

The Pinch

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

David Willetts MP

Demography is destiny

- Thomas Malthus, *An Essay on the Principle of Population*, 1798
- Auguste Comte, *Positivism*, 1856
- Richard Easterlin, *Birth and Fortune*, 1980

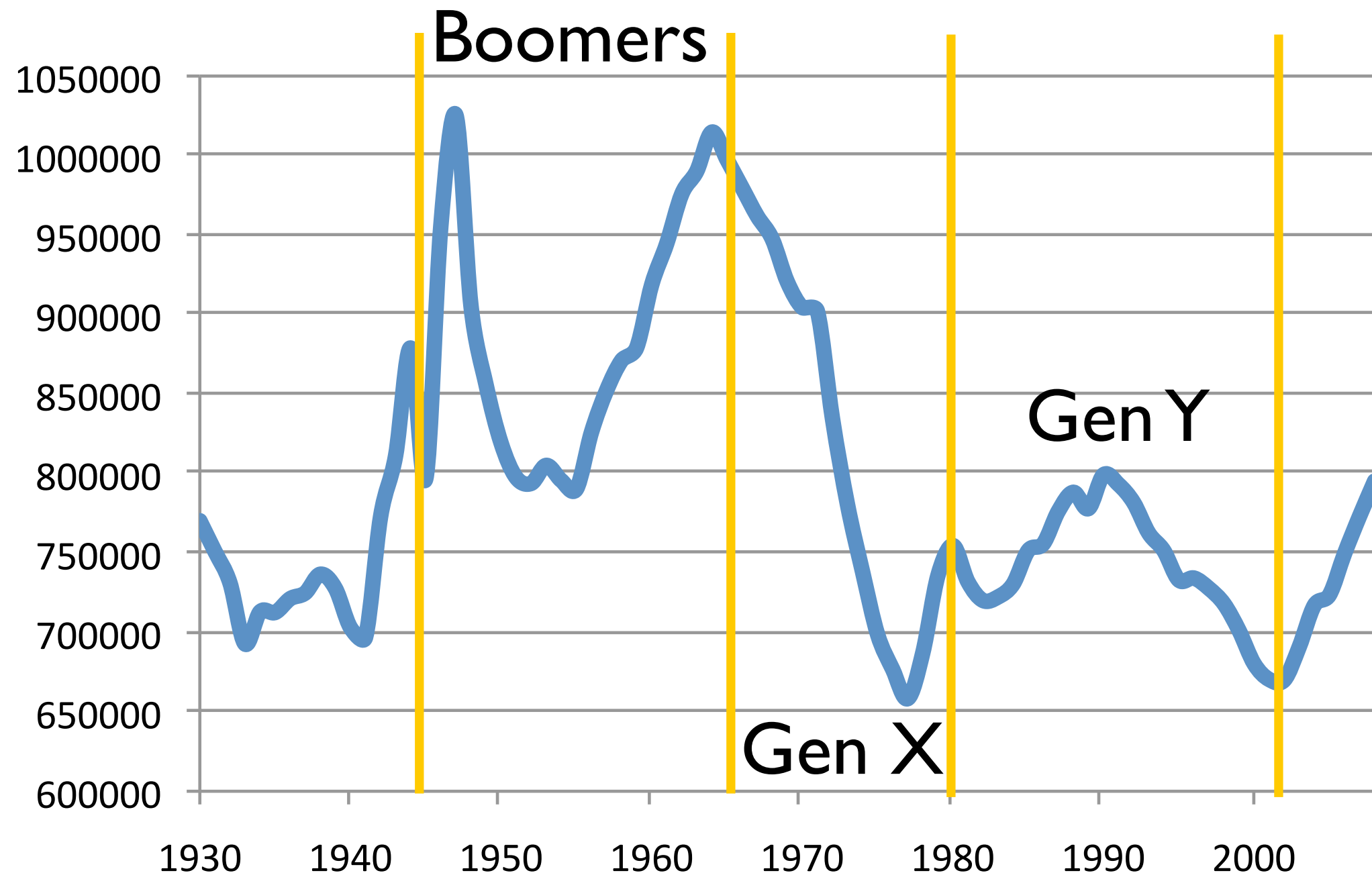
Or J M Keynes

“The economic consequences of a declining population”

“We know much more securely than we know almost any other social or economic factor relating to the future that, in the place of the steady and indeed steeply rising level of population which we have experienced for a great number of decades, we should be faced in a very short time with a stationary or a declining level.”

1937

Baby Boom and Bust, (Births in the UK)



Britain's moment of equipoise

Year	Median age
1950	34.6
1970	34.1
1990	35.8
2010	40

Median age of 40 and life expectancy of 80

The Inter-generational Contract

Imagine a tribe of hunter-gatherers sharing resources across the life cycle.

What families do.

What governments do.

“Giving goods to an older person is figuratively giving goods to yourself when old.” (Paul Samuelson, 1958)

The Contracts between the generations

- If we care for our children when they are young, they will care for us when we are old;
- If we care for our parents now they are old, our children will copy us, and similarly care for us when we are old;
- If we care for our children, they will copy us, and care similarly for their children, our grandchildren;
- Our parents helped care for our children so we have got to copy them and help our children when they have children.

What governments do, by Edmund Burke

‘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.’

Baby booms can break the contract

Our hunter-gatherers: a thought experiment.

Balancing the budget across the economic cycle with stable public spending commitments benefits the baby boomers.

We will look in turn at the welfare state, labour market , and property ownership.

How different cohorts gain or lose from the welfare state

Cohort	Receipts as % of tax
1901-1906	122
1931-1936	101
1946-1951	110
1951-1956	116
1956-1961	118
1961-1966	108
1966-1971	102
1971-1976	95

The Treasury's long term spending projections (% of GDP)

	2007	2017	2027	2037	2047	2057
Education	5.0	5.6	5.8	5.6	5.5	5.6
State Pension	4.9	5.1	5.6	6.3	6.3	7.2
Health	7.4	7.9	8.6	9.2	9.6	9.9
Social care	1.2	1.2	1.4	1.7	1.8	2.0
Public pensions	1.5	1.8	2.0	1.9	1.8	1.8
Total	20.1	21.7	23.4	24.7	25.0	26.6

The jobs market

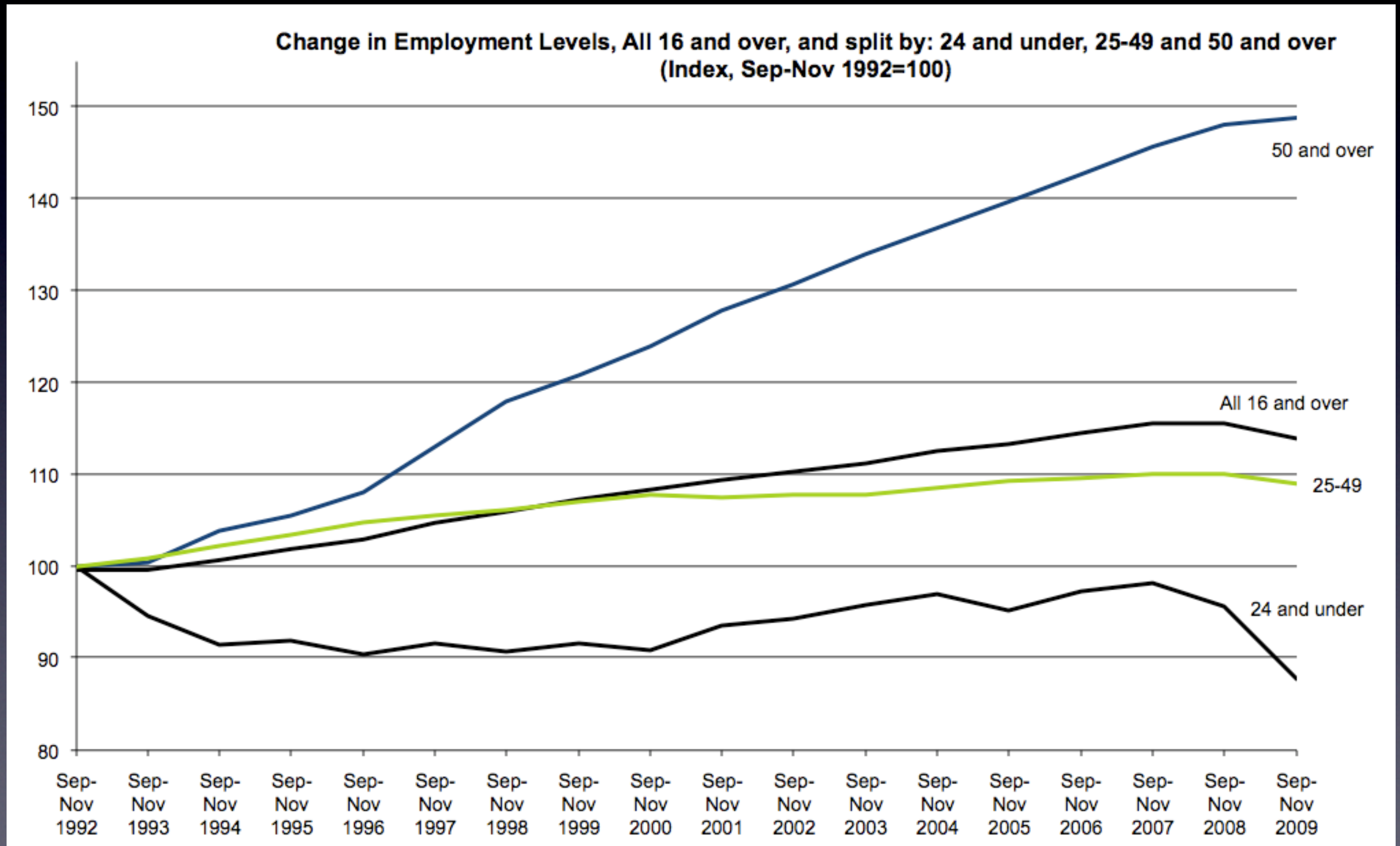
- In 1974 average 50-59 year old male earned 4% more than 25-29 year old. In 2008 it was 35% more. (Earnings Surveys)
- During the recession employment of over 50s has reached a record high and of under 25s a record low. (Labour Force survey)
- Because globalisation came at the right time for the boomers.

Job satisfaction by age

Age	Winter 09/10	Spring 09
18-24	+5	+35
25-34	+24	+44
35-44	+35	+45
45-54	+34	+40
55+	+54	+60

Source: Cipd

Employment by age



Who owns our £6.7 trillion of personal wealth?

Liquid financial assets

Owner-occupied housing

Buy to let and physical assets

Pensions

New estimates of housing wealth by age

Age	Net housing wealth £b
under 50	540
50 to pension age	1,280
pension age to 75	600
75 +	470
Total	2,890

Source: PPI using ELSA data for 2007

New estimates of Pension wealth by age

Age	People (m)	£b	% of total
16-24	7.2	10	0.3
25-34	7.7	130	3.7
35-44	8.9	480	13.7
45-54	7.9	880	25.2
55-64	7.1	1,140	32.6
65-74	5.0	570	16.3
75+	4.7	290	8.2
All	48.5	3,500	100

Source: Wealth and Asset survey and PPI (unfunded

The Pinch - David Willetts public sector schemes included)

Wealth per person by age

16-24	£12,900
25-34	£65,900
35-44	£174,900
45-54	£287,800
55-64	£416,100
65-74	£306,000
75-84	£225,200
85+	£171,800
Overall	£204,500

Source: Hills Equality Report table 8.1, from ONS
Wealth and Assets survey 2006-2008

Willetts Estimates of distribution of assets by age group (£trillion)

Age Group	Liquid assets	Own housing	Other assets	Pension	Total
Under 45	0.2	0.3	0.1	0.3	0.9
45-65	1.0	1.0	0.75	0.75	3.5
65+	0.4	0.8	0.4	0.75	2.3

Why do the boomers own so much?

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?

Are the boomers....?

- lucky
- selfish
- redistributing from rich future to poor present
- unaware

How to pay for rising cost of state pensions: attitudes by age

	18-34	35-49	50-69
Pension to fall	22	18	13
Raise age of pension	37	25	25
Raise tax	31	46	52

Source: Attitudes to pensions, 2006 Survey
DWP Research report no 434

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)
- Age segregation where you live (Social housing has up to six times the average ratio of children to adults)

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

	Strongly agree	Somewhat agree	Disagree
France	37	36	22
Germany	26	24	46
Spain	24	45	26
UK	42	34	19

The Pinch - David Willetts

Source: Eurobarometer 269

The growing gap between the generations

Percentage of adults intervening if they saw 14 year olds vandalising a bus shelter

Germany	65
Spain	52
UK	34

An appeal to the baby boomers- we are better parents than we are citizens

- Imagine you are running a forestry business
- Policies for the long term are what more than half voters value - and 13% vote on ideology.

The Pinch

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

David Willetts MP
16th February 2010