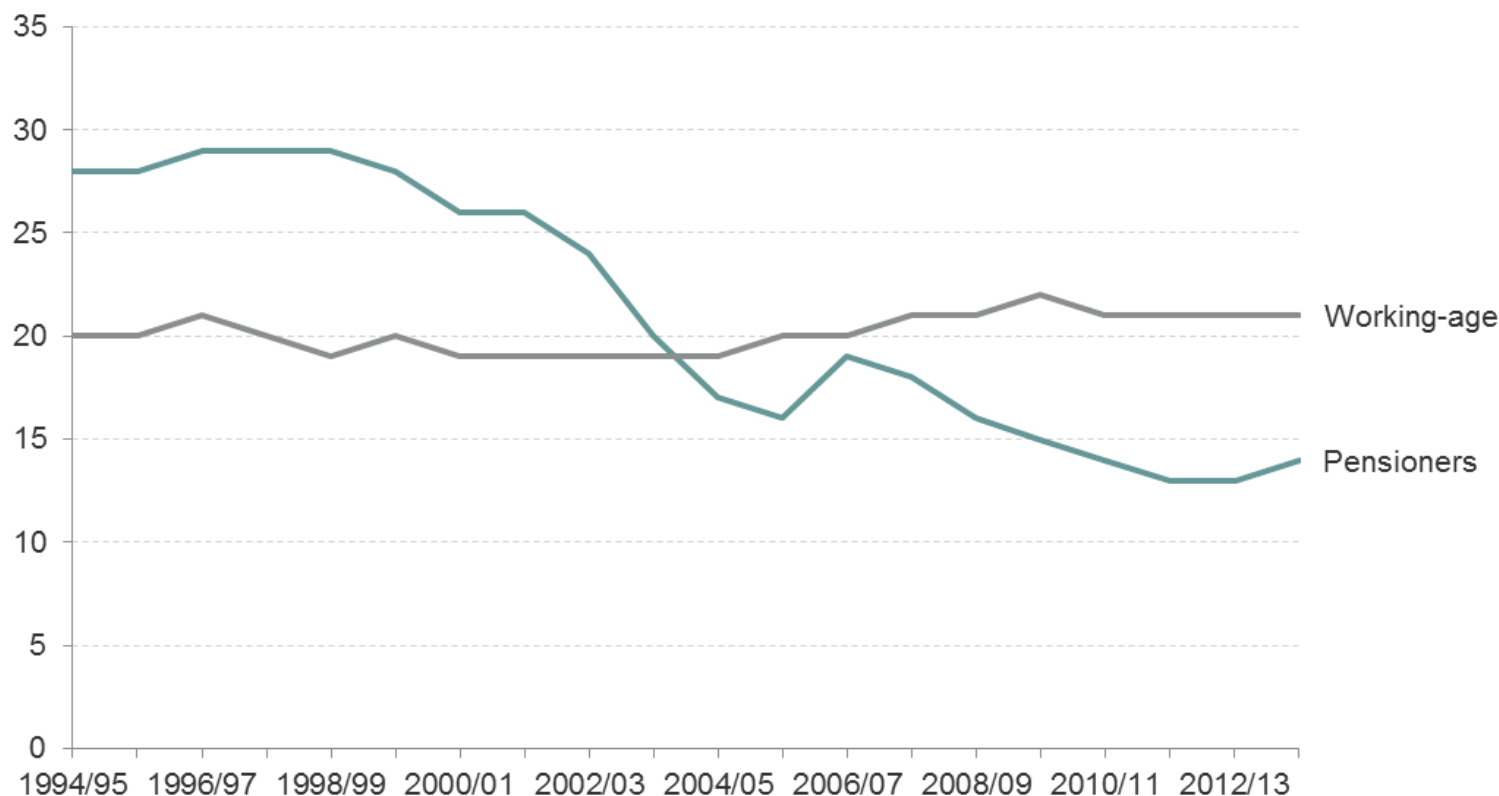
- Inflation came at the right time to wipe out their debts
- Improvements in life expectancy at the right time too
- Pension regulation has helped possessors
- Who gained the most from the bank bail out and who pays for it?



## But again, important to remember that not all older people are better off

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*Estimated percentage in relative poverty after housing costs*



Though the proportion of pensioners in poverty has fallen, 16% find themselves in poverty after housing costs

One-in-seven 65-74 year-old households have less than £50k in wealth

## The Inter-generational contract – What governments do, by Edmund Burke

The logo consists of the letters 'RF' in a bold, sans-serif font, enclosed within a thin black rectangular border.

“Society is indeed a contract. Subordinate contracts for objects of mere occasional interest may be dissolved at pleasure – but the state ought not to be considered as nothing better than a partnership agreement in a trade of pepper and coffee... It is to be looked on with other reverence; because it is not a partnership in things subservient only to the gross animal existence of a temporary and perishable nature. It is a partnership in all science; a partnership in all art; a partnership in every virtue, and in all perfection. As the ends of such a partnership cannot be obtained in many generations, it becomes a partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born.”

# DIVISIONS?

## Segregation of the generations?



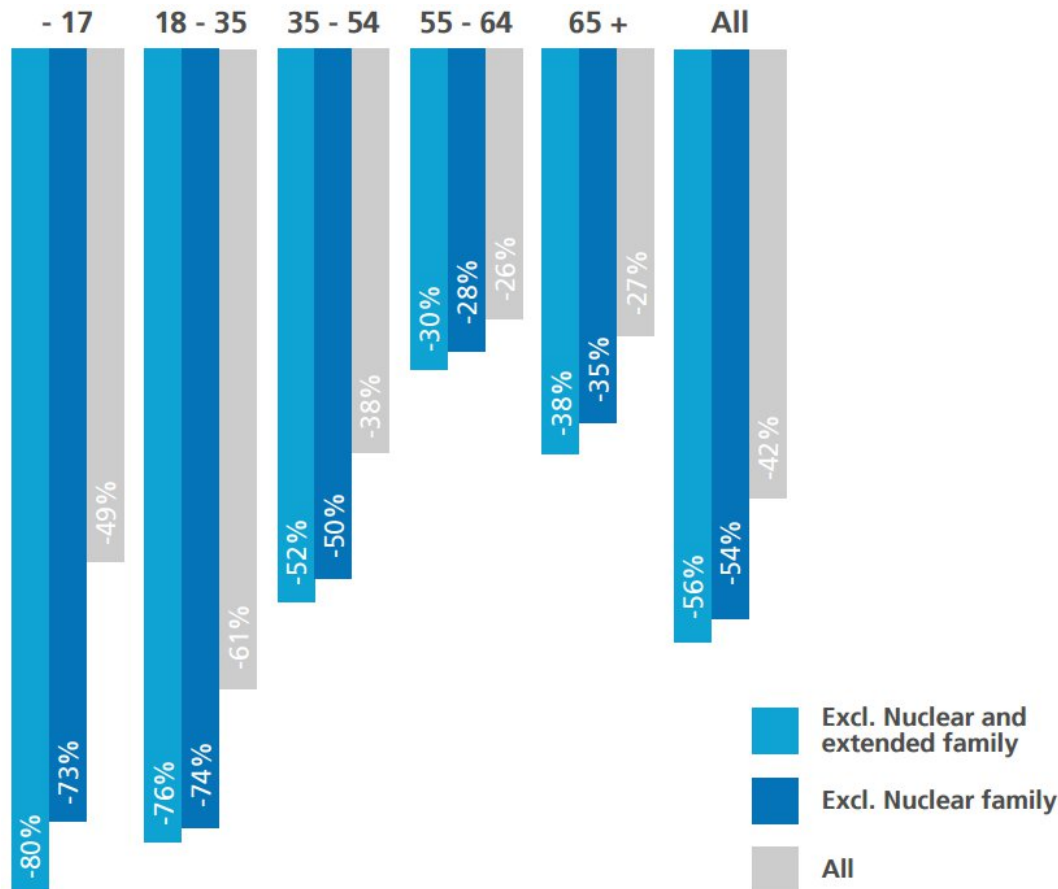
- Where you work:

9% of employees are aged 16-21 but they are more than 25% of workforce in 15% of workplaces

- Where you live:

Social housing has up to six times the average ratio of children to adults

# Segregation of the generations?



Social Integration Commission stats show that young and old people are the least likely to mix with other age groups

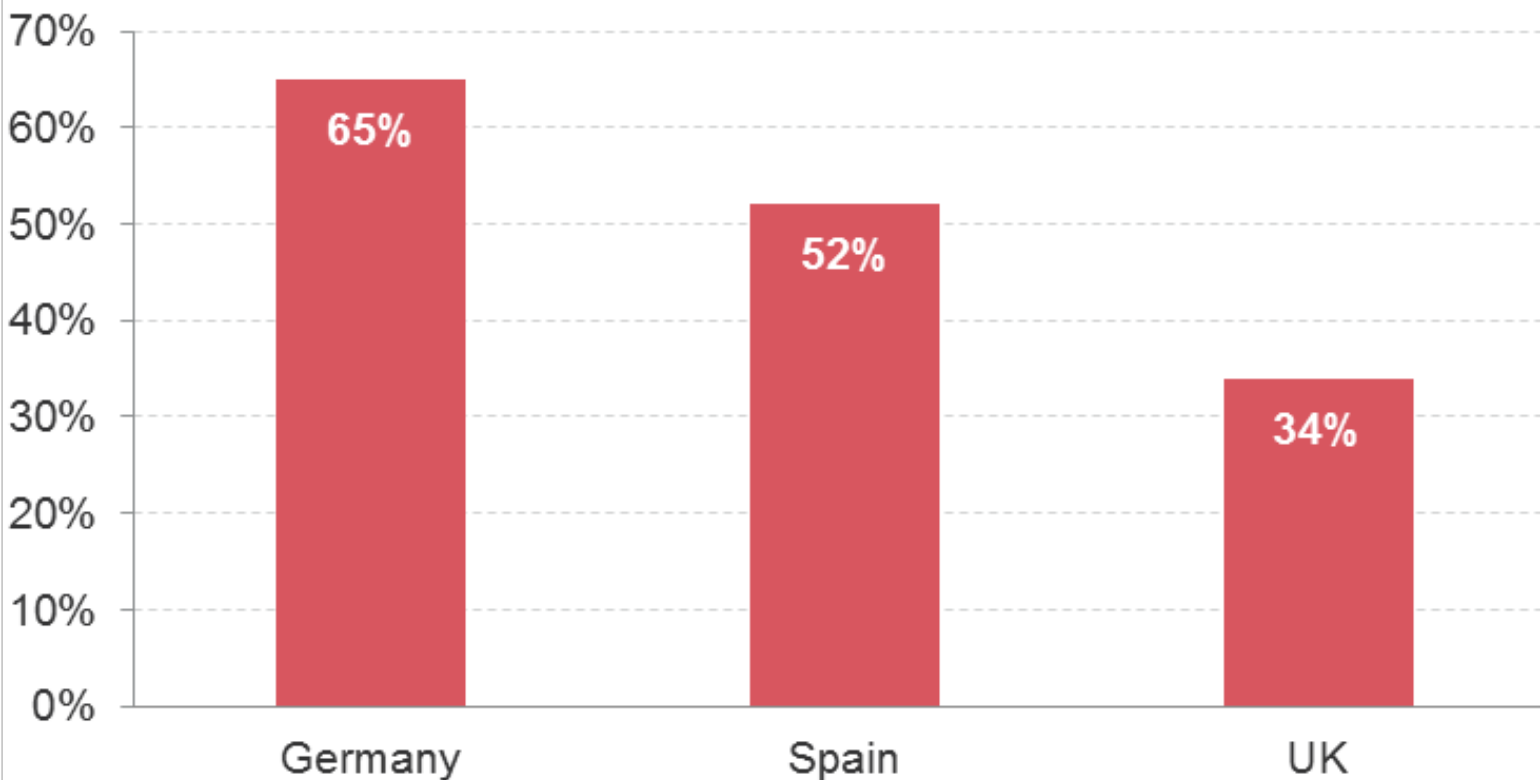
**Figure 9: Level of age integration varying by age group and whether including family or not**

Per cent indicates level of reduced interactions between people compared to no social segregation.

# The growing gap between the generations

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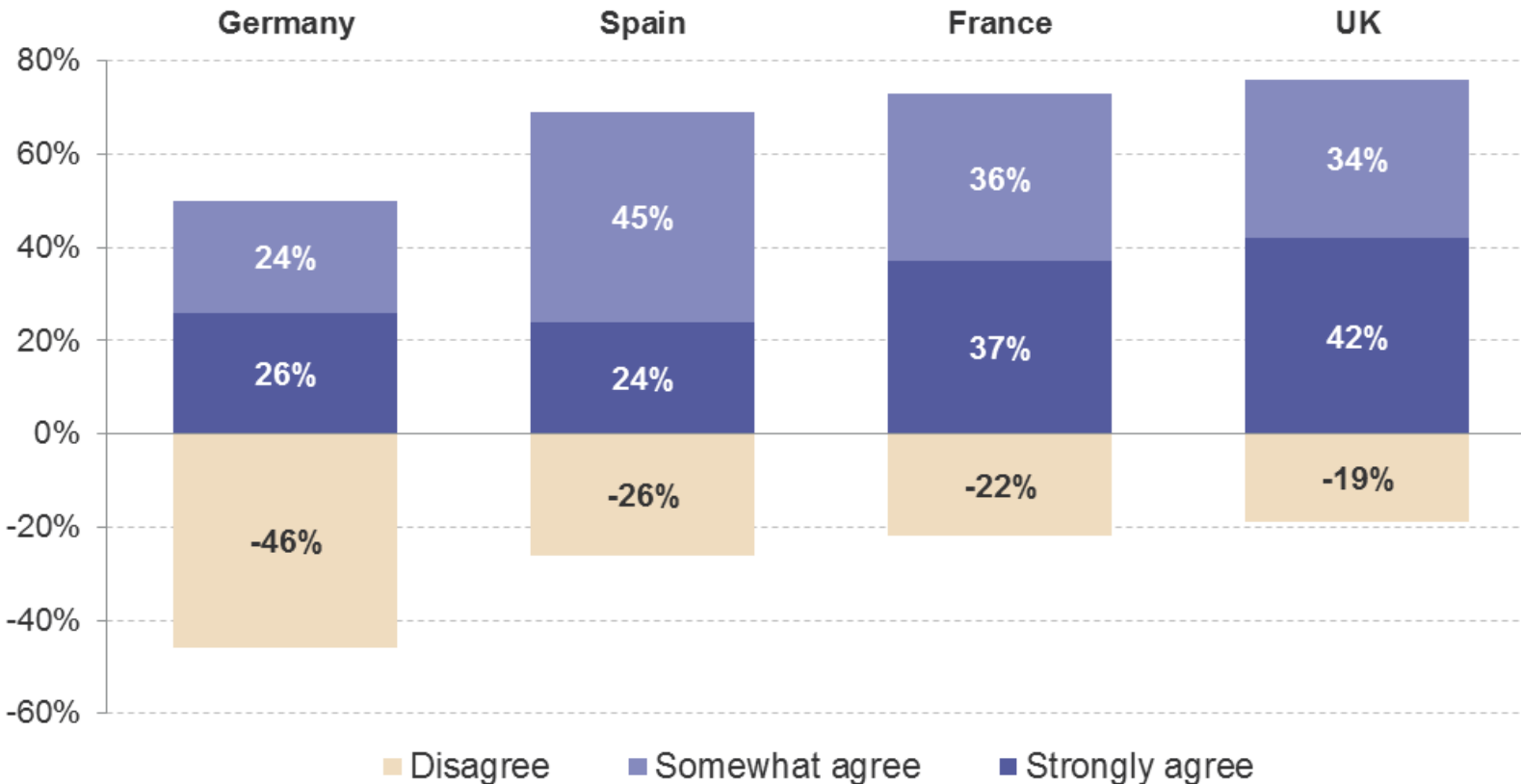
*% of adults saying they'd intervene if they saw  
14 year olds vandalising a bus shelter*



# The growing gap between the generations

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*There are not enough opportunities for older and younger people to meet and work together*



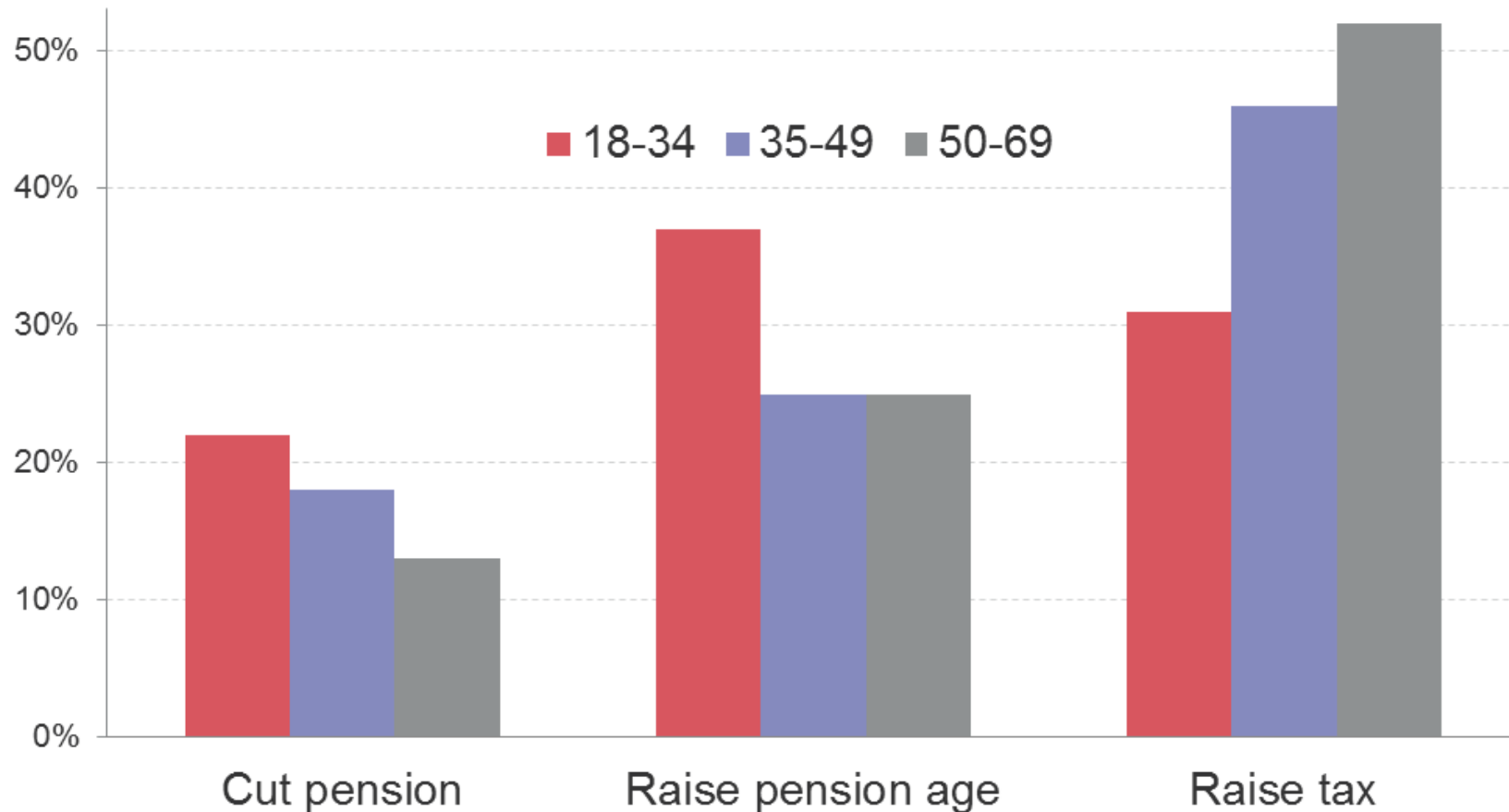
Source: Eurobarometer 269

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# The growing gap between the generations

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*How to pay for rising cost of state pensions*







- Imagine you are running a forestry business...  
Why do you look after it?
  - Profit
  - Equity and amenity
  - The only reason we have it now is because those before us maintained it
- Policies for the long term are what more than half of voters value

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