

Fairness between the generations

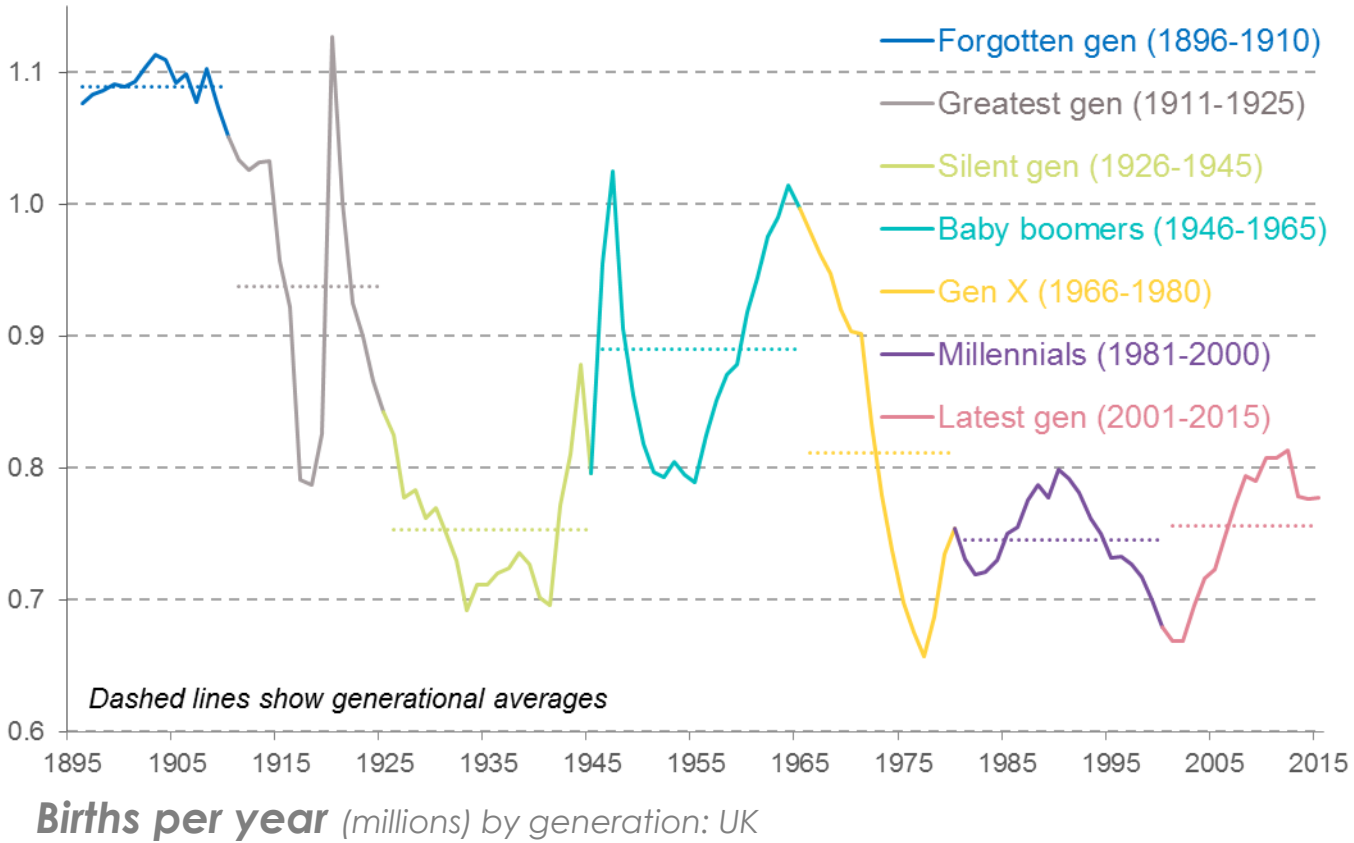
David Willetts

November 2016



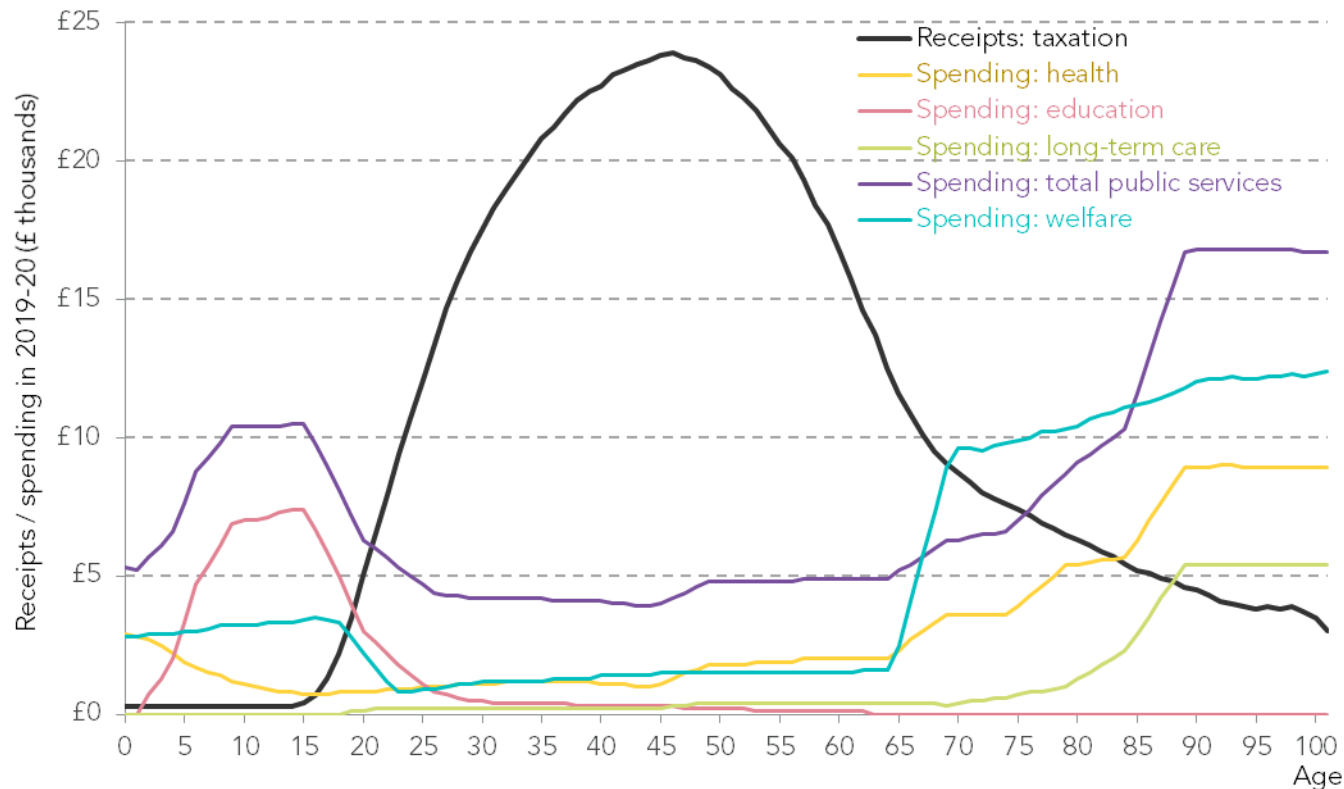
Understanding generations

Over the past century, Britain has gone through baby boom and bust, with longevity exacerbating demographic strains



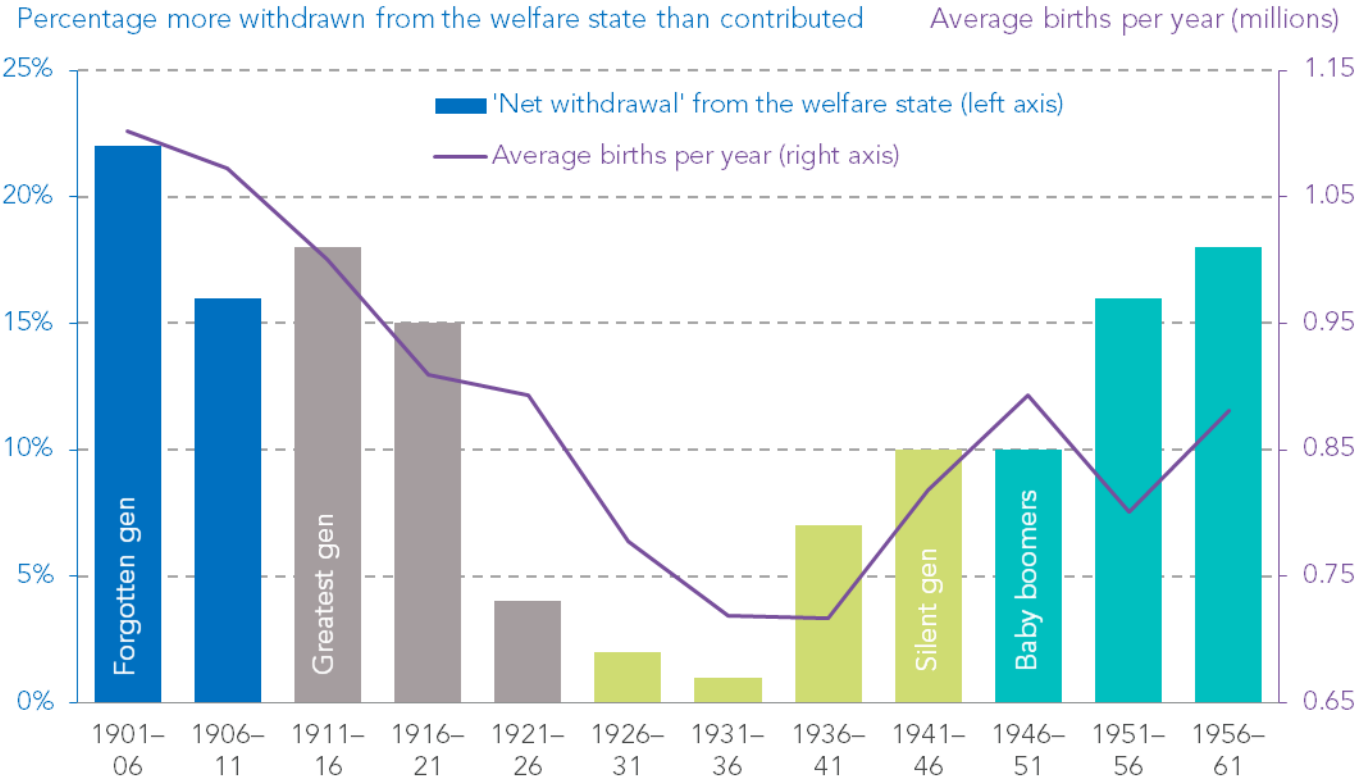
The welfare state

We pay into the welfare state in mid-life and draw upon it at the start and end



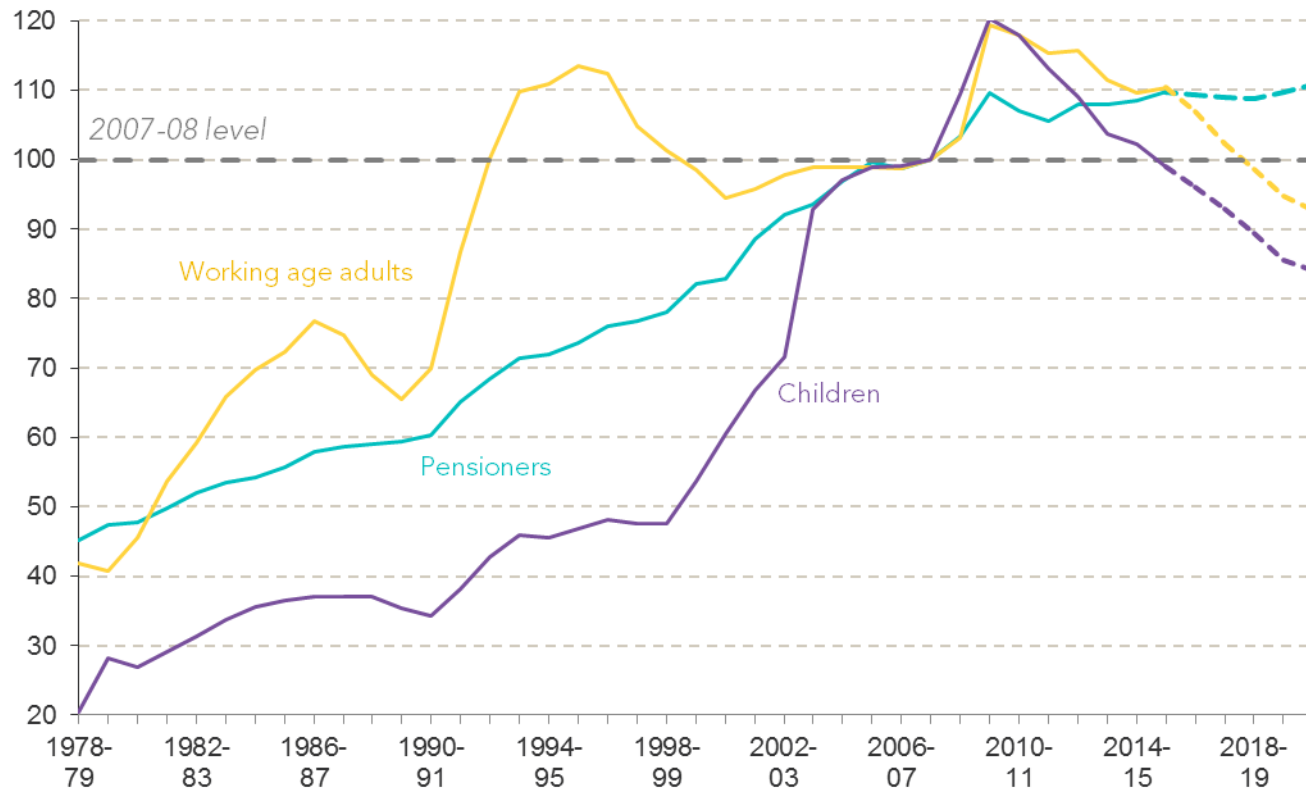
Representative profiles for tax, welfare and public spending by age: Office for Budget Responsibility (2015), UK

So our tendency to balance the budget over the cycle benefits large cohorts



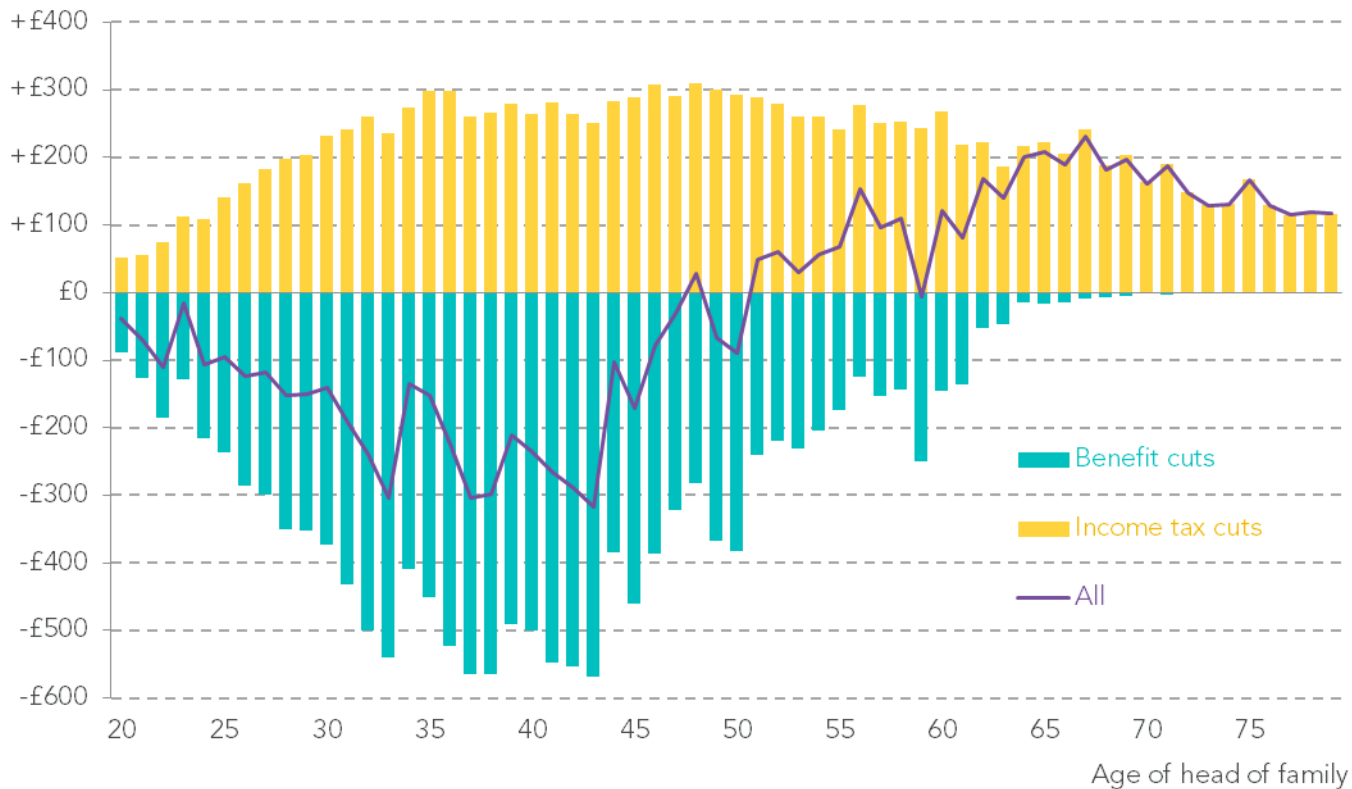
'Net withdrawals' from the welfare state and birth rates by five-year cohort: Based on John Hills analysis (2004), UK

In the near term, 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

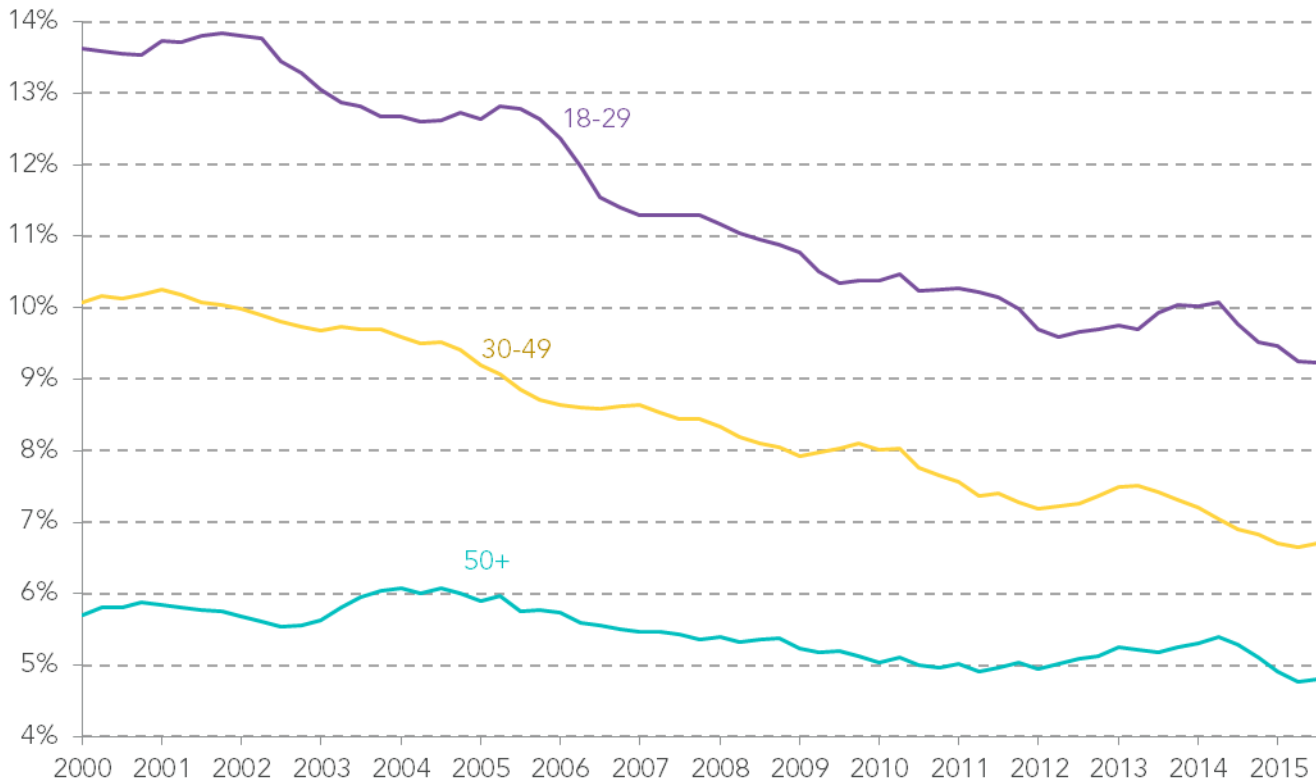
Combining welfare shifts with tax policy, the reforms the new government has inherited will redistribute from young to old



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

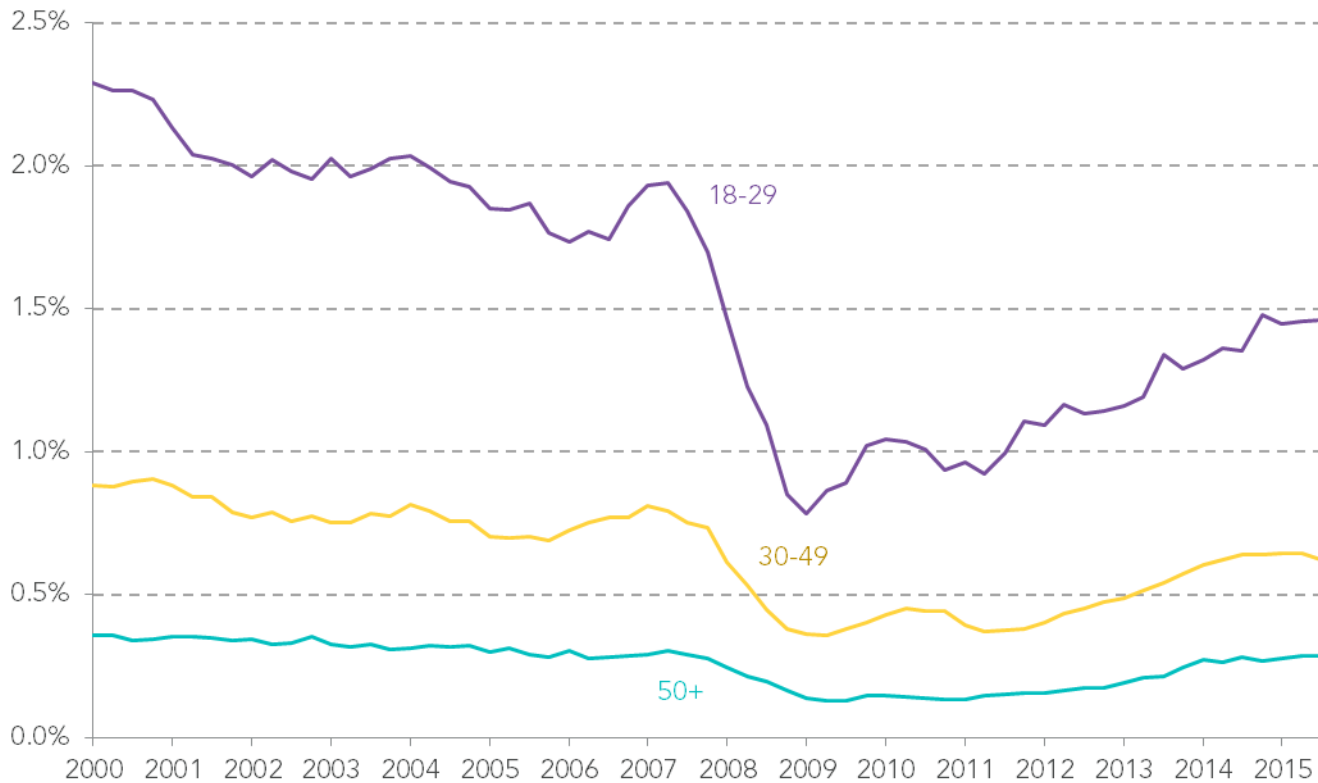
The labour market

Employee training – which may reflect employer confidence and improve pay prospects – has fallen particularly fast for the young



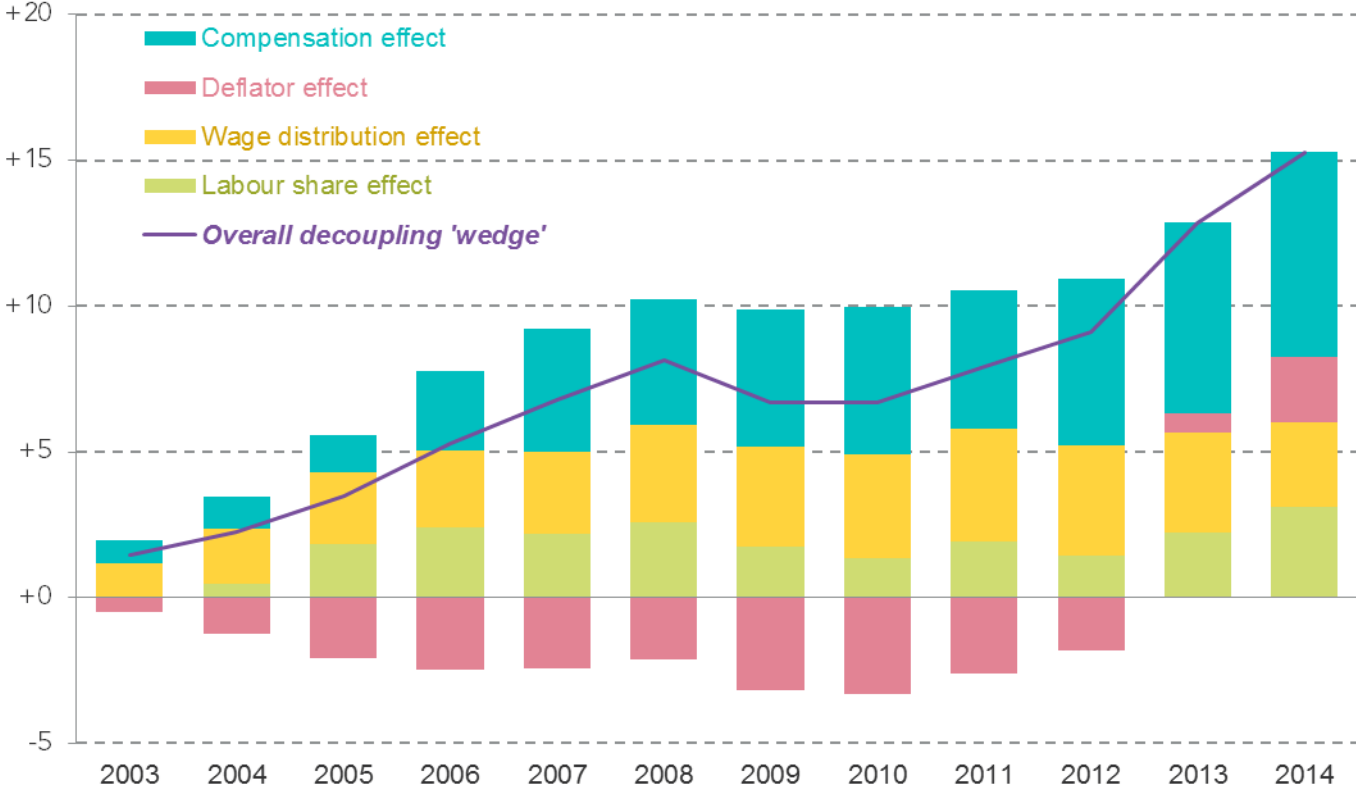
Share of employees receiving 'off the job' training in the past four weeks, by age: UK

Job-to-job moves – the primary mechanism for pay advancement in early careers – are in decline



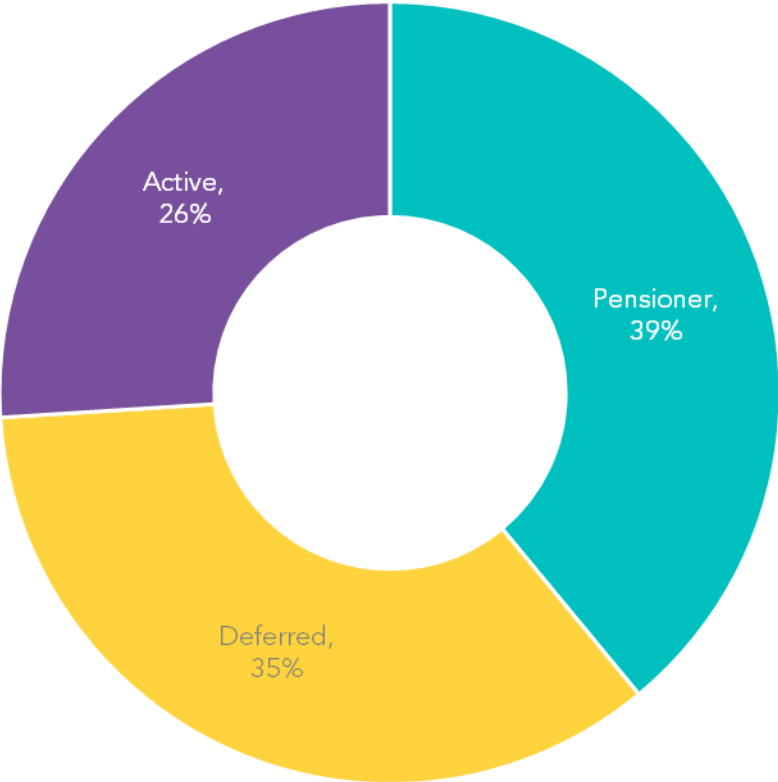
Proportion of workers voluntarily moving from one job to another in the past quarter, by age: UK

The 'defined benefit' pension deficits of yesterday's workers may be weighing on the wages of today's



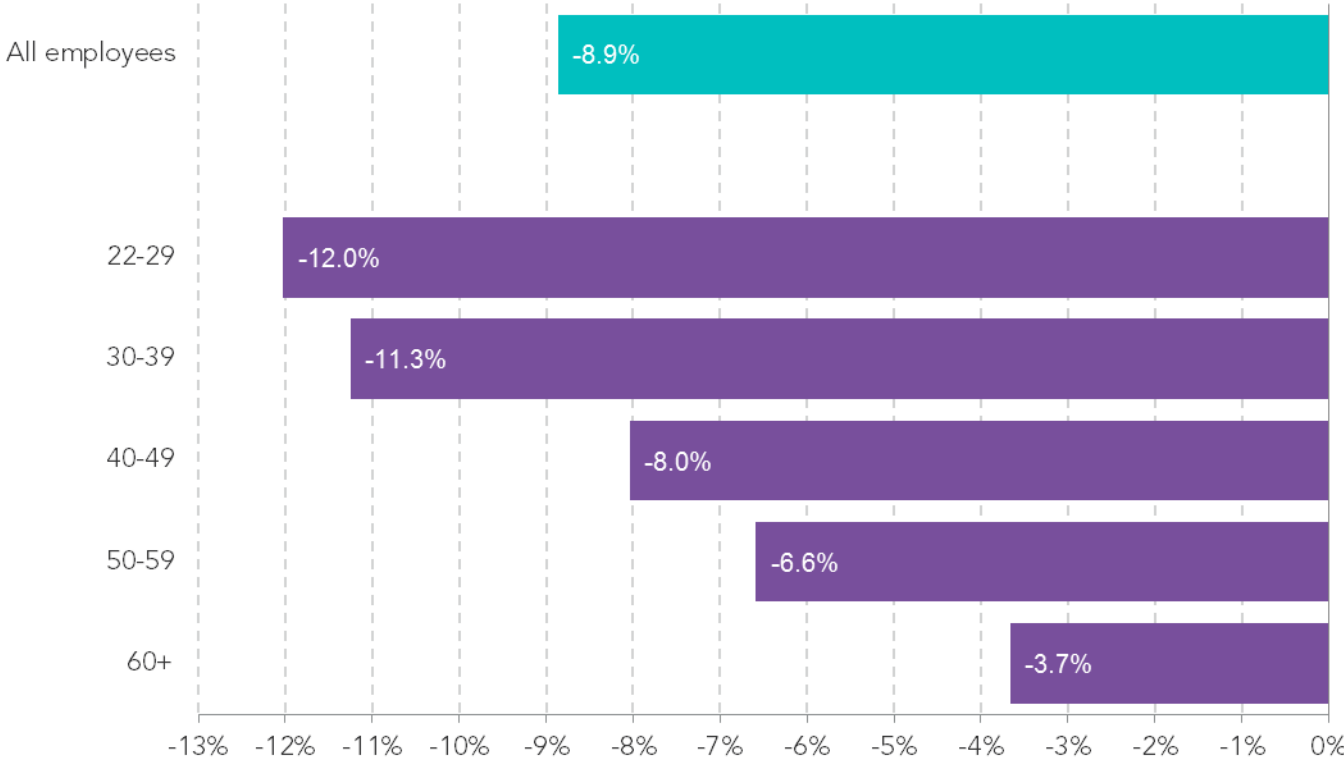
Contributions to gap between median wages and productivity:
Cumulative percentage point gap, UK

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



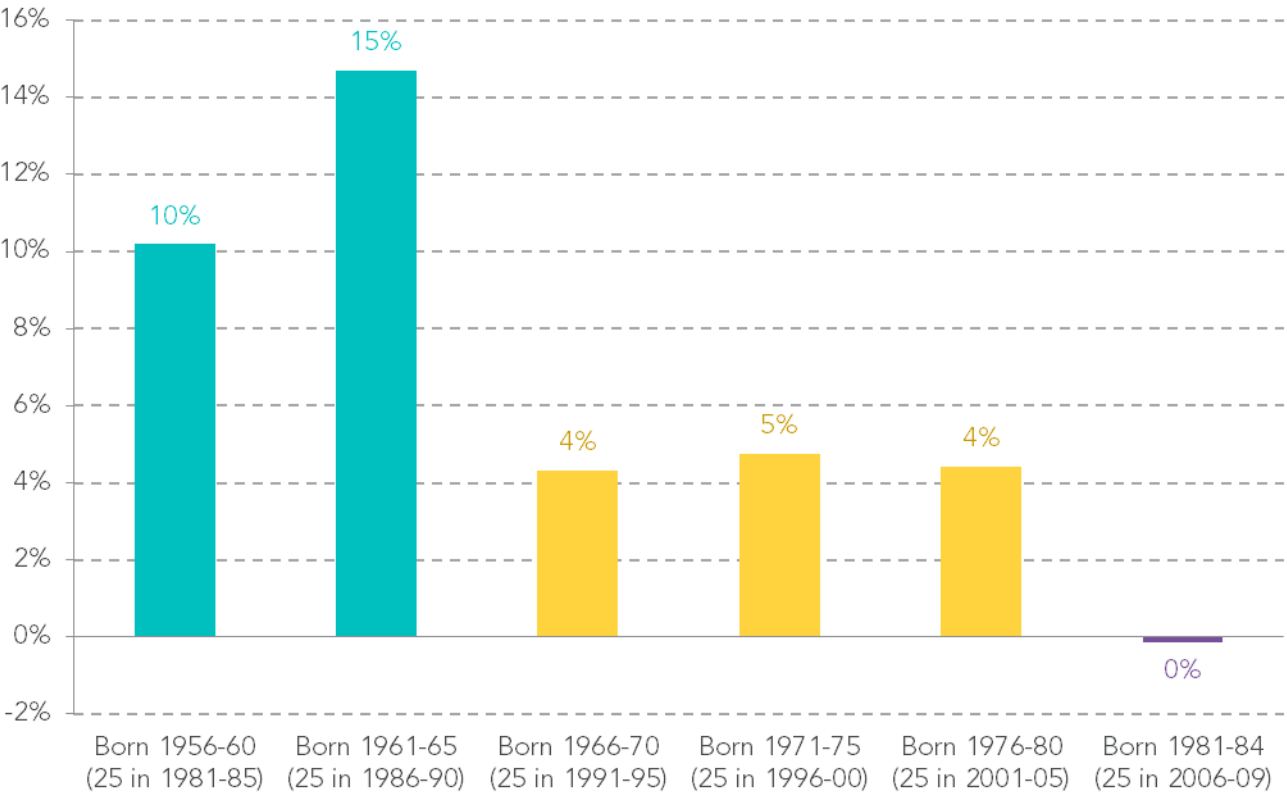
DB pension liabilities by active, deferred and pensioner members: 2015, UK

Younger employees bore the brunt of the recent pay squeeze



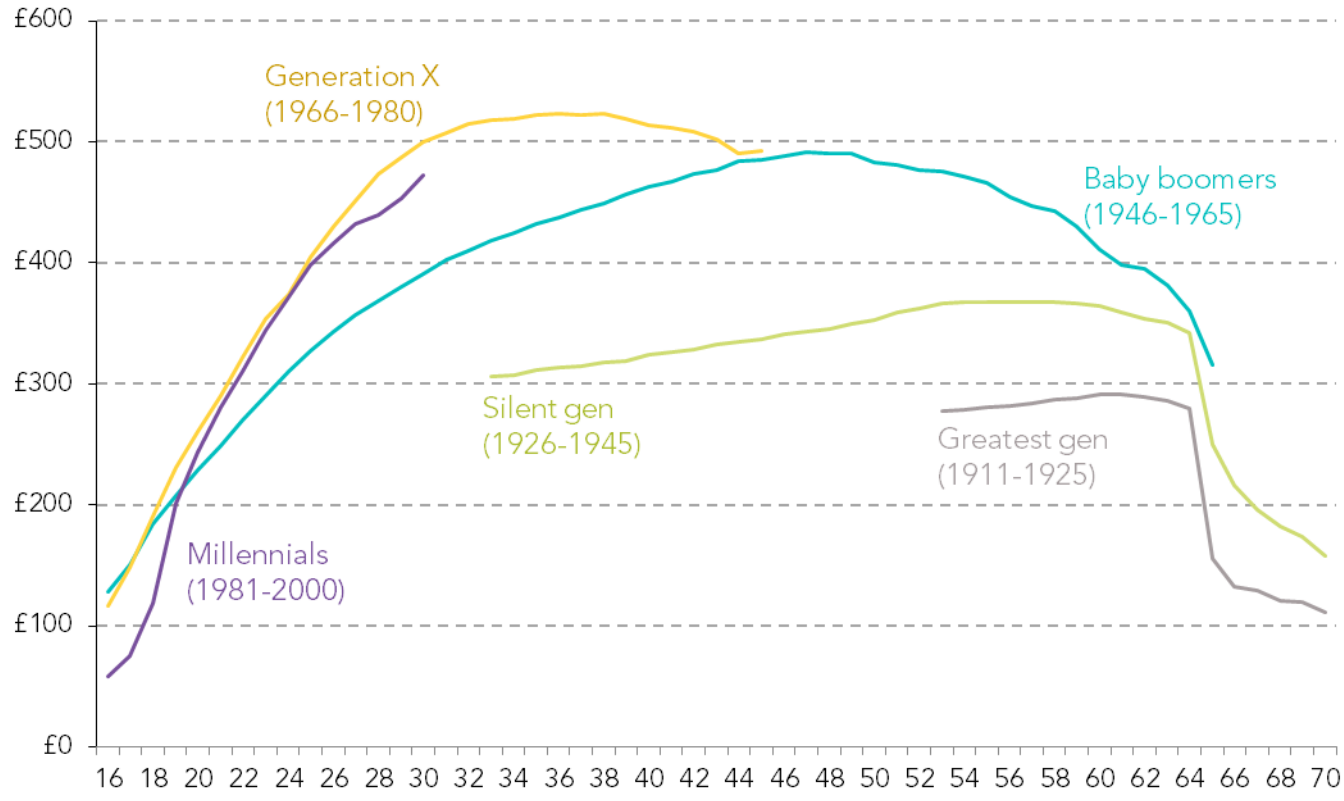
Change in pay by age between 2009 and 2015: Real hourly pay (RPIJ-adjusted), UK

And there are signs that their poor pay performance preceded the financial crisis



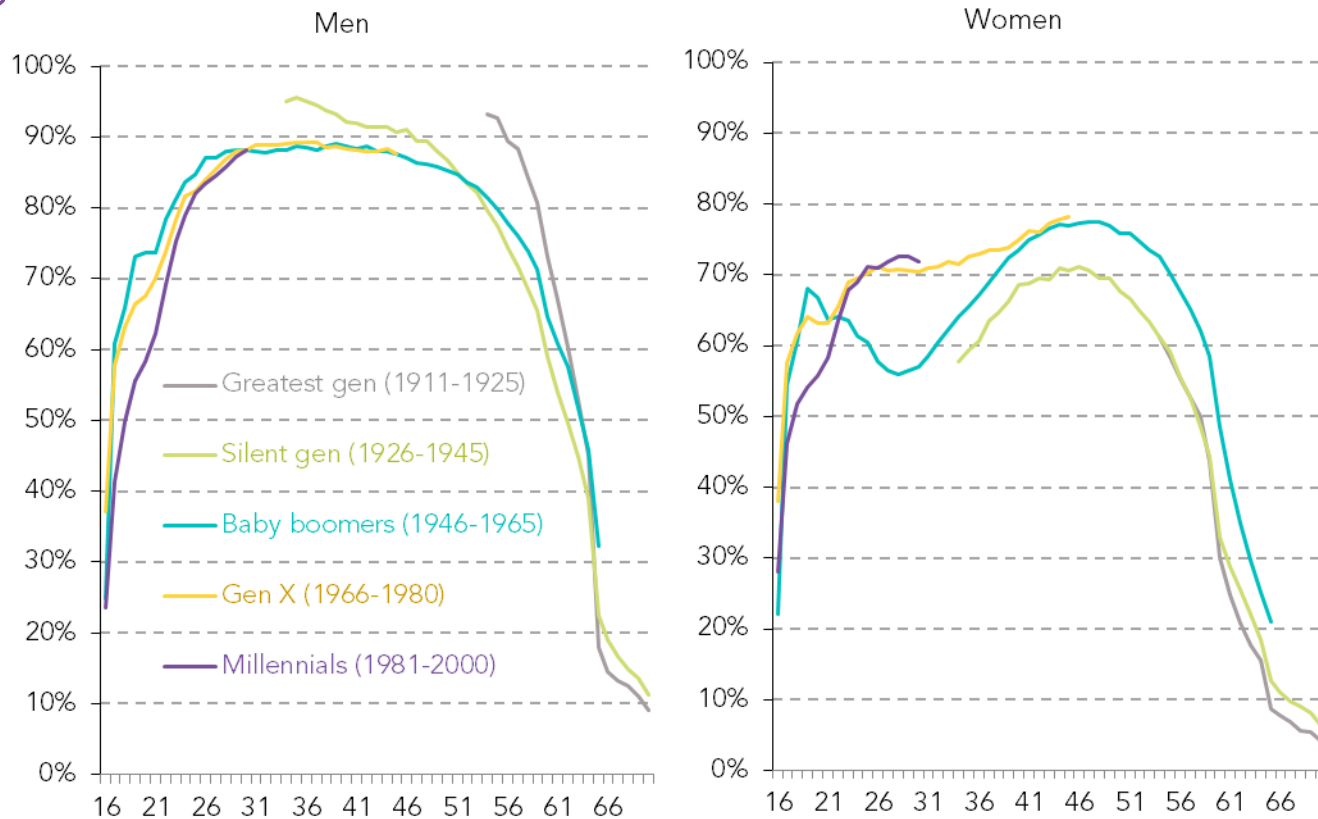
Growth in pay at age 25 between successive five-year birth cohorts: Real weekly pay (RPIJ-adjusted), UK

Meaning millennials so far are the first generation to earn less than their predecessors



Median pay by age for each generation: real weekly pay (RPIJ-adjusted), UK

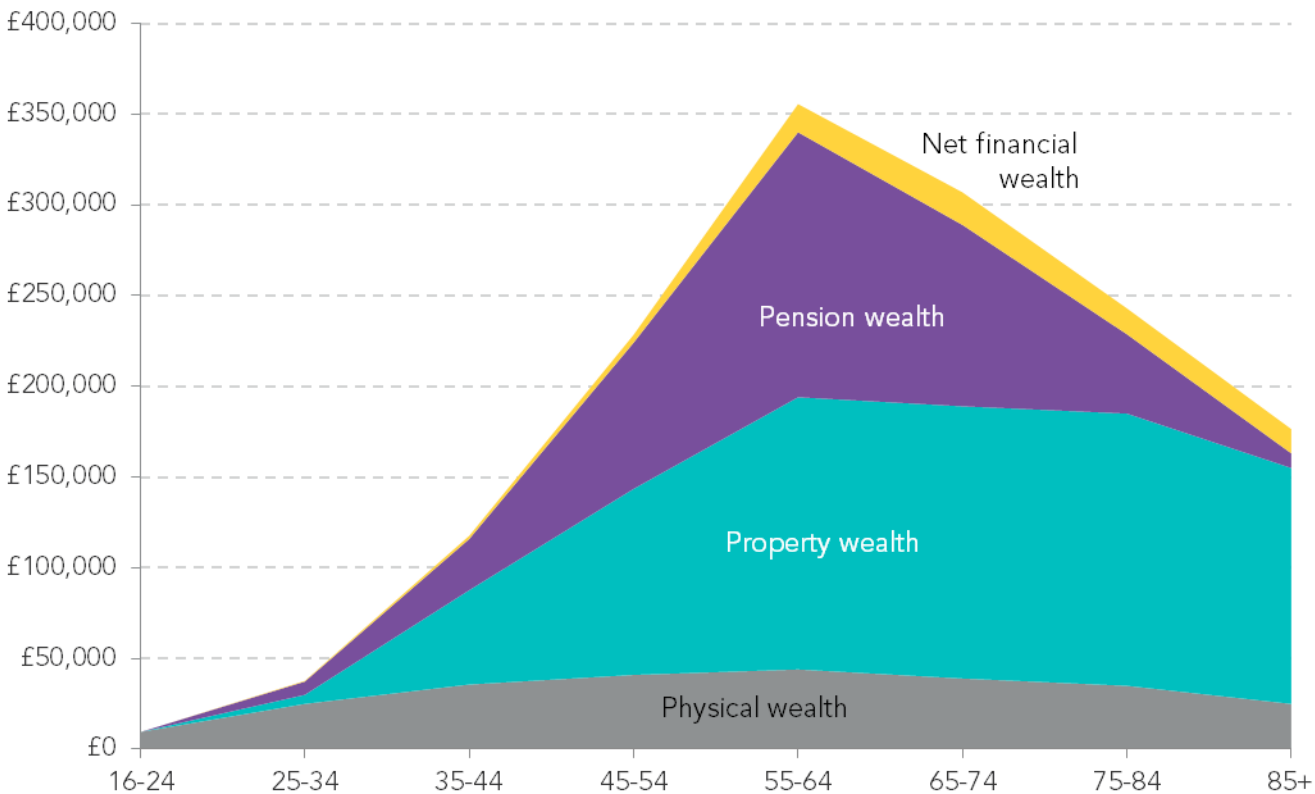
On the other hand, employment trends have been more positive, with gains in female employment particularly encouraging



Employment rates by age and sex for each generation: UK

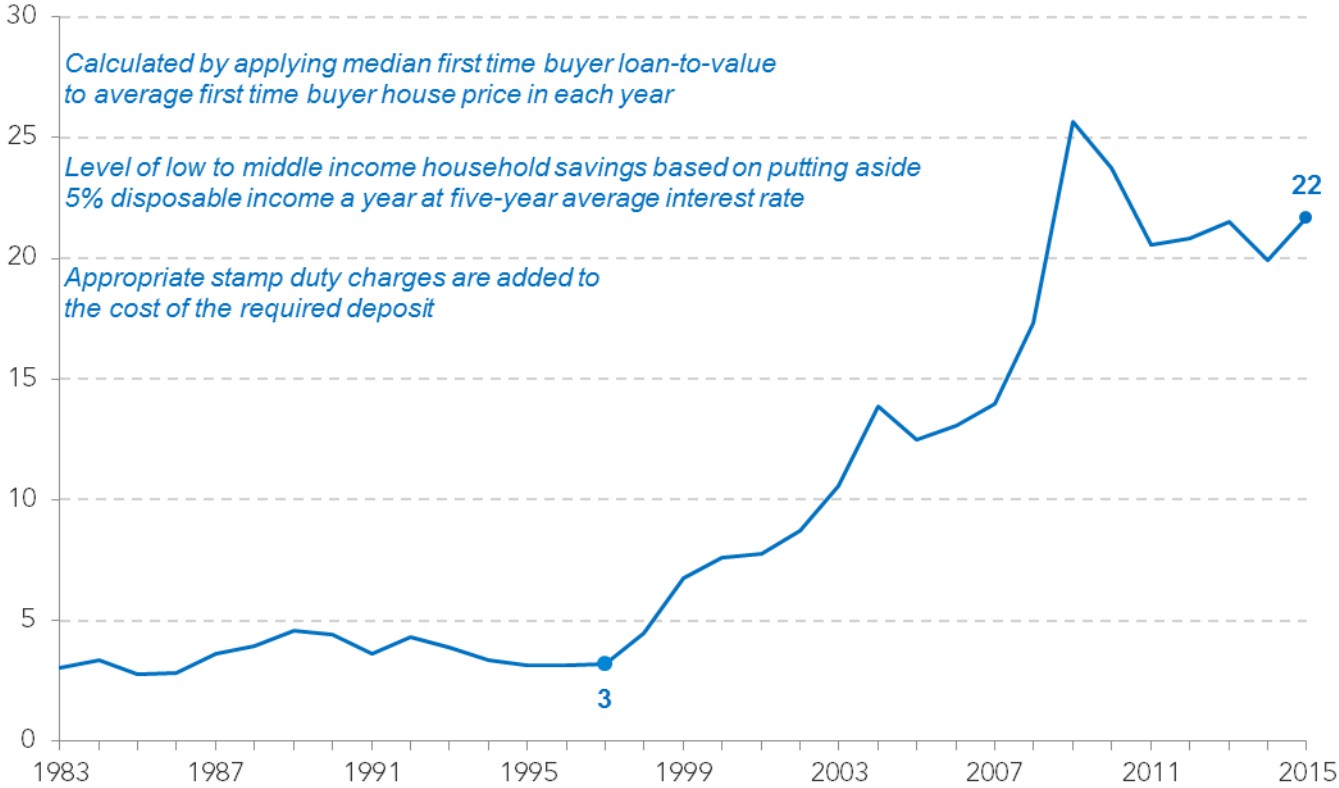
Wealth and assets

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



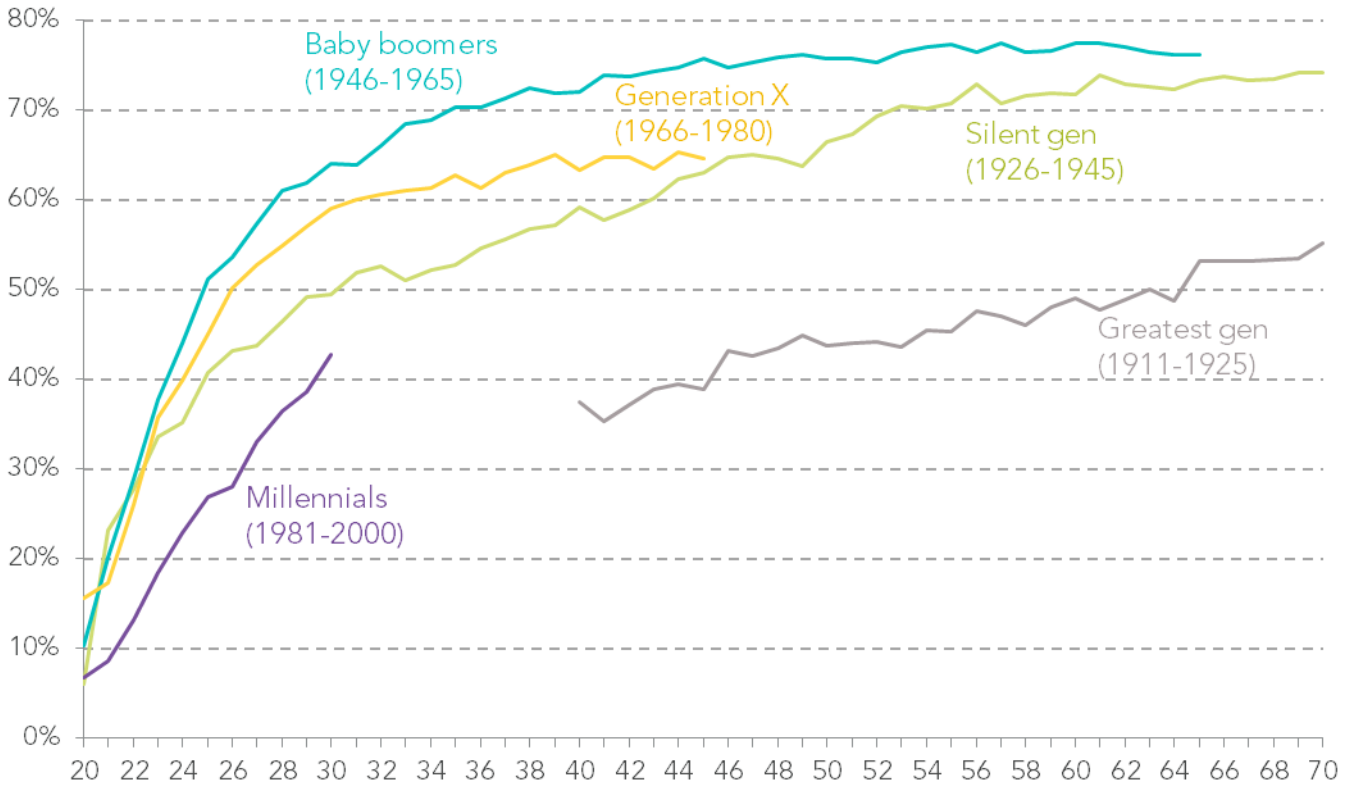
Median household wealth by age: Median for each wealth type, 2010-12, UK

The time required to save for a house deposit has grown from 3 years in 1997 to 22 years today



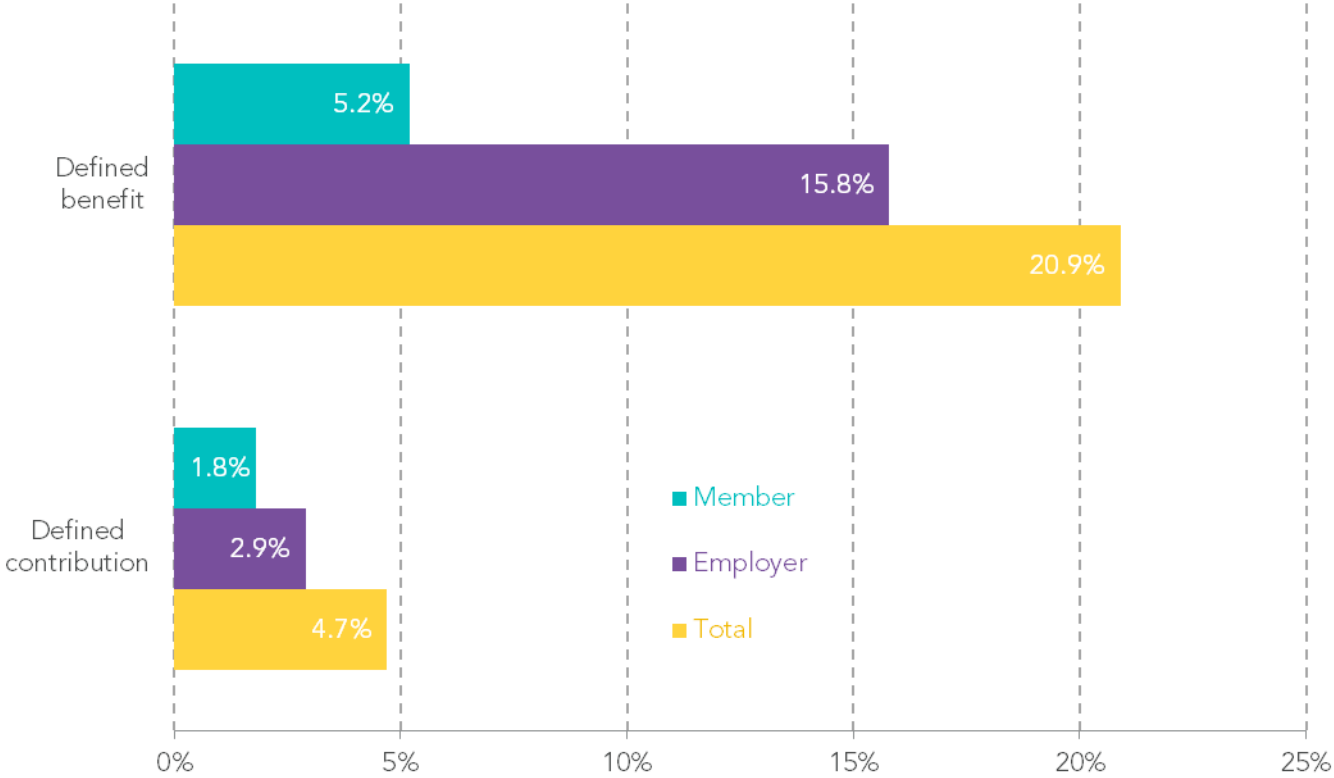
Time required for low to middle income households to save typical first-time buyer deposit: UK

Meaning the millennials so far are less likely to own their home than even the pre-war generation



Home ownership rates by age for each generation: UK

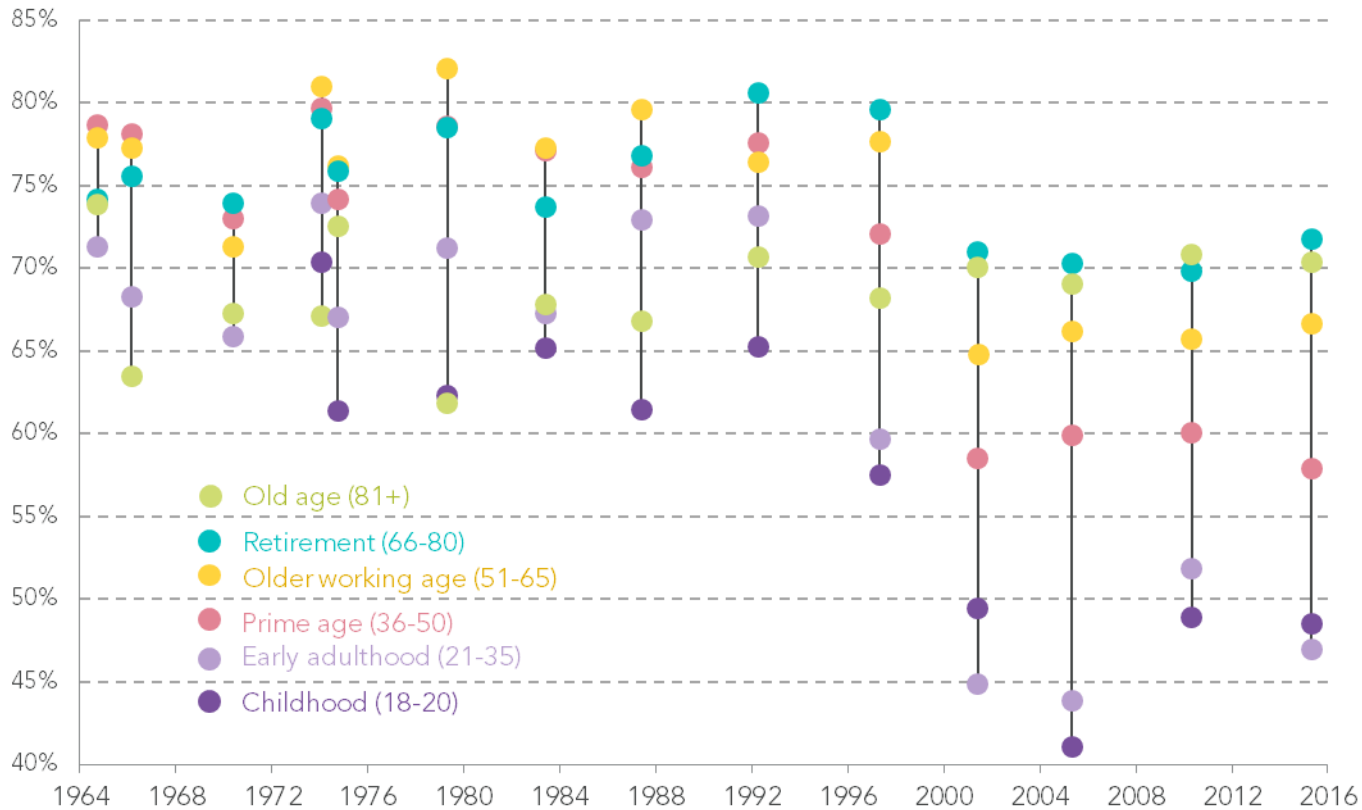
Generous company pensions are a thing of the past



Contribution rates to private sector pension schemes: 2014, UK

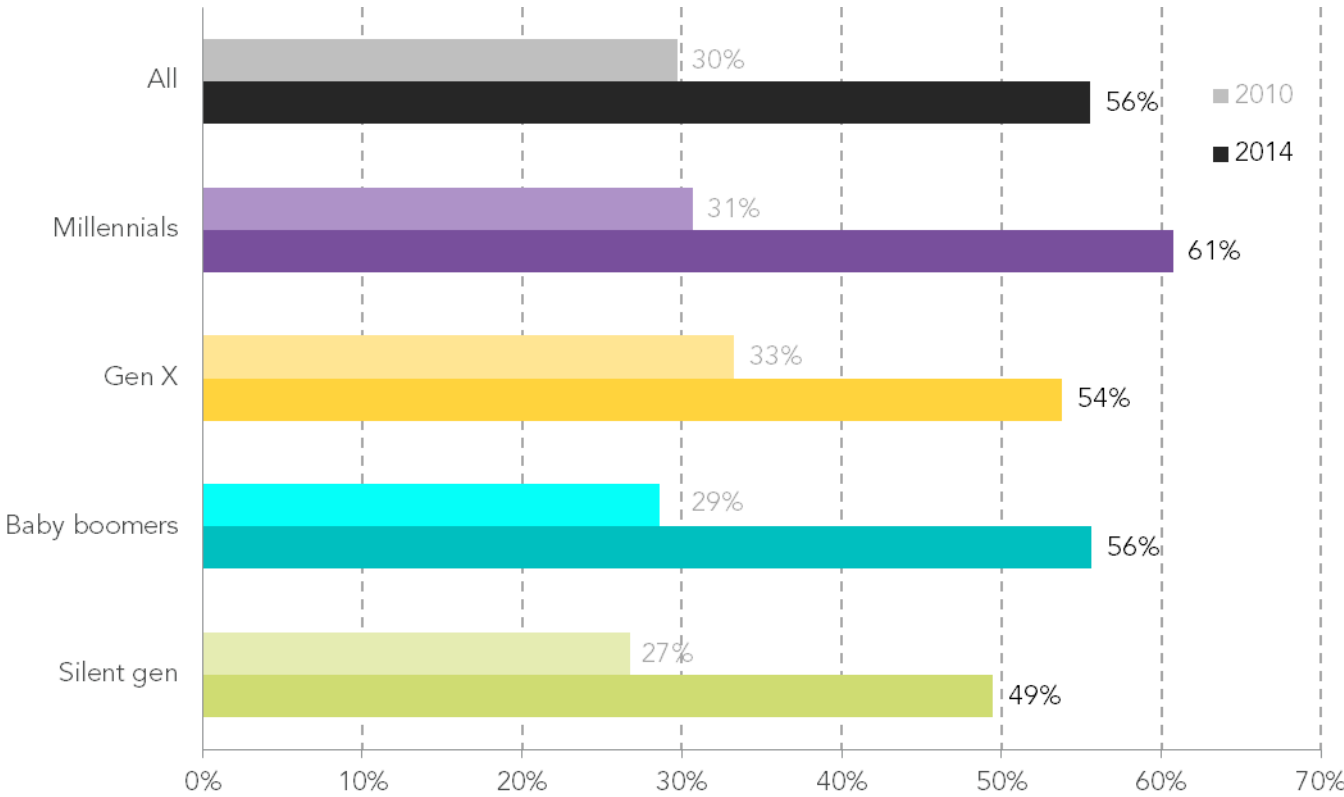
A new intergenerational contract

An unsolvable problem I? Some argue that power lies with the old – there are lots of them and they're more likely to vote



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

But reasons to be positive: Opposition to policies that will benefit the young have softened across generations



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

An intergenerational contract that underpins society

“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.”

Edmund Burke

So it's good news is the Prime Minister has put the task of addressing generational imbalances 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

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