



Response by Population Matters to the Inquiry by the Work and Pensions Committee into Intergenerational Fairness

About Population Matters

Population Matters is a UK-based charity that addresses population size and its effects on environmental sustainability. We see population growth as a major contributor to environmental degradation, conflicts, migration and many other problems. We conduct research, inform the public and advocate policies that promote smaller and thus more sustainable families.

Questions

We are responding to the listed questions in the following order:

2. To what extent is intergenerational fairness a welfare issue?
1. What has been the collective impact on different generations of policies in recent years, including welfare reform and deficit reduction with areas of protected spending?
3. What effects are these changes projected to have over time? Are they sustainable? What have the long-term trends been?
9. What are the options for reform?

Summary

This submission argues that:

- intergenerational fairness is a welfare issue because the functioning of the welfare state relies on an intergenerational social contract.
- an ageing population and current government policies contribute to a substantial increase in the dependency ratio (DR) and put a heavy financial strain on the workforce.
- to ensure a fair and sustainable welfare state, the government must stabilise population growth and seek to slow down the DR increase.

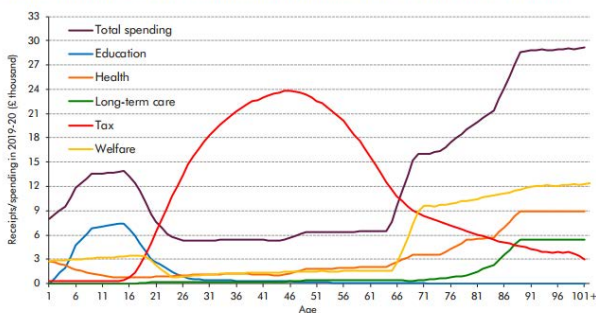
Question 2

To what extent is intergenerational fairness a welfare issue?

The welfare state was created to ensure an acceptable minimum standard of living in the UK below which nobody would fall.¹ The system relies on the idea that all working people pay taxes to the state, which in turn spends these on benefits for the least well off. The group benefiting from this shall henceforth be called ‘dependents’, and includes the retired, children, the disabled, and the unemployed.²

Such a system of redistribution is only possible when there is an intergenerational social contract in place. Each successive generation of working people must be willing to support society’s dependents through taxation. It is reasonable to agree to that, if it guarantees that you will in return receive support if required. The chart below demonstrates that everyone in society is at some point dependent.

Chart 3.6: Representative profiles for tax, public services and welfare spending



Source: OBR

When the workforce no longer has the guarantee of future support, the basis of the system is threatened. It amounts to a breach of contract. Since the welfare state relies on intergenerational cooperation, intergenerational fairness is indeed an urgent welfare issue.

Individuals born between 1956 and 1961 will receive 118 per cent of what they contributed from the welfare state.³ At the same time there is no guarantee that the present workforce will reap the same benefits.⁴

On top of this, the age distribution of the population shifts towards an older age as a consequence of increasing longevity and falling birth rates.⁵ An ageing population per se, is of little concern. A higher dependency ratio (DR), however, can cause unfairness between generations. The DR indicates how many economic dependents a society has, relative to each of its working citizens.⁶

At present, the DR in the UK is projected to rise from 0.34 now, to 0.65 by 2040.⁷ This means that while every 10 workers currently support 3.4 dependents, every 10 workers will have to support 6.5 dependents in the future. A higher ratio places a bigger burden on the workforce.⁸ This can be unfair, which illustrates that intergenerational fairness is a pressing welfare issue.

Question 1

What has been the collective impact on different generations of policies in recent years, including welfare reform and deficit reduction with areas of protected spending?

Recent welfare reform and deficit reduction plans have reduced the government’s expenditure. On the one hand, it has been made easier to remain employed after the age of 65, and the age at which one receives a state pension is slowly being raised to 68 for both men and women.⁹ These are

positive developments because they reduce government expenditure.

Yet, on the other hand, the government’s deficit reduction strategy is harmful. It protects all pensioners’ benefits and, as a consequence, reduces benefits that are predominantly enjoyed by the workforce, such as child and housing benefits.¹⁰ On average, pensioners are currently better off than those in work.¹¹

Between 2002-03 and 2013-14, the real median income of pensioners increased by 21.1 per cent, but the non-pensioner median income grew by only 1.2 per cent. Average housing costs for pensioners are also significantly lower than for those in work. Altogether, this means that the average household income for pensioners is two per cent higher than that for non-pensioners.¹²

Figure 2.3. Changes in median household income (BHC) for pensioners and non-pensioners (UK)



Source: IFS

This suggests that the government’s policies may not benefit those who are worst off in society.

Question 3

What effects are these changes projected to have over time? Are they sustainable? What have the long-term trends been?

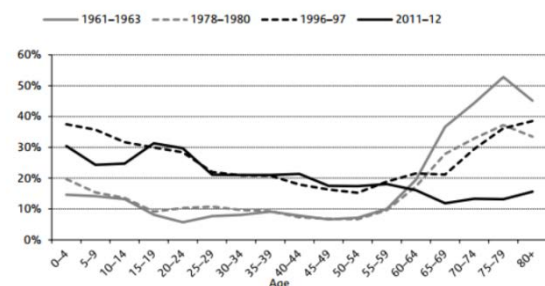
Two factors will create serious problems for the government in the long term if they are not addressed. These are:

- Protected pension benefits
- A greater number of individuals eligible for state pensions due to an ageing society.

Protected Pensioner Benefits

Pensioners are currently on average two per cent better off than non-pensioners. This is not caused solely by pension benefits, but also by property value increase.¹³

Figure 6.3a. Poverty rates by age (AHC)



Source: IFS

The graph shows that in 2011-12, the lowest rate of poverty was measured among pensioners. This forms a stark contrast with the situation between 1961 and 1997. It is positive that pensioners face less poverty, but it shows that the government must now move its focus to other citizens if it aims to aid the worst-off members of society.

Ageing of society

It has been suggested that the UK should actively attract migrants in order to counterbalance the projected DR growth.¹⁴ This would, however, merely postpone the problem. All productive people added to the workforce will at some point become dependent.

Moreover, adding to the population is not a sustainable solution. It is a fact that the UK is physically and resource constrained, and any addition to its population puts an additional strain on the environment and on the welfare system.¹⁵



Question 9

What are the options for reform?

To ensure that the welfare state achieves its aims in a fair way, Population Matters suggests that reforms should focus on two things in particular:

Stabilising population growth

The key to maintaining a sustainable welfare state is to stabilise population growth. The ageing of the population provides a golden opportunity to achieve that.

Population stabilisation can be achieved in a number of ways. On a national level the following should be implemented:

- Better sex and relationships education and improved access to family planning.
- Reducing subsidies for large families. This may disincentivize having more children.

Decreasing dependency

The government should focus on increasing its current population's productivity. It can do so in the following ways:

- Many women have now entered the labour market, whilst the majority of women were dependents in the past. Further empowerment of women will reduce the DR further.¹⁶
- Improved mobility and technology make it easier for disabled individuals to participate in the labour market.¹⁷
- The UK currently faces significant youth unemployment.¹⁸ Reducing those levels will improve the DR.
- Presently, many who reach retirement age retire involuntarily because their companies don't want to keep them.¹⁹ The assumption that people over 65 are old and unproductive is outdated. The government should promote employment of older people, because it is projected that three more years of work will add 3.25 per cent to the GDP by 2033.²⁰
- Raising the state pension age to match increasing longevity is sensible, and will reduce public expenditure.²¹
- As the House of Lords has suggested, it is fair to ask older people who have seen the value of their houses rise significantly through the years, to use these gains to support themselves.²²



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¹ http://www.nationalarchives.gov.uk/pathways/citizenship/brave_new_world/welfare.htm

² http://www.tai.org.au/documents/dp_fulltext/DP63.pdf

³ <http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2015/intergenerational-fairness-launch-15-16/>

⁴ <http://www.ifs.org.uk/publications/8026>

⁵ http://longevity-science.org/Population_Aging.htm

⁶ <http://www.economicshelp.org/blog/glossary/dependency-ratio/>

⁷ <http://www.economicshelp.org/blog/glossary/dependency-ratio/>

⁸ <http://www.investopedia.com/terms/d/dependencyratio.asp>

⁹ <http://www.pensionsadvisoryservice.org.uk/about-pensions/pension-reform/state-pension-reforms-new-state-pension>

¹⁰ <http://www.ifs.org.uk/publications/7541>

¹¹ <http://www.independent.co.uk/news/uk/home-news/pensioners-earning-more-than-the-average-worker-new-analysis-says-a6701851.html>

¹² <http://www.ifs.org.uk/uploads/publications/comms/R107.pdf>

¹³ <http://www.publications.parliament.uk/pa/ld201213/ldselect/ldpublic/140/140.pdf>

¹⁴ <http://www.telegraph.co.uk/news/uknews/immigration/10185342/Britain-needs-millions-more-immigrants-to-reduce-strain-of-ageing-population.html>

¹⁵ <http://populationmatters.org/issues-solutions/population/ageing/>

¹⁶ http://www.tai.org.au/documents/dp_fulltext/DP63.pdf

¹⁷ <http://www.edi.cornell.edu/publications/TechDrivenWorkplace.pdf>

¹⁸ <http://www.theguardian.com/society/2015/feb/22/youth-unemployment-jobless-figure>

¹⁹ http://www.tai.org.au/documents/dp_fulltext/DP63.pdf

²⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/411420/a-new-vision-for-older-workers.pdf

²¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/411420/a-new-vision-for-older-workers.pdf

²² <http://www.publications.parliament.uk/pa/ld201213/ldselect/ldpublic/140/140.pdf>