

The recent referendum on the European Union has revealed the stark disunity within the country, none more so than between the generations.

Following the result, scores of young people took to social media to condemn the older generation. As Resolution Foundation senior economic analyst David Finch notes, this issue of intergenerational fairness has been “bubbling along under the surface” for several years, but it has taken the EU referendum to highlight it so visibly.

The government caught on several months ago, when the Work and Pensions Committee launched an inquiry into intergenerational fairness and whether government pension policies have had a significant impact on the disparity between the generations.

“From housing and education to pensions and taxation, younger generations are losing out disproportionately to older generations,” says Intergenerational Foundation co-founder Angus Hanton.

This statistic is one of many highlighting the ways in which younger generations are at disadvantage. For example, between 2010-2015, total spending on

pensioners rose by 6.2 per cent in real terms. In contrast, during the same period, non-pensioner spend decreased by 6.5 per cent, according to a report by the International Longevity Centre.

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Summary

- The EU referendum result, which saw more older voters choose to leave and the young voting to remain, has exposed a hostility between the generations.
- As the baby boomer generation moves into retirement, there is a strong ‘grey vote’ that politicians are keen to attract.
- This has created an issue of intergenerational disparity, with government policy tailored more favourably to pensioners.
- However, politicians and older generations need to consider the consequences to younger generations and the UK economy to resolve the issue.

Generational warfare?

With an ageing population and the ‘grey vote’, pensions spending has increased, whilst governmental non-pensioner spend has declined. Natalie Tuck explores what can be done to create equity between the generations

states that between 2009-2015, typical pay for those in their 20s fell by 12 per cent, whereas it only fell by 6.6 per cent for those in their 50s. And then there is the issue of housing; in 1997 almost three-fifths of those under 35 owned their own home, according to Finch, whereas the most recent statistics from 2014 show this is now just a quarter.

Despite this, the UK is ranked fifth

on the *Intergenerational Fairness Index*, a representation of how younger and older people are doing compared to the working age group. However, as the International Longevity Centre points out, a higher ranking on the index does not necessarily mean a higher standard of living for all generations, it could equally mean that people of all ages are poor.

Many policy experts believe the pendulum has swung too far towards supporting pensioners; Finch explains that when you see support being taken away from the poorest third of working age families whilst pensioner support has

increased for all pensioners, you “start to question the balance”.

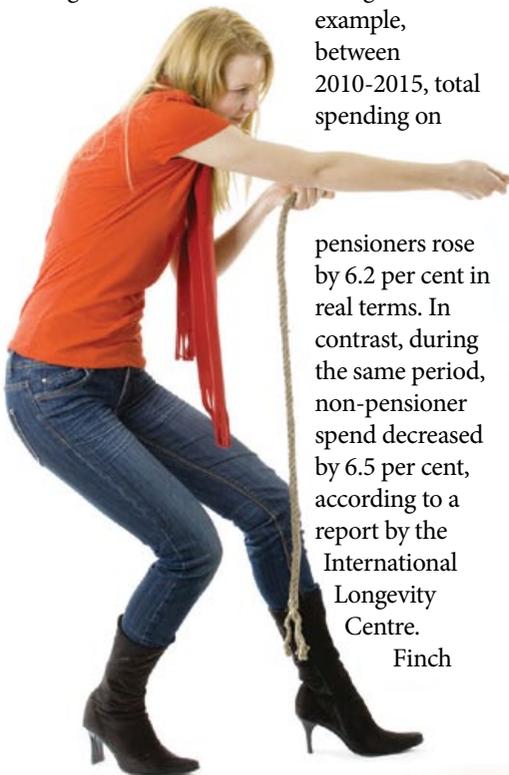
Pension woes

Arguably, one of the biggest disparities between older and younger generations is pensions. A recent study by the Intergenerational Foundation found companies are spending £42 billion a year on final salary defined benefit

pensions for older employees.

On average an older worker in a DB scheme receives pension contributions worth £23,600 a year, equivalent to about 20 times the average younger colleague in a DC scheme receives, at just £1,200 a year. Not only that, Hanton points out that in the wake of Brexit, pension liabilities have ballooned. “It means companies have even less money to spend on expansion, recruitment, or research and development – all areas that affect younger workers more than older workers,” he explains.

However, former Pensions Minister



Steve Webb, in his contribution to an ILC report on the welfare state, argued that the mixture of automatic enrolment, the new single-tier state pension and increases to the state pension age provides the chance of a stable and sustainable regime for retirement saving; perhaps the beginning of rebalancing between the government has also introduced the Lifetime ISA, available only to those under 40, to help them save to buy a home or for their retirement. Finch sees it as a “shift in focus” for the government but it is only a “small step on the way to addressing” the housing issue.

Blame game?

“I think what’s important for our intergenerational commission is that this shouldn’t be seen as some kind of generational war. It is more important to tackle long-term political and policy failures,” Finch says.

True, the government creates policy and has ultimate responsibility over where the budget is spent, but, as ILC head of economics of an ageing society Ben Franklin points out, the ageing population poses a difficult trade off for elected officials.

“On the one hand, ageing may require strategies to downsize the generosity of public pensions and other age-related services in order to support long-run affordability. On the other hand, ageing

will result in an increasingly powerful older voting block who will support a larger and more generous welfare system for the elderly,” he explains.

Despite the fact that older generations do not generally want to deprive upcoming generations, they are still inclined to vote in the interests of their own generations.

“One possible explanation is that parents expect to redistribute their wealth to their children and that by reforming the system, this makes such redistribution harder,” explains Franklin.

In spite of this, something needs to change. The ILC believes that the current system cannot continue if the welfare state is to survive. In its report on the future of the welfare state it notes that the working-age population in the UK is going to fall or stagnate. By 2040, the number of working age people supporting each person over 65 will drop from four to 2.5.

As noted, the younger generations are becoming increasingly vexed with the generational disparity. Hanton believes the young are wising up to the wealth of the older generations.

“They serve them on their holidays, in restaurants, in cinemas and at theatres. The fact that spending by older generations has increased by a third over the last 15 years is not lost on the young, who have suffered a 30 per cent decline in their own spending,” he says.

“That old age lobby groups have insisted on protecting universal benefits while young people suffer smacks of intergenerational selfishness. The fact that the wealthy old do not offer to take less, so the poorer old can take more, suggests that intragenerational selfishness is also at work.”

The solution

However, “it will take a brave politician and solidarity from older generations to bring about a fairer deal for young

people,” Hanton adds. “If old people demand youth-friendly policies then progress might be made.”

There needs to be real policy change to bring about fairness and one idea from the ILC is to apply the theory popularised by Marx: “From each according to their income ability, to each according to their needs.” In this case, the ILC says policies such as the triple lock would need end and the winter fuel allowance, transport passes and TV licence limited.

Hanton also questions whether the state could introduce measures to help

people pass wealth more easily between the generations. Because people are living longer, he says, they are inheriting money from older family members when they need it the least, often when they are themselves retired.

“The state could introduce two measures to pass wealth more evenly across the generations, by encouraging greater lifetime giving to younger generations, and by reducing inheritance tax on bequests that skip a generation.”

Of course, as Franklin points out, young people express strong support for pensioner spending as the “old and the young are not two completely different homogenous entities”.

“Similarly, while there is now a higher proportion of working age people in poverty than pensioners, this does not mean that we have solved pensioner poverty altogether, Franklin adds. “The role of the state must be to improve the health and wealth of the population where it is most needed, irrespective of age. One age group is no more worthy than the other”.

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