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Millennial Bugs. A review of the Resolution Foundation's Intergenerational

Commission's final report

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Abstract

What obligations do the old owe the young? This question is at the core of the Resolution Foundation's Intergenerational Commission report that was published on May 2018. A novelty of this report is that it invokes Edmund Burke in support of efforts to boost intergenerational fairness. But, this paper suggests that Burke is only a very limited guide for closing the wealth gap between the generations. Taxing the wealth of baby boomers is likely to be central for any efforts to close the wealth gap. However, Burke was a strong supporter of inherited wealth. Burke might be more useful in a more limited sense of allowing debates to be opened up about home-ownership.

Key words: Intergenerational Commission; Edmund Burke; Inheritance; Home-Ownership, Baby boomers

Word count: 2,946

Introduction

What obligations do the old owe the young? This question is at the core of the Resolution Foundation's Intergenerational Commission report that was published on May 2018.¹

Although household wealth has grown very quickly during the 21st century, no generation born after 1960 is building more wealth than their predecessors. Earnings growth has stalled with millennials – those born between 1981 and 2000 - earning the same as those born 15 years before them at the same age. Membership of defined benefit pension schemes at age 25 has halved for those born in the 1980s compared to those born in 1970. Millennials are also half as likely to own their own home at age 30 as those born between 1946 and 1965.

Around a decade ago, the former Conservative MP David Willetts wrote a book called *The Pinch* in which he claimed that a baby boomer generation born between 1946 to 1965 had effectively pinched the rightful inheritance of their children. Changes in the global economy, technology and government policy might all have played a role in the fate of millennials. But, Willetts claims that older people are also to blame. The metaphor of the pinch places older people in the guise of thieves of their children's future. Willetts writes that: 'The charge is that the boomers have been guilty of a monumental failure to protect the interests of future generations. The baby boomers have concentrated wealth in the hands of their own generation. It is far harder for the younger generation to get started on the housing ladder or save for the future in a decent company pension'.²

Historically, Conservatives have been the strongest defenders of inequality. This is for a variety of reasons, such as the incentive this allegedly provides to economic growth or as a reward for personal responsibility. Most of the discussion of inequality is about the inequality within a particular generation. Although Conservatives may not have changed their views

here that much, there is nevertheless growing concern with the effects of rising wealth inequality between the young and the old. In his book, *The Pinch*, Willetts claims that Burke's idea of society as an unwritten contract between the generations is a 'beautiful statement of the central theme of this book'.³ Willetts claims that a growing wealth gap between the old and the young is undoing the ties that bind different generations together.

Willetts returns to these themes as Chair of the Intergenerational Commission. After stepping down as a Conservative MP in 2015, Willetts became Executive Chair of the Resolution Foundation, which is a policy institute that focuses on the challenges facing those on low to middle incomes. The Resolution Foundation convened the non-partisan Intergenerational Commission which was staffed by social policy experts drawn from the academy, trade-union movement and think-tanks and which ran for two years.

Much of the media publicity around its final report centred on its plan to impose a tax on inheritances and gifts to pay for a £10,000 'citizen's inheritance' for all 25 year olds. This capital grant is not a new idea and appears also in other recent policy reports from bodies such as the Institute for Public Policy Research and the Royal Society of Arts.⁴ What is novel about the Intergenerational Commission is that it was chaired by a leading Conservative thinker and draws on conservative ideas.

Although the report of the Intergenerational Commission refers to fairness between all generations, it focuses mainly on the young. The report does not delve in depth on the challenges faced by older people, and where it does it is in a minor key. This might be justified on the grounds that the challenges the young face are much more urgent than the old.

Many of the recommendations that are made in the final report are familiar and have much to commend to progressives. Box 1 below provides a summary of some of the main proposals.

Box 1: Select proposals from the Intergenerational Commission

- Introduce a £1 billion ‘Better Jobs Deal’ employment programme for young people
- Boost the funding of technical education by cancelling the 1p cut to corporation tax planned for 2020
- Replace council tax with a progressive property tax
- Limit Help to Buy loans to those with a household income of less than £60,000 a year
- Introduce indeterminate tenancies for private rental control in England and Wales (as in Scotland)
- Maintain the value of the new State pension relative to earnings at a slightly higher rate than at present
- Lower the threshold for automatically enrolled workplace pensions to those working 15 hours per week on the national living wage
- Use a progressive property tax to raise £2.3 billion for public social care
- Lift the benefits freeze a year early and uprate benefits by inflation in April 2019

A novelty of the report is that it tries also to echo conservative views. This deserves special attention as reaching out beyond liberals and social democrats is likely to boost the chances of the suggested ideas becoming a policy reality. This review also looks more specifically at the stress placed on home-ownership. Home-ownership among millennials is arguably the main concern of the report. The report's recommendations fall into four main areas of Jobs and Pay, Houses, Pensions and the State. There are roughly twice as many proposals within the section on Houses than in each of the other sections.

A Burkean contract

In the foreword to the Intergenerational Commission's final report, Willetts repeats the importance of society as an unwritten contract as a way of thinking about fairness between the generations:

Society is held together by mutual dependence between the generations. Ten years ago I published *The Pinch*, arguing that we were in danger of breaking these ties because younger generations were having a hard time when it came to their pay, housing and pensions. That was not an attempt to incite generational warfare – one of the strengths of our society is that different generations do still care about each other. Rather, it was an attempt to promote generational thinking ⁵

Of course, Willetts is voicing a personal view here and the importance of Burke for the Intergenerational Commission should not be overstated. Willetts was just one of the Commissioners and his views were not necessarily shared by his colleagues. Nevertheless, Burke does seem important for the report. The main body of the report refers explicitly to Burke's notion of an unwritten contract between the generations: 'Modern states rest on the

principle that different generations will provide support to each other at different stages of their lives, a principle that has been recognised at least since Edmund Burke articulated it over 200 years ago'.⁶ The Intergenerational Commission also cites survey work that it commissioned that shows strong public support for this contract between generations.

Burke is arguably the pre-eminent thinker of modern conservatism. In *Reflections on the Revolution in France*, Burke introduces the idea of society as a contract between different generations:

Society is indeed a contract ... It is 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 born⁷

Burke argues that there is a web of obligations and duties that have evolved between the generations. Families provide a concrete way of binding together different generations with the ties that exist between grandparents, parents and children. Families reproduce themselves over time and so is a way that society can itself be reproduced.

Burke highlights the importance of the transfer of property for the creation of a stable family identity. He writes that:

The power of perpetuating our property in our families is one of the most valuable and interesting circumstances belonging to it, and that which tends the most to the

perpetuation of society itself. It makes our weakness subservient to our virtue; it grafts benevolence even upon avarice. The possessors of family wealth, and of the distinction which attends hereditary possession (as most concerned in it) are the natural securities for this transmission ⁸

Burke here makes a direct link between inheritance and the perpetuation of society. He suggests that inheritance promotes individual virtue, for example, when parents care about the welfare of their children.

Safe as houses?

Burke supports the transfer of property across the generations. For Burke, this signals the perpetuation of family and also of society. Property can take many forms but the most relevant type here is home-ownership. The Resolution Foundation's target audience are those on low to middle incomes. Official data from the Wealth and Assets Survey for 2014 to 2016 shows that property is the single most important part of total wealth for the 4th to 7th decile (10% slice) of the wealth distribution in Great Britain. For example, property forms around 44% of total wealth for the 6th decile. For the poorest in society (1st decile), physical wealth such as collectibles is the most important source of wealth. For the wealthiest (10th decile), private pension wealth is the most important type of wealth.

The Intergenerational Commission underlines the importance of home-ownership for young people: 'We can, and should, provide more security for young people, from the jobs they do to the homes they increasingly rent. And we can promote asset ownership for younger generations, so that owning their own home and access to a decent pension are a reality, not a distant prospect'.⁹

The importance of home-ownership for individual welfare has been described as being part of ‘asset-based welfare’. The quotation above refers to asset ownership and also mentions the importance of owning a home. But, the drive for home-ownership might be part of the problem as well as the solution. Critics allege that the stress on home-ownership has been central to the political economy of successive UK governments since the end of Second World War. But, this stress on home-ownership has contributed to booms and busts in the UK economy. Home-ownership simply stoked up private borrowing and recently led to a bubble in house prices that was one of the key causes of the financial crisis of 2007-2008. On this view, a fixation with home-ownership risks repeating past mistakes.

Against this, one might say that any policy agenda that does not address home-ownership risks being irrelevant as housing wealth is the single most important asset owned by large parts of society, particularly those people that fall within the target group of the Resolution Foundation. Looking at housing more closely is also important for addressing one of the gaps in the Intergenerational Commission’s report, that is the exploration of social care.

The long-term funding of social care has been a long-standing topic of controversy. The Intergenerational Commission acknowledges that it does not explore this in depth: ‘The Intergenerational Commission has not reviewed in detail the design and delivery of social care across the UK’.¹⁰ A furore around the Conservative party’s social care plans was one of the most damaging episodes of their 2017 general election campaign. Originally, the Conservative party manifesto promised to protect the first £100,000 of a person’s assets from care costs but did not promise to impose any caps on the costs of care. This prompted an immediate concern that people may have to sell the family home to pay for their care. Labour

leader Jeremy Corbyn was quick to label the social care plans as a ‘dementia tax’, using the same tactics that previous Conservative politicians had used against Labour plans for social care when they called this a ‘death tax’. Theresa May hastily revised the plans during the campaign to dampen down this furore. This opened up her claim that she offered the prospect of ‘strong and stable’ leadership to widespread mockery.

New forms of home-ownership

Fears about selling the family home to pay for care perhaps explains much of the controversy about social care. Housing therefore is an issue that directly affects baby boomers as well as millennials. The Intergenerational Commission escapes the problems that beset the Conservative party’s 2017 general election manifesto by proposing an asset floor of £150,000 as well as a cap on care costs of £50,000. This cap on care costs may mean that it is unnecessary to sell the family home to pay for care.

Although social care needs may affect all age groups, this may generally be most likely for older people. Allowing older people to keep their homes might benefit some millennials as parents might pass homes onto their children. But, making it easier for older people to keep their homes also restricts the flow of housing stock onto the housing market. Considering social care in more detail may have brought the potential conflicts between baby boomers and millennials into sharper focus.

There is a growing policy consensus that taxing the housing wealth of baby boomers is likely to be crucial for any solution to the long-term funding of social care. This shows that Burke is only a very limited guide to tackling the problem of intergenerational fairness. Taxing wealth, including both stocks of wealth such as housing or transfers of wealth, are likely to be core to

any meaningful steps to close the wealth gap between the generations. Burke was a strong supporter of the principle of inheritance. In his book *The Pinch*, Willetts criticises inheritance tax as he suggests that this merely encourages the old to spend their wealth rather than pass it on to their offspring. Willetts' position has changed as Chair of the Intergenerational Commission as he now supports using a tax on inheritances and gifts to pay for a citizen's inheritance for young people. Support for a capital receipts or accessions tax that taxes inheritances and gifts recognises that efforts to improve intergenerational fairness are unlikely to succeed without greater taxation of wealth.

The Conservative party though faces real barriers in taxing the housing wealth of the baby boomers. The Conservative party relies on older voters as a key electoral constituency. Many of these older voters may react against any effort to tax their housing wealth. This shows that while a lasting solution to paying for social care is well known, it is also very hard politically to enact this policy.

Although Burke may not be that much help overall for steps to boost intergenerational fairness, there is a limited sense in which he might have something to add to current debates. Burke refers to the web of ties and the unwritten understandings between the generations. One such area for exploration concerns the meaning of home-ownership. Ownership is a complex bundle of rights and duties and it is possible to devise many different types of ownership. Neoliberals are interested in housing as a type of investment good. Indeed, the language that neoliberals use to refer to housing may be revealing as they tend to describe this as an asset or property rather than a family home.

Burke might however provide a spur for alternative views of home-ownership. The ‘family home’ is a trope of conservative thought. Former chancellor George Osborne invoked this idea when he presented Conservative party plans to raise the threshold of paying inheritance tax to £1 million as taking family home out of this tax. The concept of the family home might be used to open up debates about the nature of home-ownership. The family home points to a particular type of collective ownership, where the family is the collective unit. Unpacking what might be meant by the family could be used to explore the different rights and duties associated with collective ownership and it may be possible to devise hybrid forms of ownership. This exploration of alternative ownership forms may be useful for fixing millennial bugs.

¹ Intergenerational Commission, *A New Generational Contract. The final report of the Intergenerational Commission*, 2018, at <https://www.intergencommission.org/wp-content/uploads/2018/05/A-New-Generational-Contract-Full-PDF.pdf>, accessed 10/5/2018

² D. Willetts, *The Pinch. How the baby boomers took their children’s future – and why they should give it back*. London, Atlantic, 2010, at pp. xv-xvi.

³ *Ibid.*, p. 262.

⁴ For an early version of the capital grant idea, see T. Paine. ‘Agrarian justice’. In M. Foot and I. Kramnick, eds. *The Thomas Paine Reader*, [1797](1987), London, Penguin. For recent policy versions see C. Roberts and M. Lawrence, *Our Common Wealth. A Citizen’s Wealth Fund for the UK*, 2018, <https://www.ippr.org/files/2018-04/cej-our-common-wealth-march-2018.pdf>, accessed 9/4/2018; A. Painter, J. Thorold and J. Cooke, *Pathways to a Universal Basic Income. The Case for a Universal Basic Opportunity Fund*, 2018, at https://www.thersa.org/globalassets/pdfs/reports/rsa_pathways-to-universal-basic-income-report.pdf, accessed 16/7/2018

⁵ Intergenerational Commission, 2018, at p. 8.

⁶ *Ibid.* p.26

⁷ E. Burke, *Reflections on the Revolution in France*. Oxford, Oxford University Press, [1790] 1999, at p. 96

⁸ *Ibid.*, p. 51

⁹ Intergenerational Commission 2018, at p.15.

¹⁰*Ibid.*, at p.198.