Renewing the Intergenerational Contract

Grigor McClelland Lecture

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February 2017

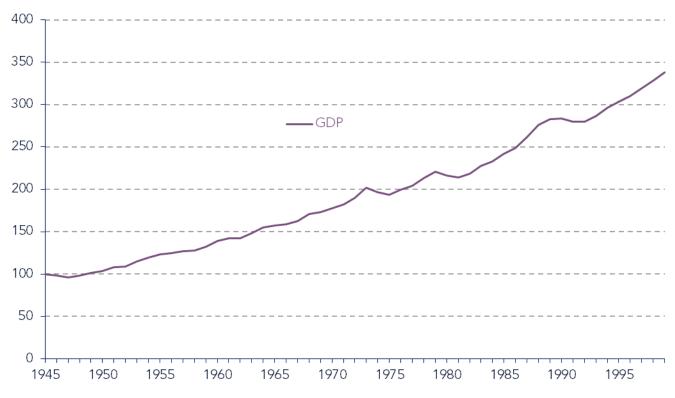






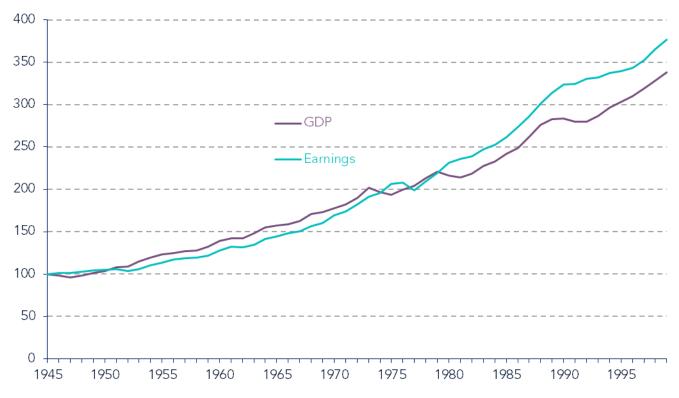
20th Century certainties...





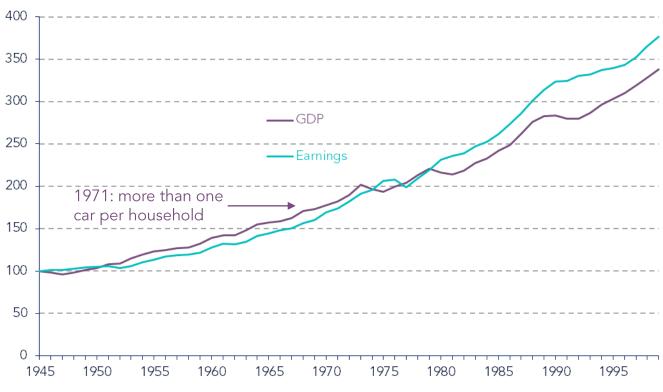
Indices of real GDP per capita at market prices and average weekly earnings per head





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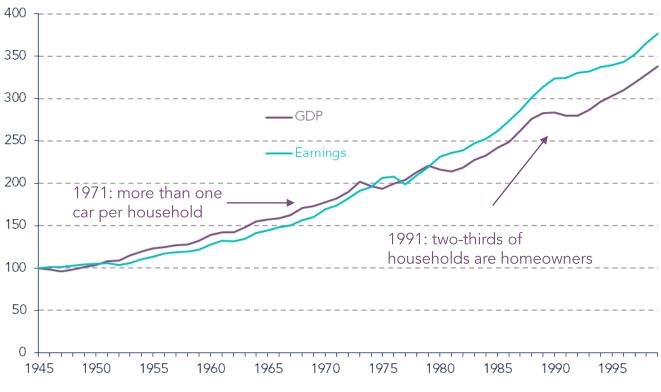






Indices of real GDP per capita at market prices and average weekly earnings per head

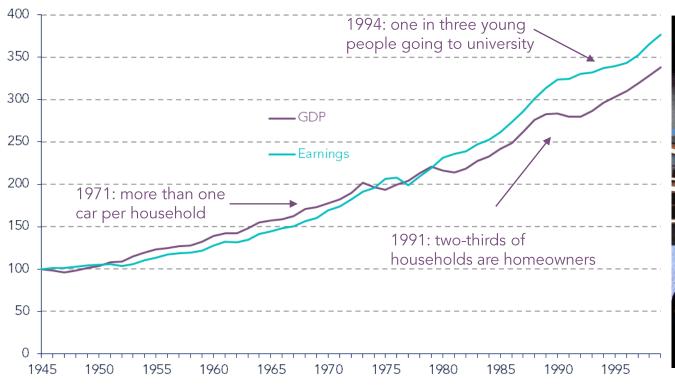






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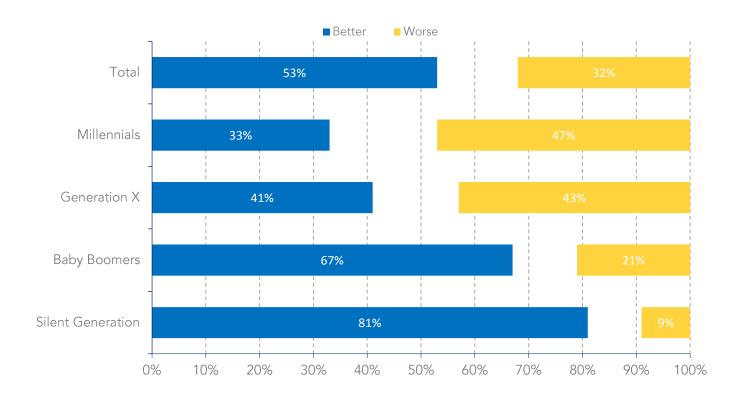
Economic inequalities of class and geography dominate debate



Worry for future generations dominates much of how we feel



Young are not feeling optimistic about their future...



'Will your generation will have a better or worse quality of life than your parents' generation', 2016



...and anxiety for them is shared

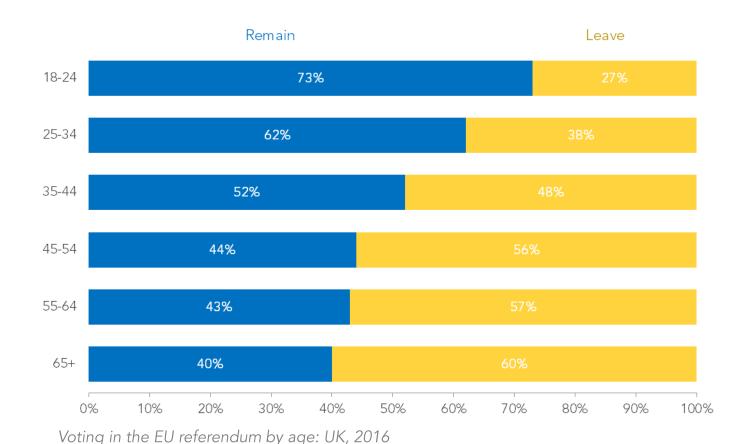


[&]quot;When they reach your age, do you think today's youth will have a better or worse quality of life than their parents' generation?

Intergencommission.org



The EU referendum has intensified intergenerational debates





Nature of the anxiety for economists

- The labour market
- Wealth and assets
- The welfare state

Nature of the anxiety for humans

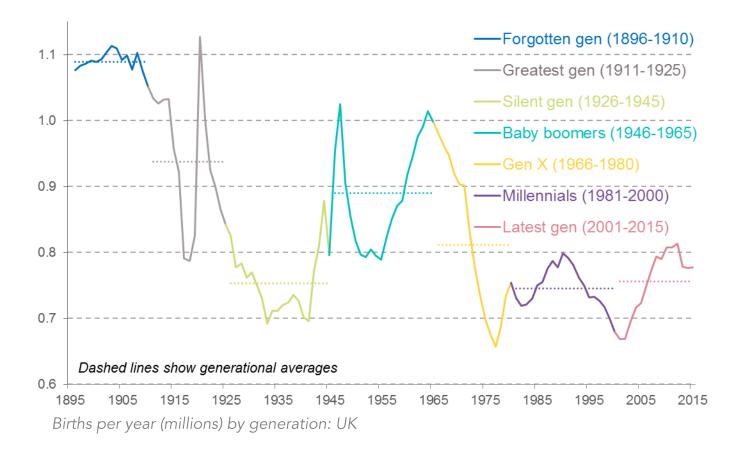
- Where are all the good jobs?
- Will I/my kids ever own a home?
- Whose side is Britain on?



But first... Understanding generations



Britain has gone through baby boom and bust

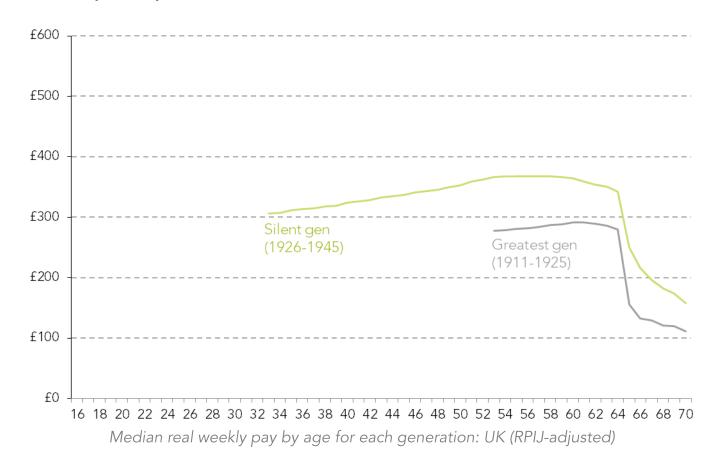




The labour market

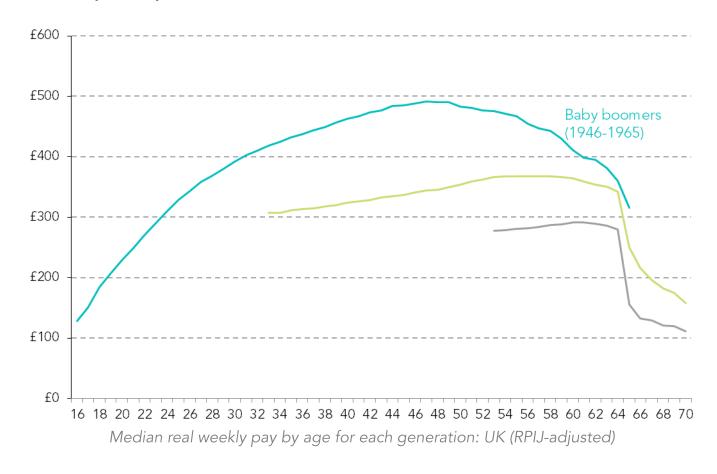


Generational pay progress was the 20th Century norm...



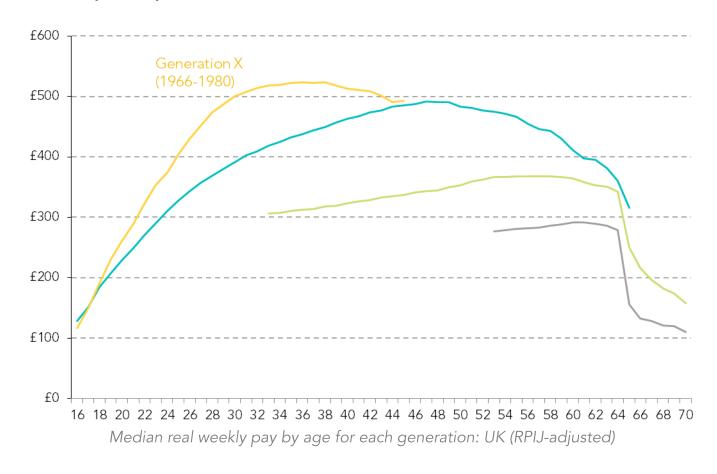


Generational pay progress was the 20th Century norm...



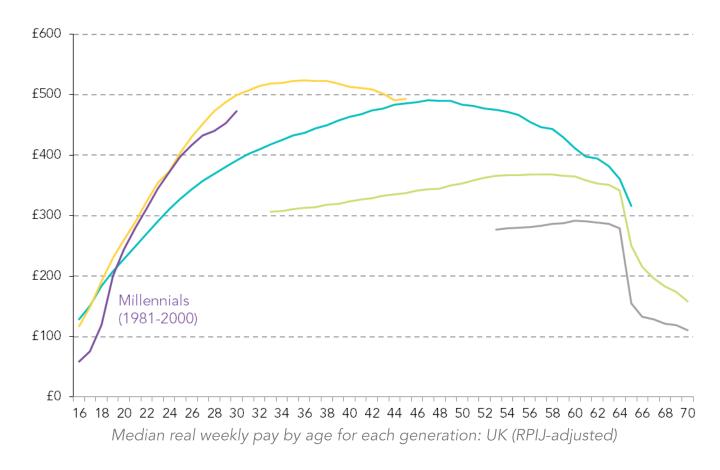


Generational pay progress was the 20th Century norm...



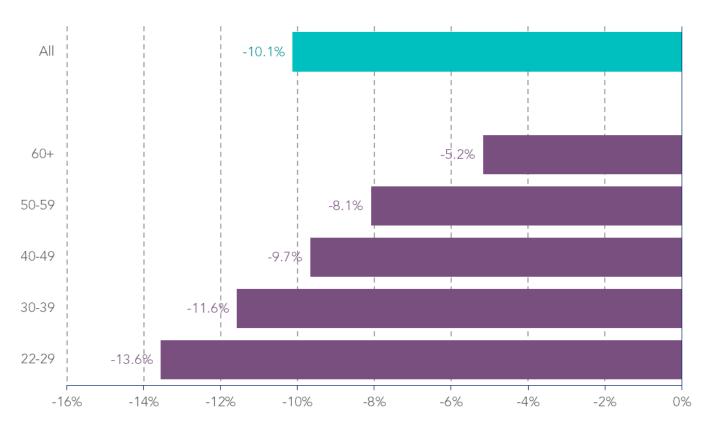


...but millennials at risk of progress grinding to a halt





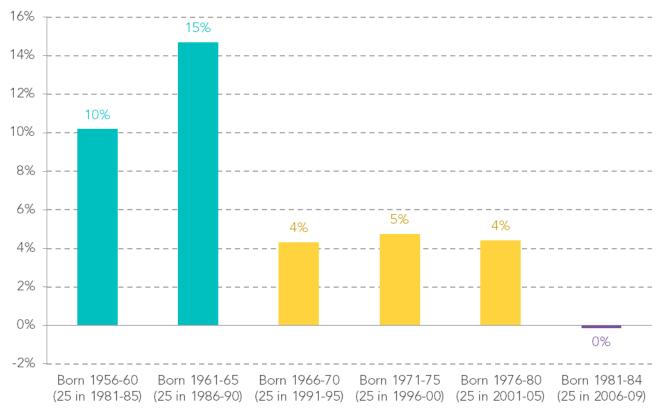
Partly this is the result of the recession...



Change in pay by age between 2009 and 2014: Real hourly pay (RPIJ-adjusted), UK



...but poor pay growth preceded the financial crisis...



Growth in pay at age 25 between successive five-year birth cohorts: Real weekly pay (RPIJ-adjusted), UK



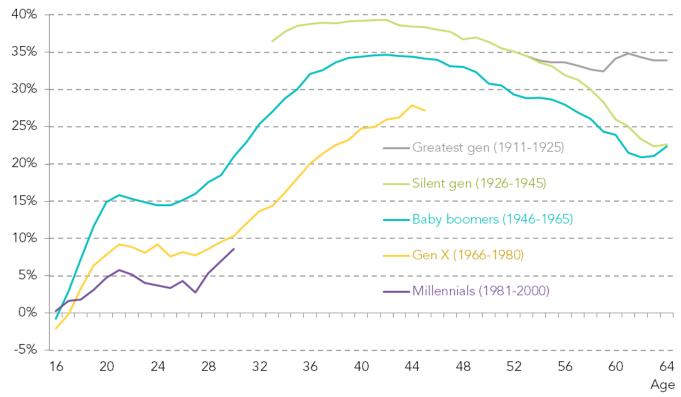
...as did some worrying trends



Proportion of workers voluntarily moving from one job to another in the past quarter, by age: UK



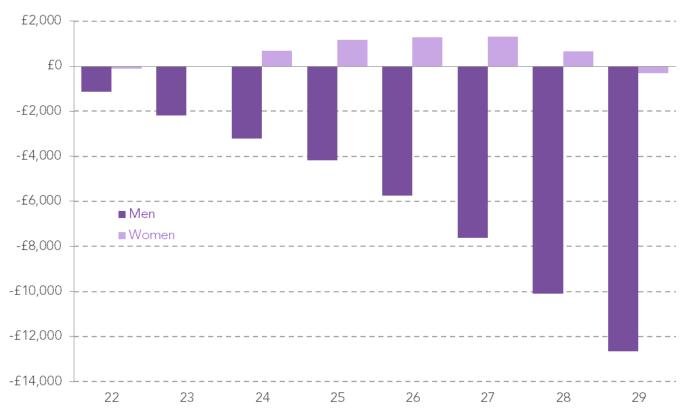
Some good news: gender pay gap now at record low...



Gender pay gap for median gross hourly earnings, by generation: UK



..but gender pay gap is narrowing for the wrong reasons



Cumulative pay deficit for millennials in their 20s relative to Gen X. Median real weekly pay (RPIJ-adjusted).



Young men are making up a larger proportion of the low paid

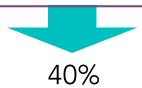


Share of each pay decile accounted for by men aged 22-35: 1993 & 2015-16



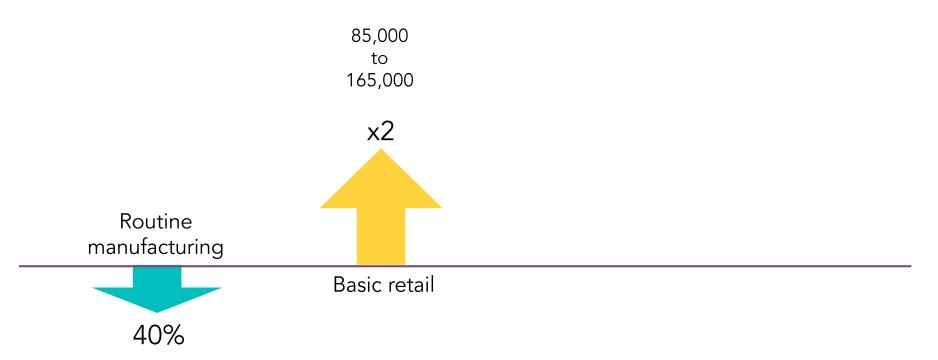
Because the jobs they are doing are changing

Routine manufacturing



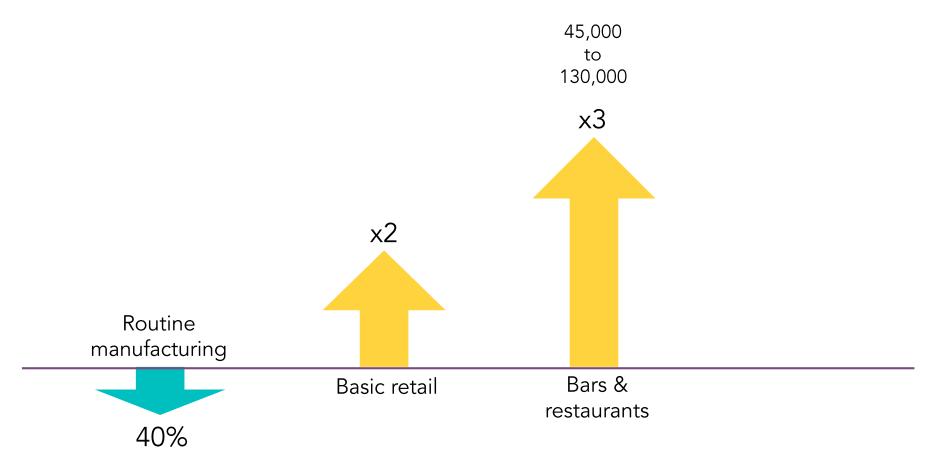


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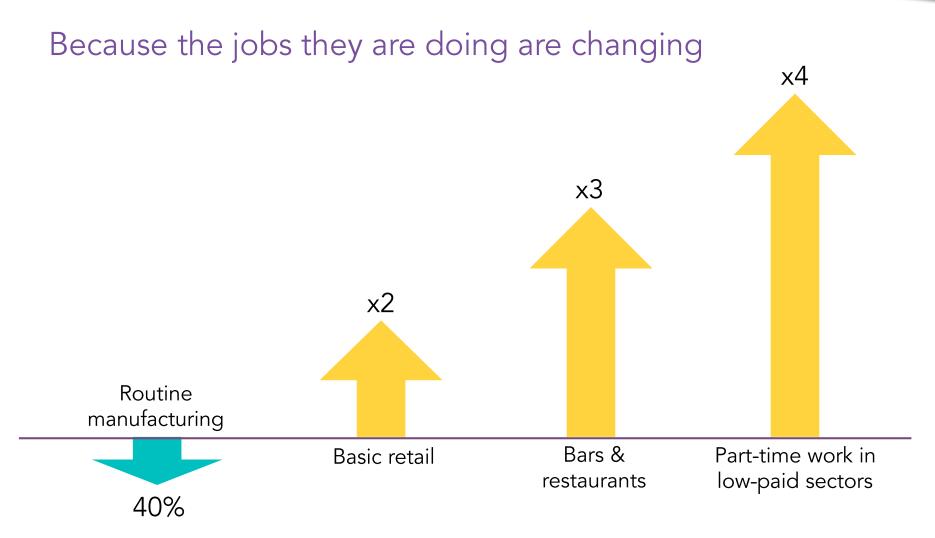




Because the jobs they are doing are changing





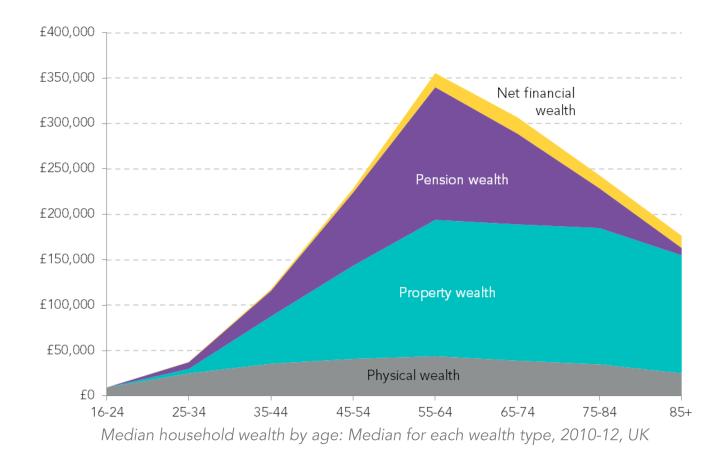




Wealth and assets



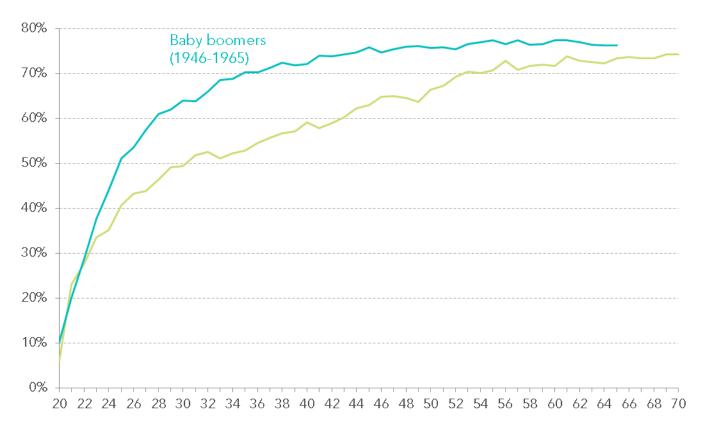
Wealth in UK is about houses and pensions



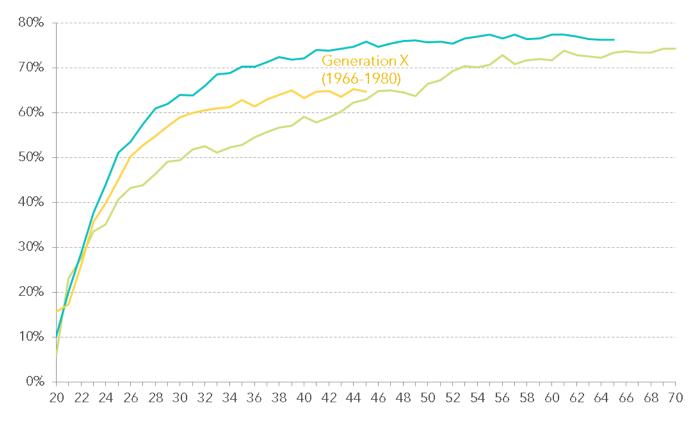




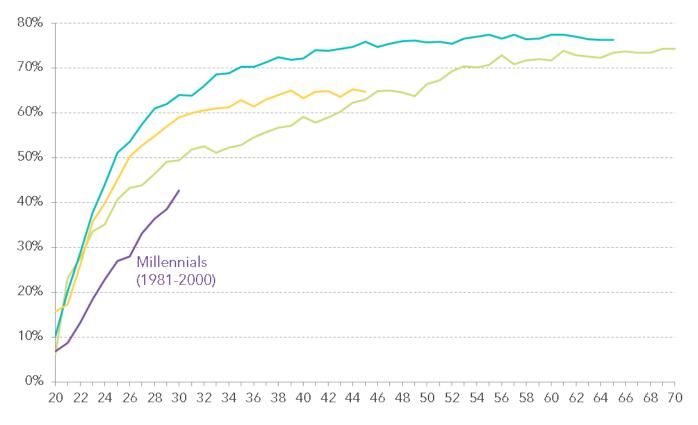














Saving for a deposit has become a pipe dream for many



Estimated number of years' required to save for a first time buyer deposit among low to middle income households: UK



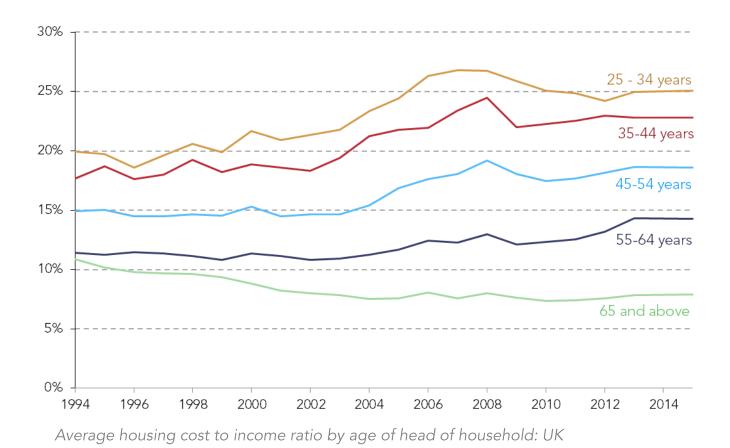
London is the poster child for tenure shifts but Manchester is at the front line



Share of households aged 25-39 in each tenure (%): Greater Manchester

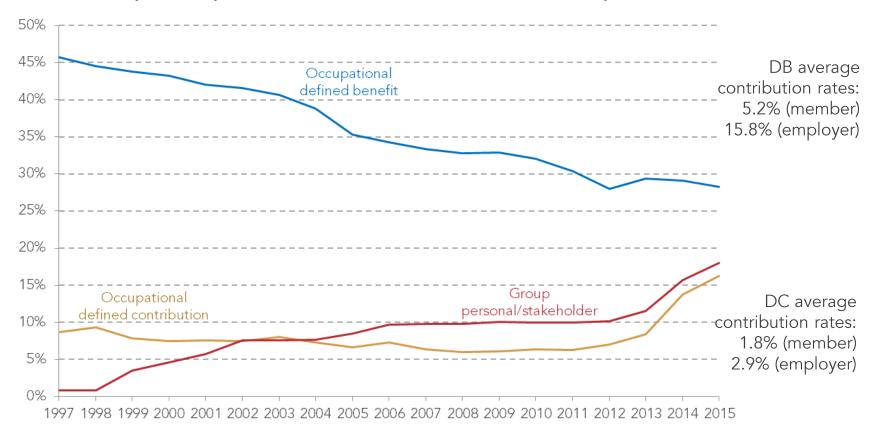


This is as much about costs as ownership





Generous company pensions are a thing of the past



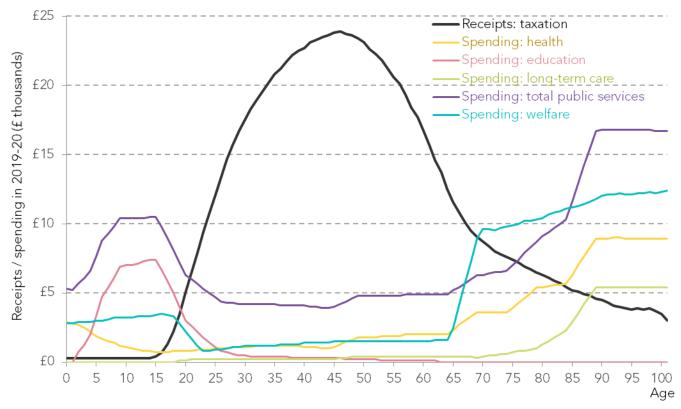
Proportion of employees with workplace pensions: by type of pension



The welfare state



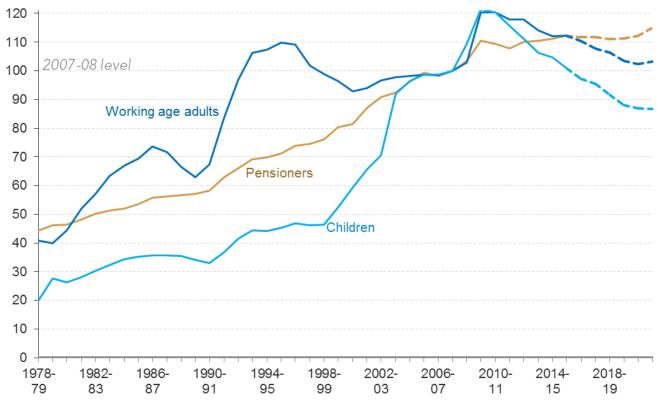
We take, we pay in and then we take again



Representative profiles for tax, welfare and public spending by age: Office for Budget Responsibility (2015), UK



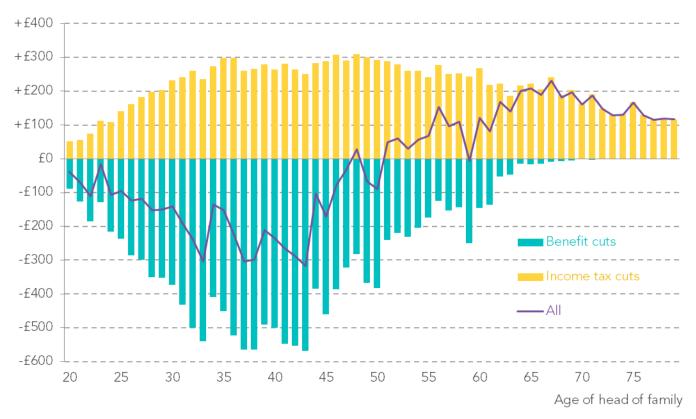
Benefit payments to older groups have been protected, while others' benefits are falling in value



Benefit expenditure per head of population: Reduction between 2015-16 and 2020-21



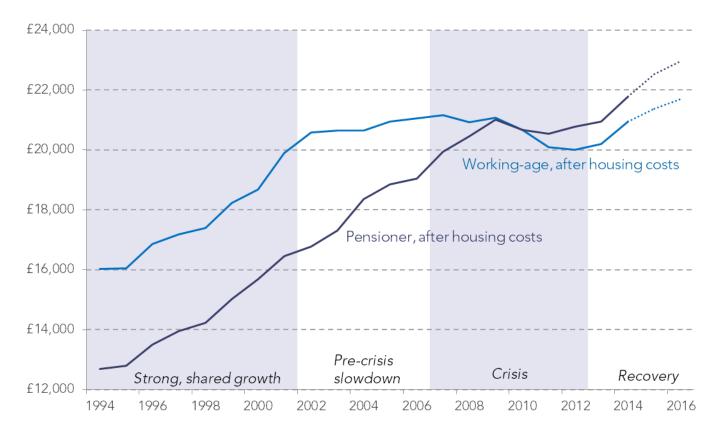
Government's inherited plans redistribute from young to old



Change in income from tax and benefit policy being implemented this parliament, by age: Mean change in net family income (before housing costs, cash), 2020-21, UK



Short term choices in welfare come in the context of long term income shifts



Median real net household income (after housing costs & CPI adjusted)



To recap...



A new intergenerational contract?

Overcoming complacency and fatalism



The case for complacency 1: we've never had it so good



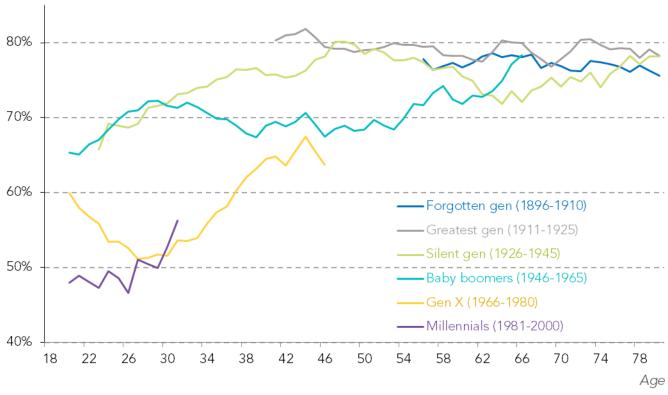


The case for complacency 2: the worst is behind us





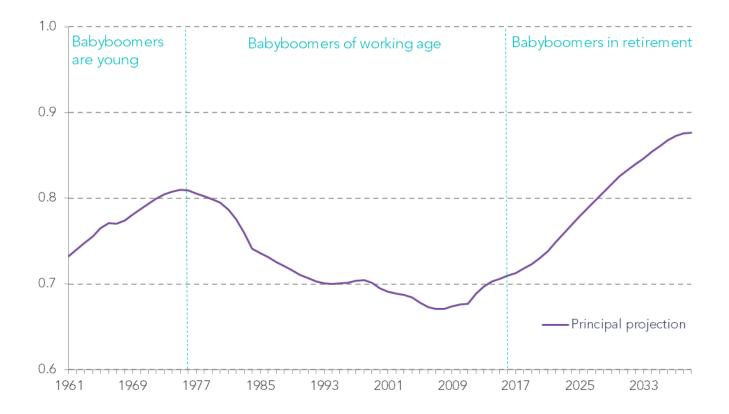
The case for fatalism 1: older generations vote...



Turnout at General Elections by life stage: 1964-2015, UK



The case for fatalism 2: ...and there are a lot of them



Dependency ratio under selected population projection variant scenarios: UK, 1961 to 2039

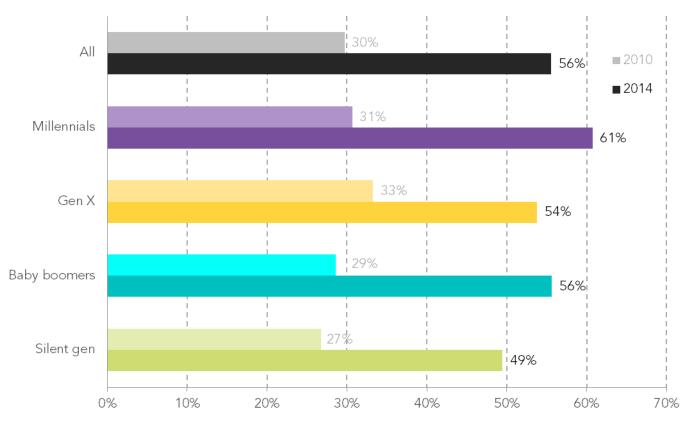


Reason for optimism 1: we aren't young or old, we're families





Reason for optimism 2: Attitudes are shifting



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



Reason for optimism 3: PM has put the issue centre stage

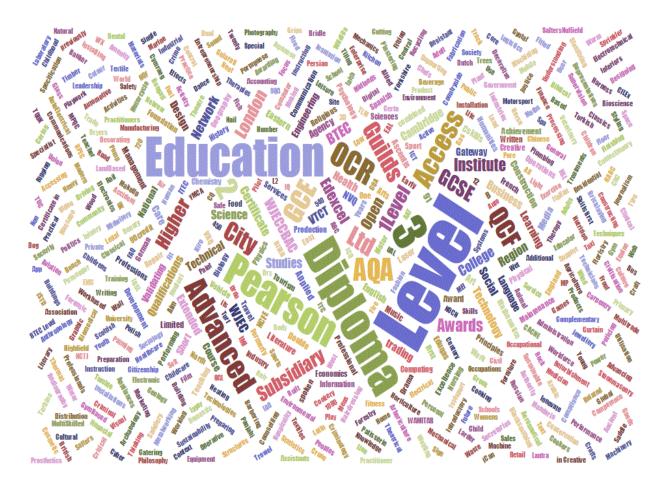
"There is a growing divide between a more prosperous older generation and a struggling younger generation...

"...Unless we deal with the housing deficit, we will see house prices keep on rising. Young people will find it even harder to afford their own home. The divide between those who inherit wealth and those who don't will become more pronounced"

Theresa May, We can make Britain a country that works for everyone, July 2016

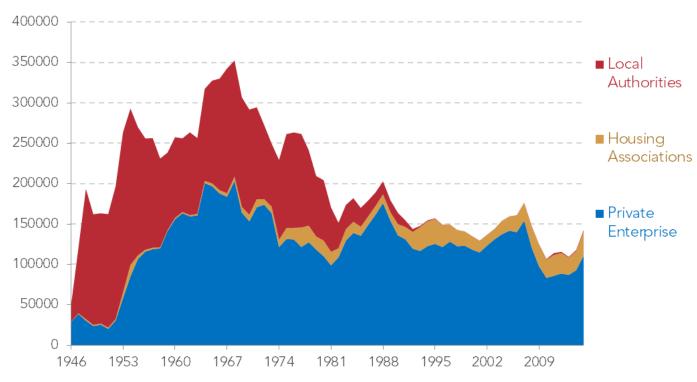


Reason for optimism 4: we have policy choices to make





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House building: permanent dwellings completed, by tenure



Reason for optimism 4: we have policy choices to make





Conclusion

Generational anxieties are growing...

...this matters for the feel AND future of the country

The challenges are big...

...but we all have an interest in addressing them

Policy can make a difference

21st Century Britain is no time for complacency OR fatalism



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