The opportunities open to today’s young people through their lifetimes will depend to a large extent on their prospects in employment and housing. They will assess their fortunes as a generation by how much they can earn and consume relative to the parent’s generation, and also by the quality of housing they can afford compared with their parents. These two constitute a major part of what we think of when we compare lifestyle opportunities between generations. However, they are by no means the only factors which determine how one generation fares compared with other generations. Equally important are wealth and how the costs and benefits of state welfare are distributed across age groups and generations.

Wealth

Wealth represents the most visible overall measure by which individuals and families compare themselves with each other and by which we compare different groups in society. It gives access to many of those things which people consider as part of a desirable lifestyle. Both in the media and in society more generally, wealth signifies status and well-being, perhaps more so than at any time since the Edwardian era in Britain. No wonder for the popularity of the recent television drama, Downton Abbey, which chronicles the fortunes of the rich (and their servants) from its apogee in the years before the First World War, to the relative declines after World War Two. The story of the dwindling fortunes of
post-war aristocrats, and the parallel rise of the working class, is, in many ways, well captured, but it is no doubt the sheer scale of opulence of the rich in their glory days which most captivates. As Thomas Piketty has shown, the tables have since turned again, with the rich both more wealthy and more differentiated from the rest than at any time since the first decade of the last century.

Wealth in the UK is very unequally distributed—much more so in fact than earnings or household incomes—and the gaps have been growing since the late 1980s or earlier (depending on which definitions and sources you use). Currently, the top ten percent own more than 100 times the wealth of the least affluent ten percent.\(^1\) According to the data from the ONS Wealth and Assets Survey in 2006/2008, the most reliable source we have, the least wealthy half of households had nine percent of total wealth, whereas the wealthiest 20 percent had 62 percent. Financial wealth is the most unequally distributed, with the wealthiest 20 percent owning 84 percent of assets and least wealthy half owned just one percent.\(^2\) But residential property wealth is also very unequally spread around. Because wealth is mostly inherited not earned—almost three quarters of it currently in the UK—and because substantial inheritance benefits relatively few, it is much more unequally distributed than incomes. The usual measure of the inequality in how things are distributed, the Gini coefficient, would be 100 where just one person owned everything and nought where everyone had equal amounts of wealth. The Gini coefficient for total net household wealth, calculated from the 2006–2008 Wealth and Assets Survey, is 61—almost double that for net household income which, taking into account the size of households, currently stands at 36.\(^3\)

We don’t know by exactly how much wealth inequality has risen in recent years: the Wealth and Assets Survey does not provide data on trends in wealth distribution. However, we do know that it has been rising. Piketty’s broad brush decennial historical estimates show the share of wealth of the top ten percent in Britain declining substantially for most of the 20th century, from 90 percent in 1910 to around 62 percent in 1975, and then rising again to 70 percent in 2010.\(^4\) The more recent data come partly from HMRC figures on the size of probated estates. These tend to under-estimate inequality because they do not include gifts made more than seven years before death which, being exempt from inheritance tax, represent a common way for those with assets to pass them on to their children. Even so, they suggest that wealth has become much more unequally distributed since 1990. Between 1976 and 1990 there was a small and uneven
trend towards lower wealth inequality, although with a spike in 1987 (as measured by the Gini coefficient for ‘personal marketable wealth’ since the source is individual estates on death). However, since 1991 there has been a substantial increase, with the Gini coefficient rising from 63 to 71 percent in 2002 (before dropping back again to 67 percent in the following year). The overall trend towards rising wealth inequality since 1990 is partly due to the increase in inequality in housing wealth.

Also growing are the inequalities in wealth between different age groups. Wealth is typically accumulated throughout the lifecycle, as individuals gain more possessions, accumulate more in housing assets and savings, and grow their pension entitlements. So older age groups are always wealthier than younger ones, at least until people retire. According to the 2010 report of the National Equality Panel, median household wealth for households with reference persons aged 25–34 was £66,000, compared with £416,000 for those with reference persons aged 54–64 and £172,000 for those with reference persons aged 85 plus. There is, of course, also considerable inequality of wealth within each age group. Amongst the 50–64 age group the bottom ten percent have less than £28,000 on average whereas top ten percent have more than £1.3 million. But the age group differences are equally marked and are also growing. According to Bank of England estimates, between 1995 and 2005 the median net household wealth (not including pensions) of those aged 25–34 dropped 69 percent, from £3000 to £950. For those aged 35–44 it increased by 230 percent from £22,788 to £54,475; for 55–64s by 298 percent from £50,000 to £149,500 and for those over 65 by 241 percent from £39,500 to £95,500.

One of the main reason for this growing inequality of wealth between age groups is housing. The age groups with the largest gains in wealth during the period, the 35–44s and the over 65s, are also the age groups with the largest share of gross housing wealth. Of a total of £3.16 trillion worth of gross national housing assets, the under 35s owned 11 percent, the 35–44s 22 percent and the over 65s 26 percent. We can also see the relationship in the differences in the wealth of people with different housing tenures. In 2006/2008 the median total wealth of outright home owners was £410,000, compared with £269,700 for mortgagees, £24,600 for private tenants and £17,500 for social tenants. The gap between housing rich and housing poor is increasing even as more in the middle have become home owners. This also increases the wealth gaps between the young and older people.
Furthermore, inheritance does not seem to be compensating for the rising age inequality in wealth due to housing inequality. HMRC data on probated estates shows that the annual number of estates including housing assets declined between 1969/1970 (149,592) and 1992/1993 (142,446). This is partly because the cohort that own more houses are not yet dying. People aged 30 in 1980 were still only 66 in 2016. The major increase in housing wealth in estates is unlikely to come for another ten years. Also, while it is true that many older people with housing assets are passing part of them on as gifts, it is also true that many baby boomers are ‘spending the inheritance’ before they die, in many cases to pay for their growing health and social care bills. Inheritance does not compensate the young generation as a whole for its diminishing assets and those that it does benefit are a minority.

According to a 2004 Joseph Rowntree Foundation report 54 percent of those surveyed had never inherited, and of those that did only 11 percent received an inheritance which included property. While over half of home owners had received an inheritance at some point in their lives, less than a third of tenants had. Only 28 percent of those in social class E inherited with only 15 percent receiving more than £10,000. A more recent report from the Institute for Fiscal Studies notes that elderly households are becoming more wealthy. Among households where all members are 80 or over, average non-pension wealth in 2012–2013 was £230,000 compared with £160,000 for the same age group in 2002–2003. However this wealth is very unevenly distributed with the top half of households holding 90 percent of this wealth. Hence, only the ‘lucky’ half of the children’s generation will be inheriting most of the wealth from the older generation. As the report comments, these trends mean that inherited wealth is likely to play an increasingly important part in the life chances of the younger generation. At the same time it looks likely to increase inequalities within this generation with serious negative consequences for social mobility.

As the age-related inequalities in home ownership increase in the coming years, so will the age-related gaps in wealth overall. The declining size of private pensions accruing to younger generations will also add to this effect if we include pension wealth as part of overall total. On current trends, with the gradual eclipse of final salary pension schemes and, in fact, the erosion of private pensions per se, the next generation of young people can expect to be poorer relative to older generations even than today’s youth. To what extent does this indicate a lifetime intergenerational decline in wealth and is the trend likely to continue for future generations?
If, as Piketty argues, private wealth is still growing in relation to the overall economy, then it seems unlikely, on current trends, that over their lifetimes the Millennials will amass less wealth overall than their parents’ generation, unless of course, GDP declines. It will just become more and more unequally distributed, across and within age groups. On the other hand, if baby boomers spend more of their wealth in old age, and if policy makers were to decide that the public debt was unsustainable and had to be paid off through large increases in taxation on private wealth and incomes, the Millennial generation could find itself less wealthy than the previous generation through their life course. This all depends on public policy and particularly on policies relating to taxation and social transfers.

**Intergenerational Transfers**

David Willetts estimated (for 2009) that governments currently spent around £125 billion pa in welfare on those over 65 (£50 billion in health care and £75 billion in state pensions). By contrast it spent about £80 billion on people under 18 (£50 billion on education an the rest on child benefits and tax credits). The flow goes increasingly towards the old rather than to the young. The over 60s currently get three quarters of all public spending on benefits. The Treasury’s long-term spending projections show the proportion of spending on age-related benefits rising from 20.1 percent of GDP in 2007/2008 to 26.6 percent in 2057/2058. As the current 20s age group reaches their 40s, when they pay most tax, their tax burden may have increased very substantially. Those born in the 2017 will enter their 40s in 2057 by which time total age related government spending may have grown as a proportion of GDP by six percentage points. This suggests much higher taxation for the coming generation when they reach their prime earning years.

Welfare states are designed to smooth the risks over the life course, and they generally involve adults of working age being net contributors and the young and the old being net beneficiaries. However, as populations age, the age-related imbalances tend to get larger, with those in their prime working years being obliged to pay more taxes to fund the health care and state pensions of a larger elderly population. Age-related inequalities in net contribution to the welfare system would have increased, but lifetimes costs and benefits for different generations might not have changed. The so-called generational contract over the welfare state would still be in place. However, if the current young generation
make larger contributions in taxes to the welfare state than previous generations in their prime years, but fail to get the same benefits when they retire, the intergenerational contract begins to break down, and a gap will have opened up in the lifetime welfare benefits of two generations.

Historical estimates by London School of Economics social policy expert, John Hills, of what past generations have put in and taken out, does suggest that some generations do better than others. Those born between 1901 and 1921, when the welfare state was just getting established, are estimated to have taken out between 115 and 122 percent of what they put in. Then the balance evened out until the baby boomers. The late baby boomers born between 1956 and 1961 are forecast to get out from the welfare state 118 percent of what they put in.11 As Willetts suggests, the young people today are likely to be generational losers. This will almost certainly be the case in terms of private pensions, since they will be paying higher contributions during their prime years to fund the growing costs of the relatively generous pensions held by many of their parents’ generation. But they themselves may only receive a pittance in retirement from their own ‘defined contribution’ occupational pensions schemes, if indeed they have them, which many will not. The relatively generous ‘defined benefit’ pensions schemes of the past are fast becoming extinct, dropping from five million in 1995 to only 500,000 now.12

A similar generational inequality may apply in relation to state benefits, as Willetts suggests, since it seems highly unlikely that governments will be able to retain current real-terms levels of spending per retiree on state pensions and healthcare when the number of pensioners reaches one third of the population. There is already growing debate about the so-called ‘triple lock’ on pensions, which ensures that these always rise faster than incomes and prices. Treasury predictions for the next 40 years suggest that with current policies public spending grows by 4.9 percent of GDP, and this is without factoring in population increases. The estimated costs of NHS rise from five percent of GDP in 1990 to ten percent in 2040. Half of the NHS budget is spent on pensioners, so on these predictions, pensioners’ healthcare alone could take up five percent of GDP by 2040.

Is the generational inequality in net contributions to the welfare state limited to a once off imbalance between the baby boomer generation and the later Millennial generation? Willetts’s focus is certainly here. However, other projections based on so-called ‘generational accounting’, suggest that the generational inequalities will not stop there. National Institute of Economic and Social Research economists, McCarthy, Sefton and Weale,
produced a set of generational accounts in 2011 which calculated ‘the net life-time contribution, positive or negative, that people, as a function of their age, are expected to make to the Exchequer.’13 Receipts include both welfare benefits and public consumption, which they allocate as far as possible by age. Payments are largely comprised of taxes. The net lifetime contributions of each generation are the total of what they are predicted to contribute in taxes minus what they take out in benefits and public services. The projection assumed that government policies agreed by June 2010 were implemented; that the economy, and therefore per capita tax revenues, grows at an average of two percent per annum; and that real interest rates average at three percent. The population is assumed to continue growing and ageing until 2058, whereafter it stabilises.

The models show the gap between revenue and expenditure (excluding interest payment on Government debt), expressed as a percentage of GDP, closing from 2008 until 2018 and then increasing to 2058, mainly due to the increases in age-related expenditure with an aging population. The projected net contributions of different generations continues to increase long into the future. The average for those not yet born in 2008 (£159,668) is markedly higher than for those aged 25 (the Millennial generation born 1983) (£124,486), which is much higher in turn compared with those aged 65 (baby boomers born 1945), who make a negative net contribution (−£223,183). According to the model, in order for future generations to receive the same net benefits as those born in 2008, taxes would have had to have risen by 15.4 percent from 2010, and even then the baby boomer generation, with declining tax liabilities, would have done much better than those born in 2008 or after. Given that we now know that taxes did not rise by this amount, and that plans for the elimination of the budget deficit by 2018 have now been abandoned, these projections of ongoing intergenerational inequalities are likely to be conservative.

These are predictions, estimated on the basis of 2010 policies and population projections, and, even if the population estimates prove accurate, policies may, of course, change. However, on the current trends, it does seem highly likely that the Millennials, and the generations coming after, will end up contributing much more to the welfare state than they take out over their lifetimes, whereas the baby boomer generation will take out more than it contributed. Taking account of the generational transfers occurring through housing markets and private pensions, only partially offset by inheritances, this will amount to a very substantial inequity between these generations over the life course. The intergenerational welfare contract will have broken down.
