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Fiscal Policy, Monetary Policy and Intergenerational Inequality in the UK

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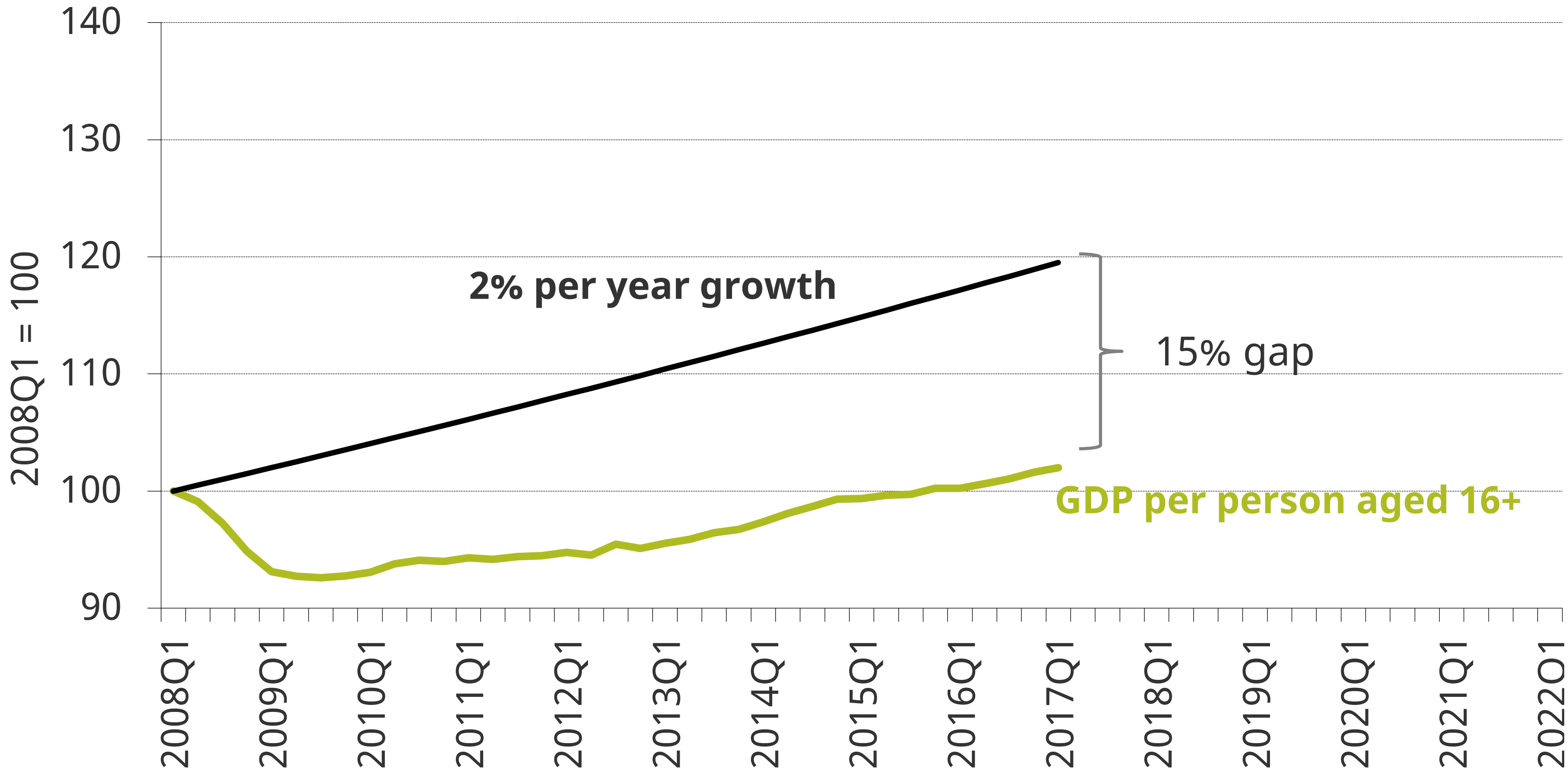
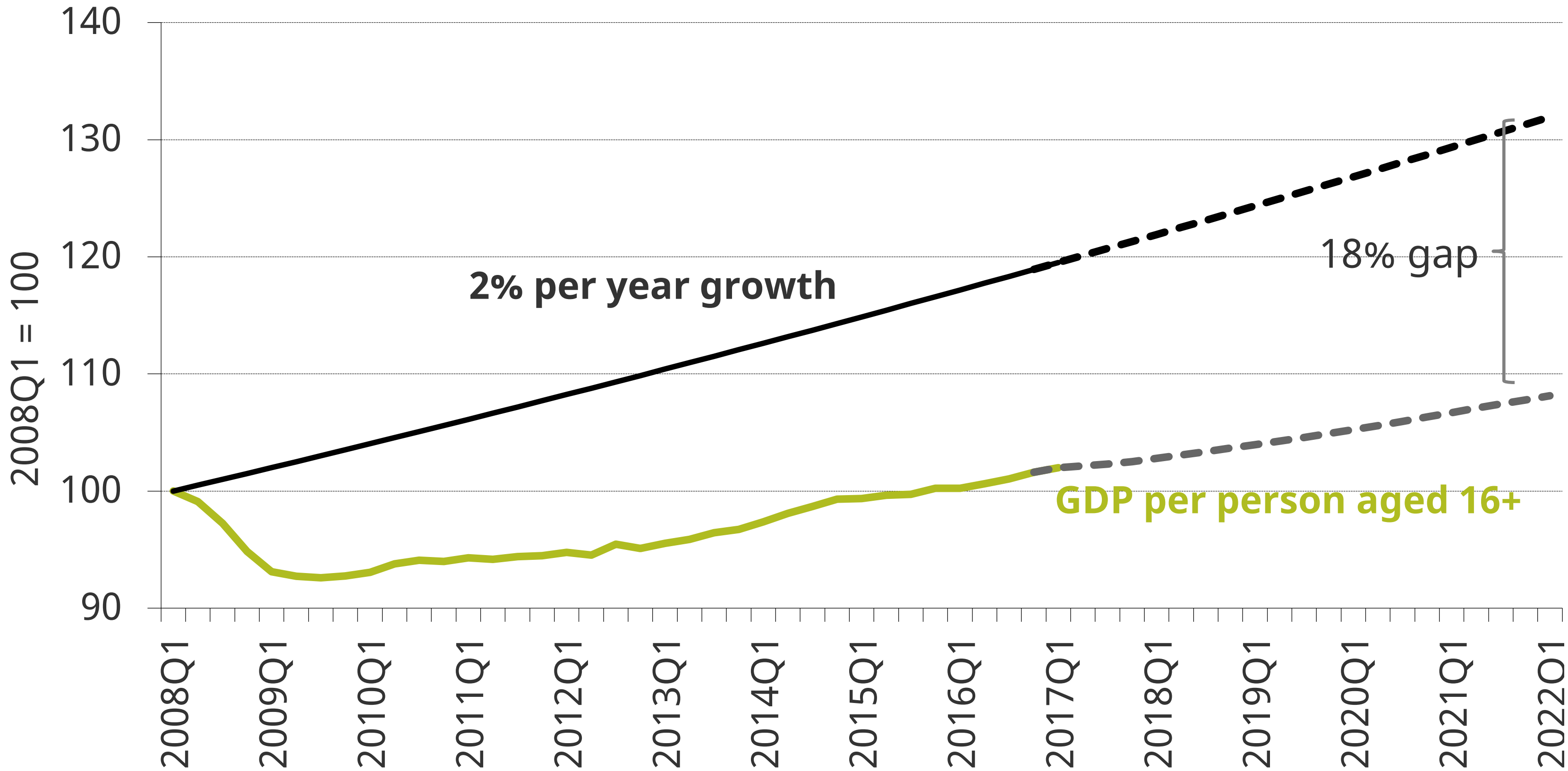
Output per head only just above 2008Q1 level



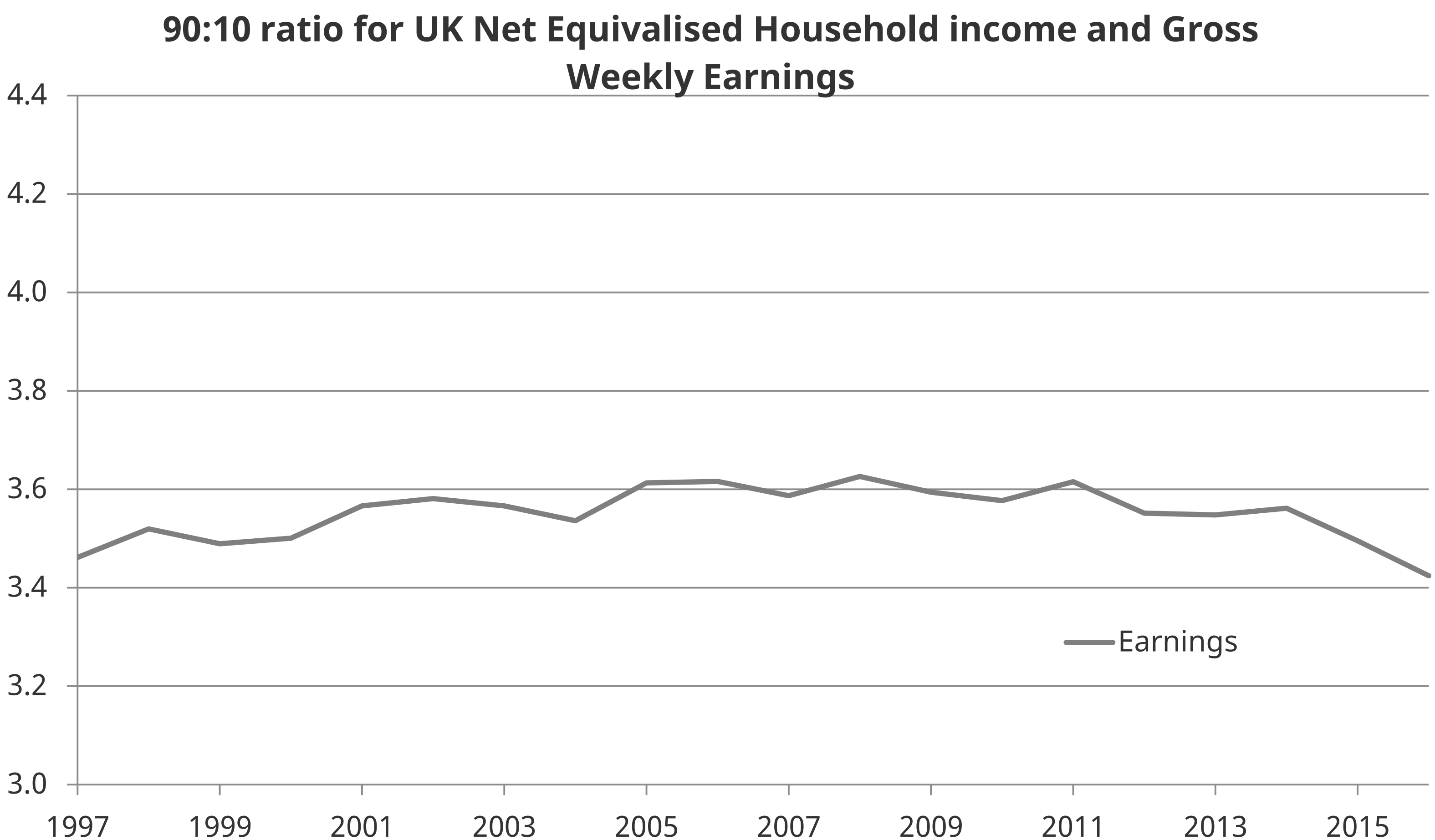
Source: Office for Budget Responsibility

And forecast growth also weak …



Source: Office for Budget Responsibility

Income and earnings inequality down recently



Source: Family Expenditure Survey; Family Resources Survey; Annual Survey of Hours and Earnings

Income and earnings inequality down recently

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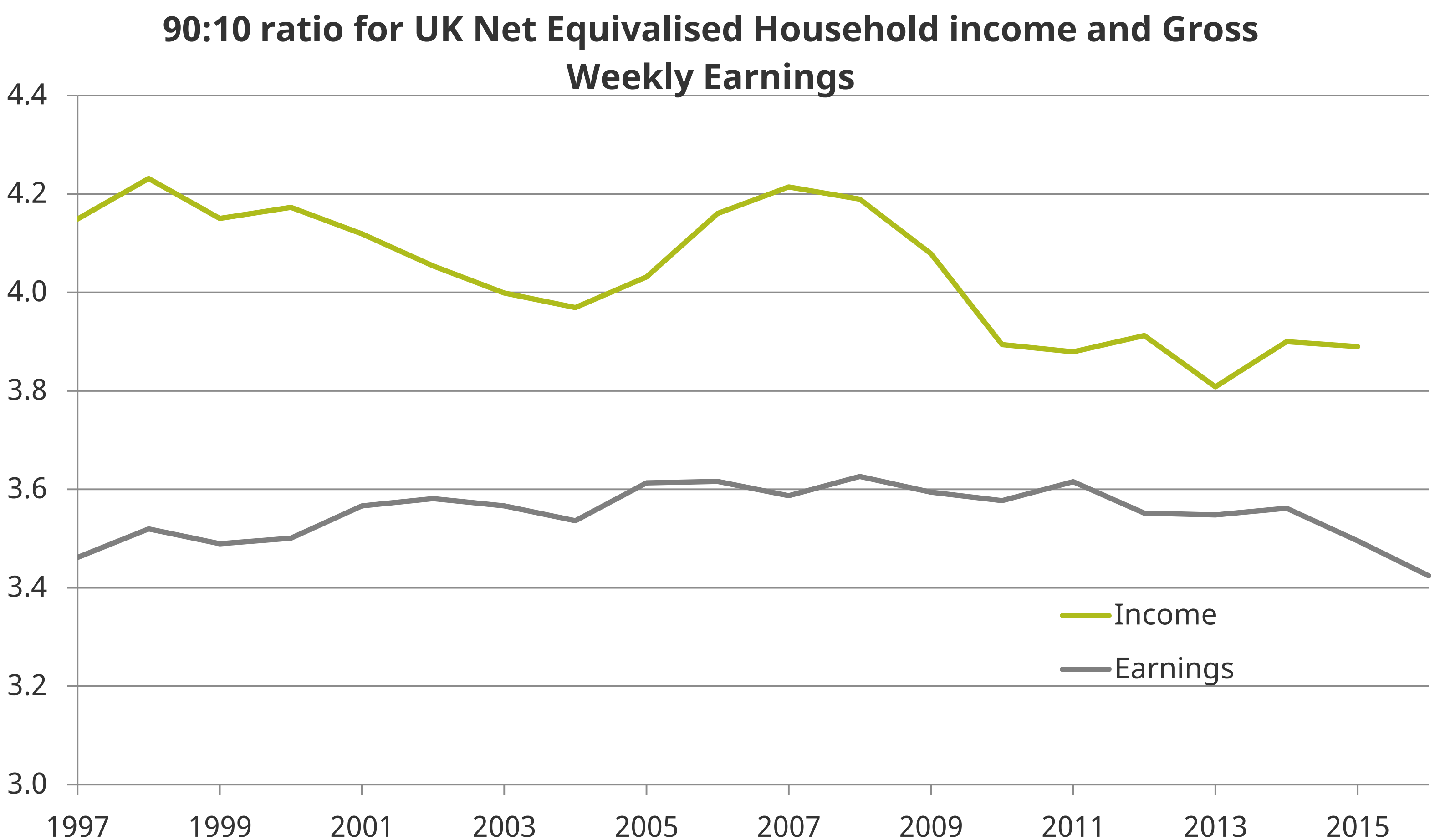
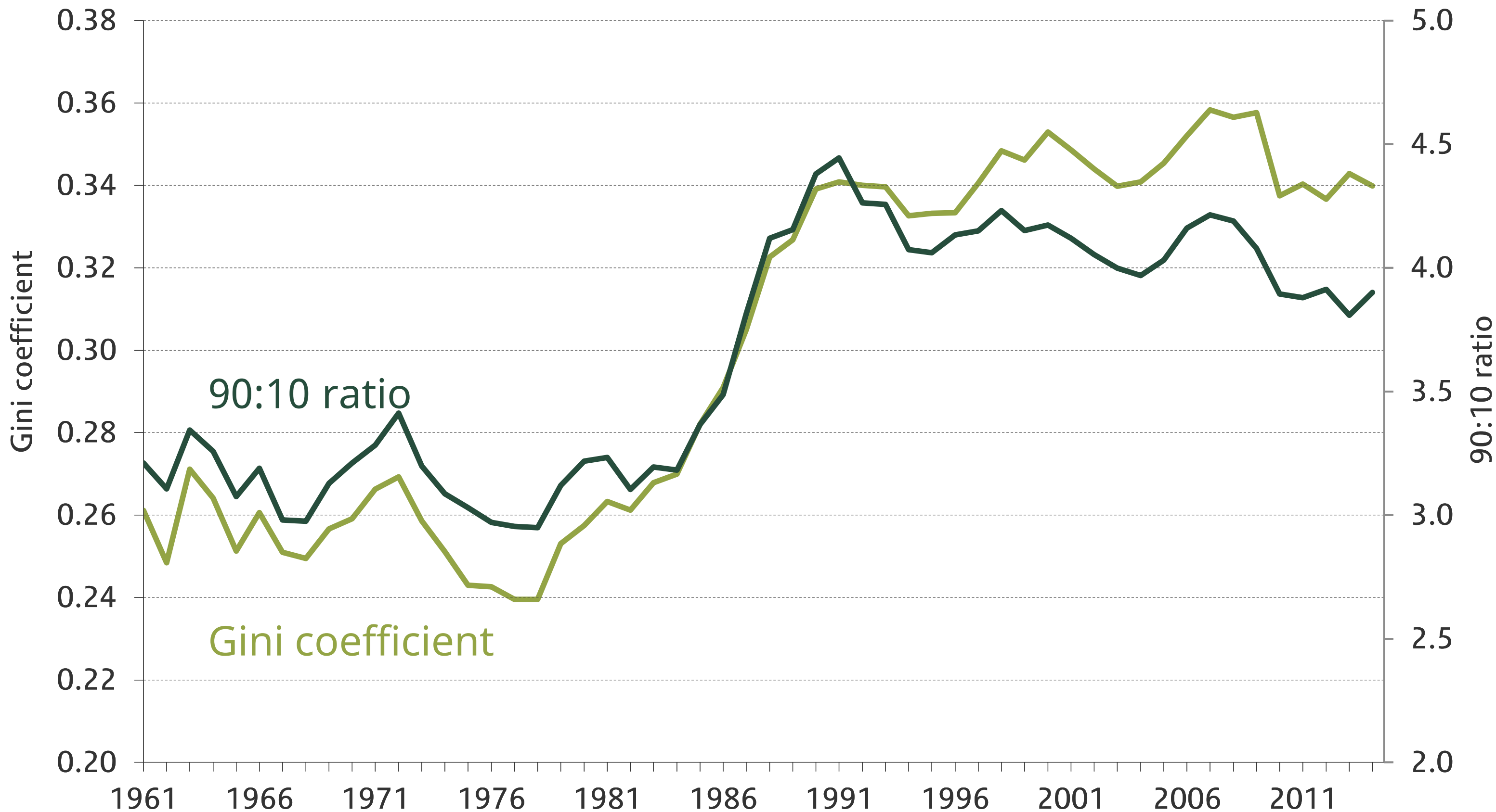


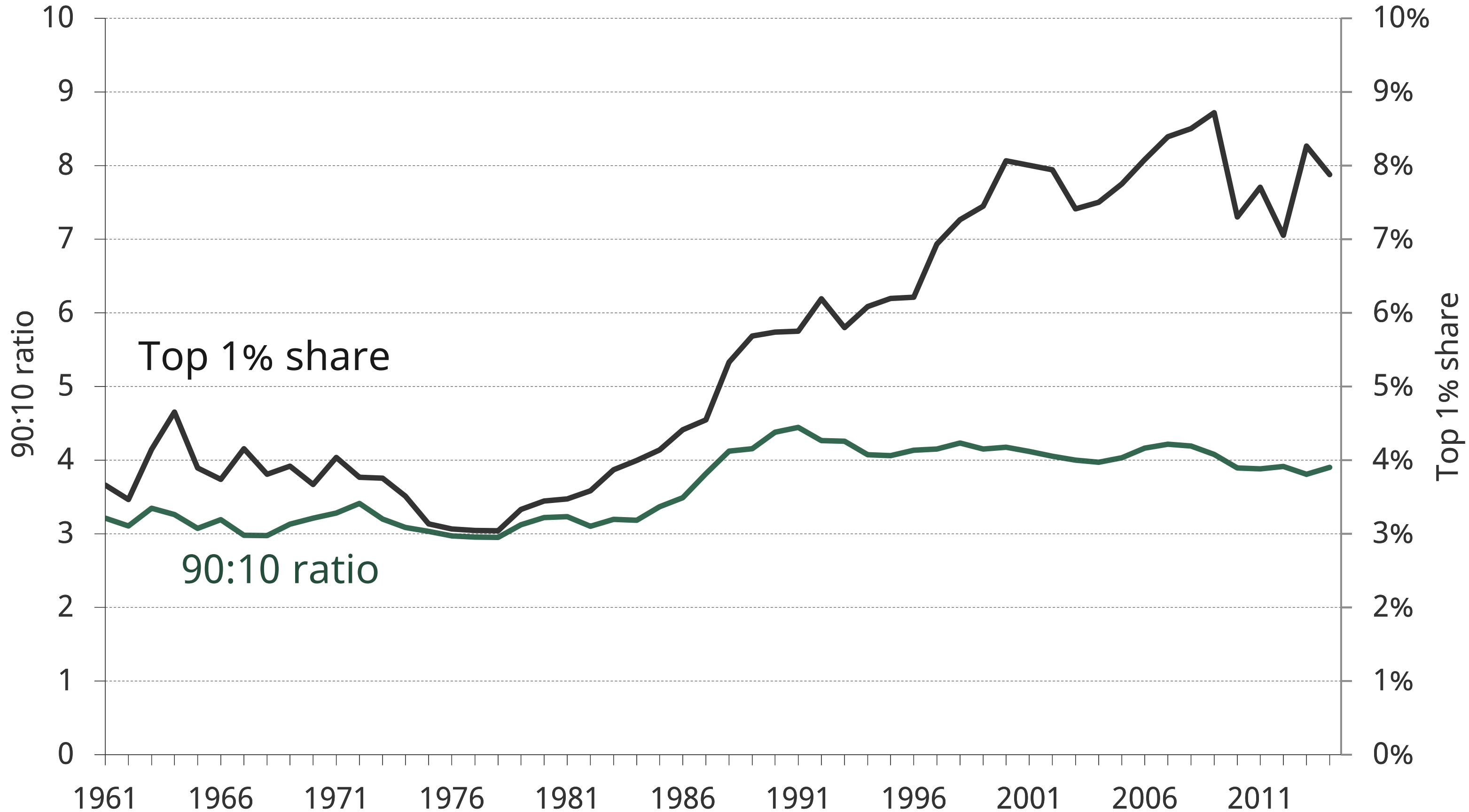
Source: Family Expenditure Survey; Family Resources Survey; Annual Survey of Hours and Earnings

Having grown sharply over 1980s



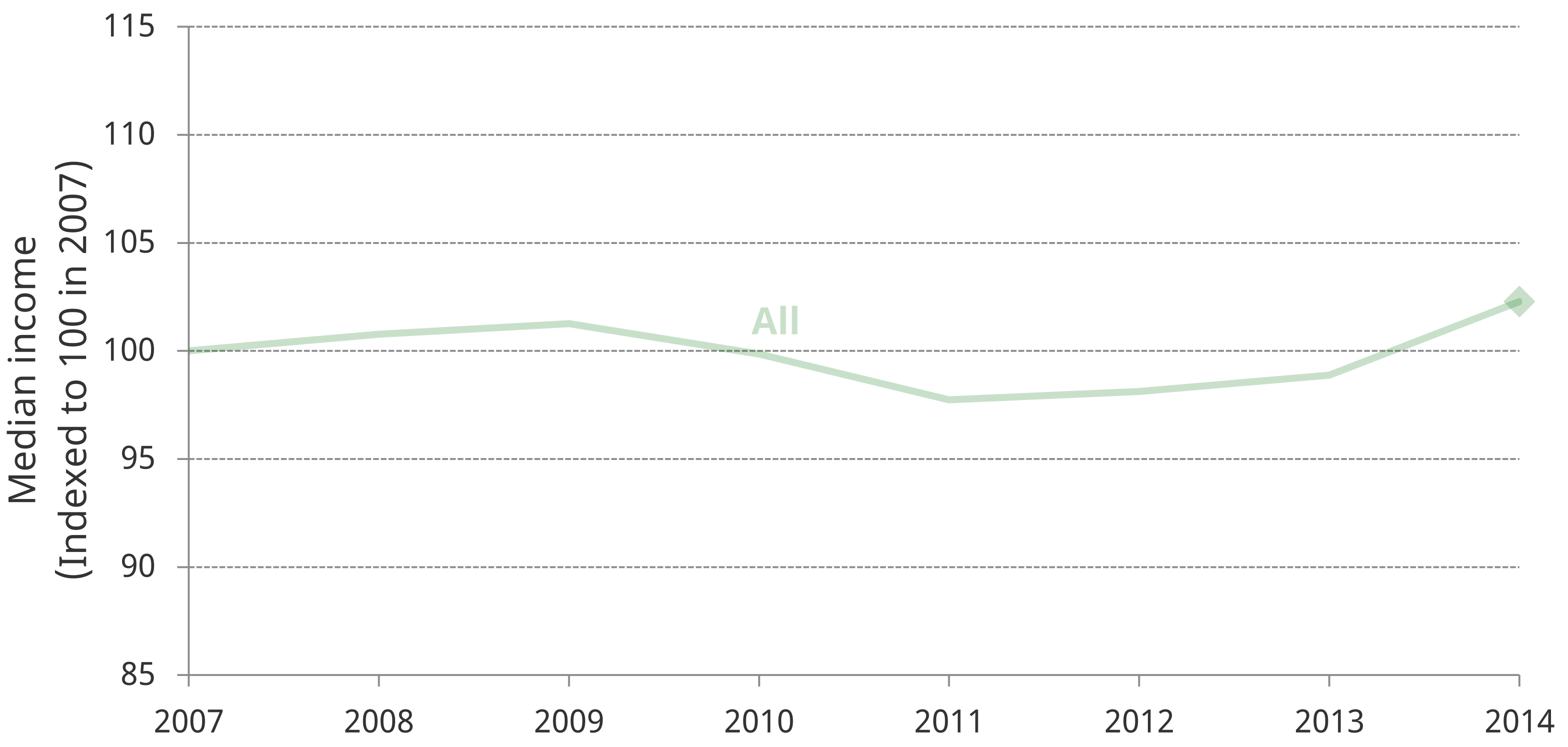
Source: Figures 3.6 and 3.7 of *Living Standards, Poverty and Inequality: 2016*

Top 1% share continuing to rise until 2008



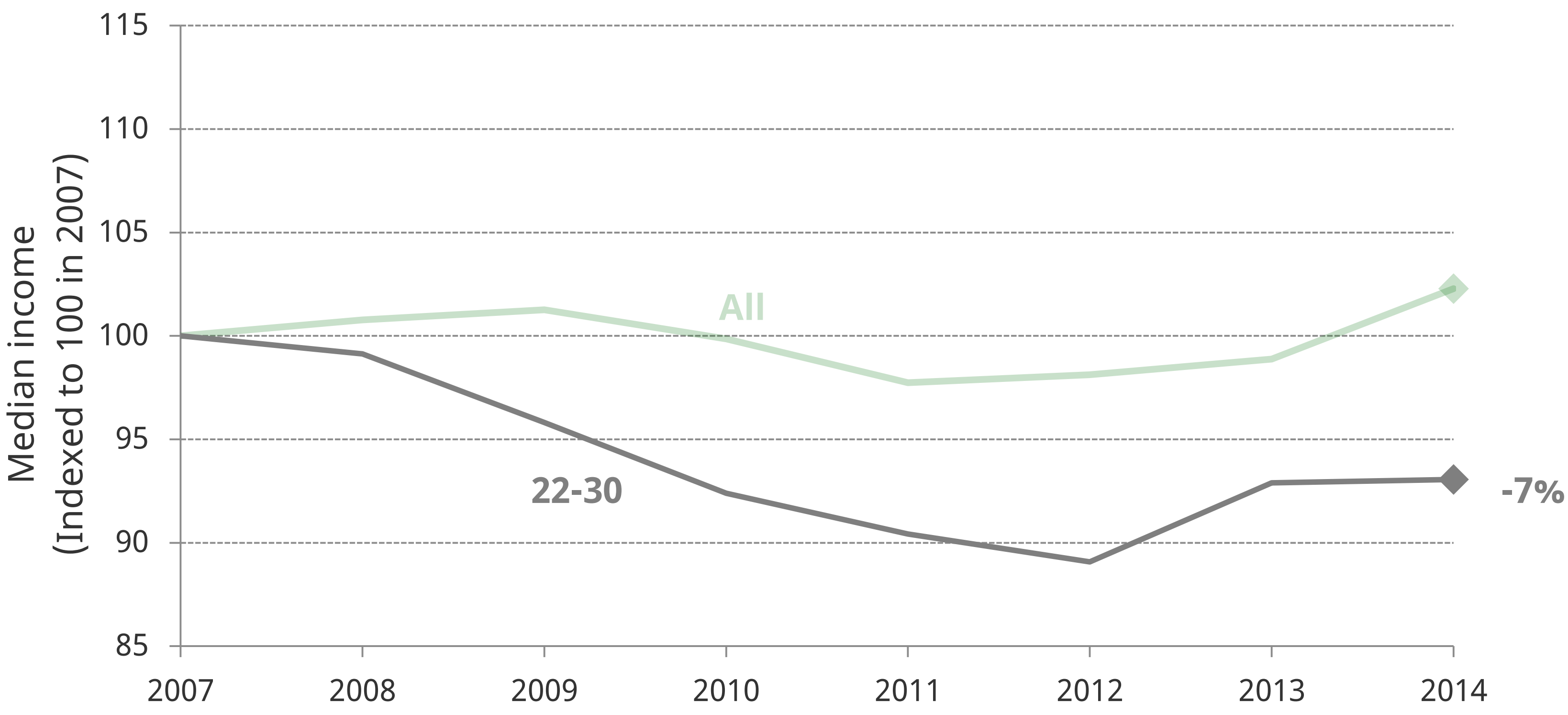
Source: Figure 3.7 of *Living Standards, Poverty and Inequality: 2016*

Median incomes stagnant



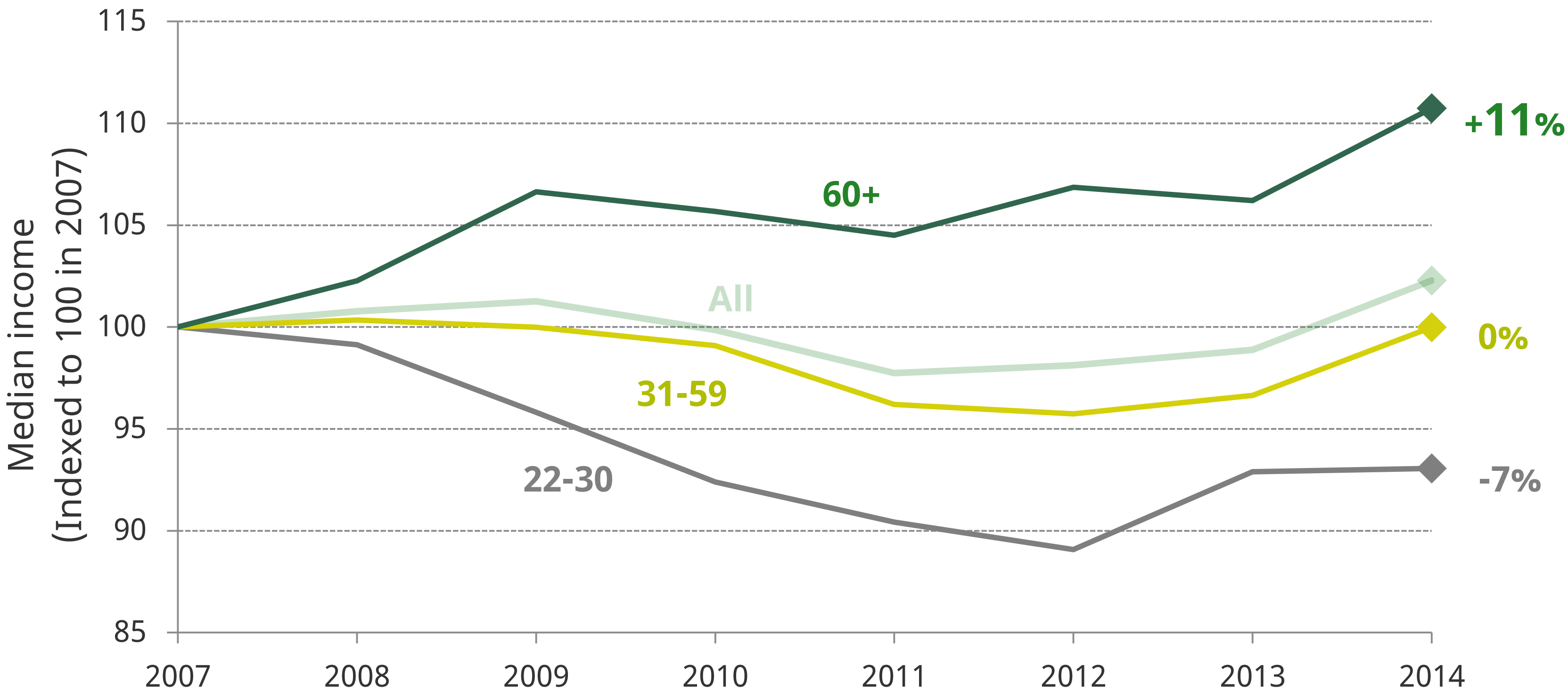
Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

Much worse for the young



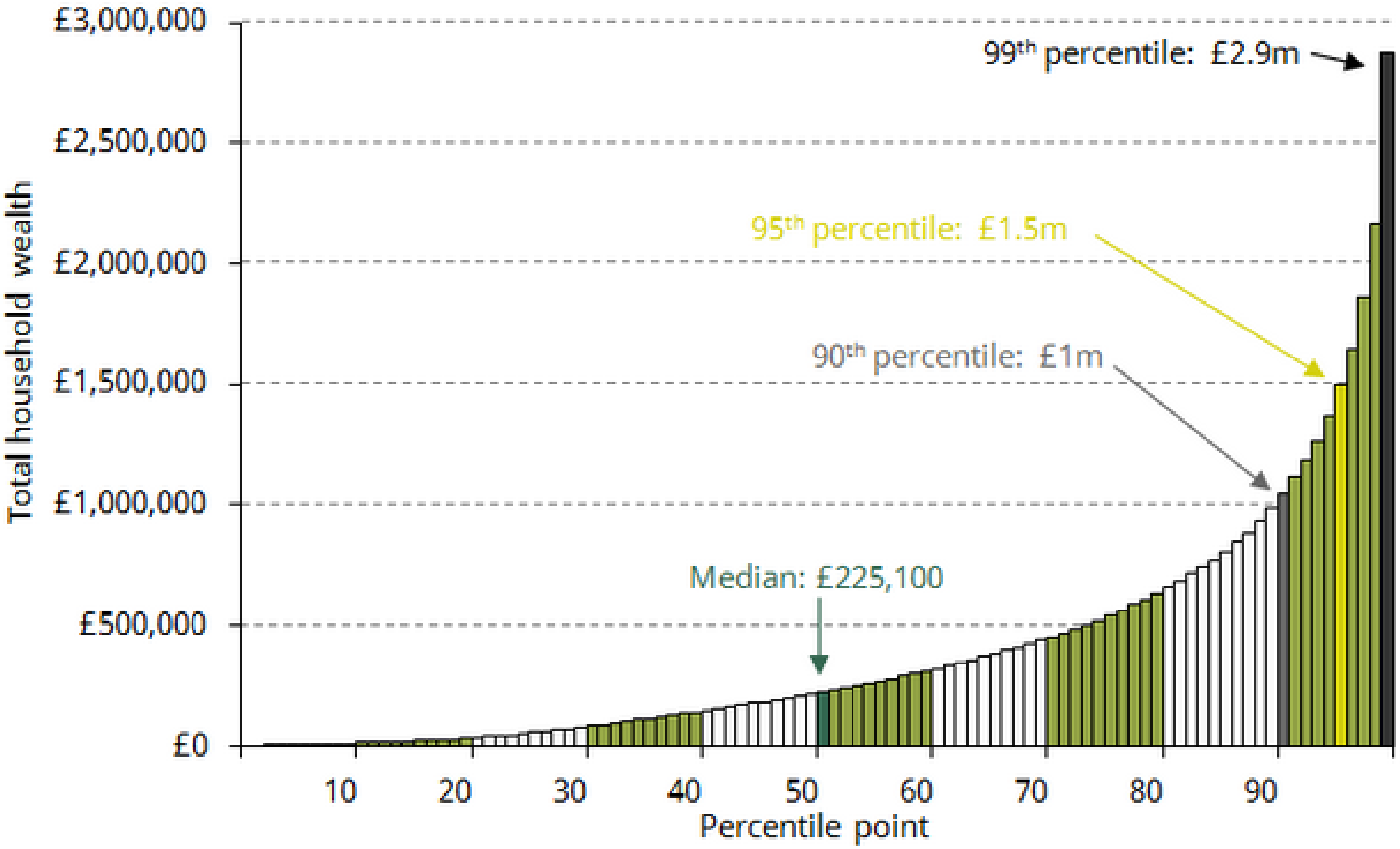
Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

Much better for the old

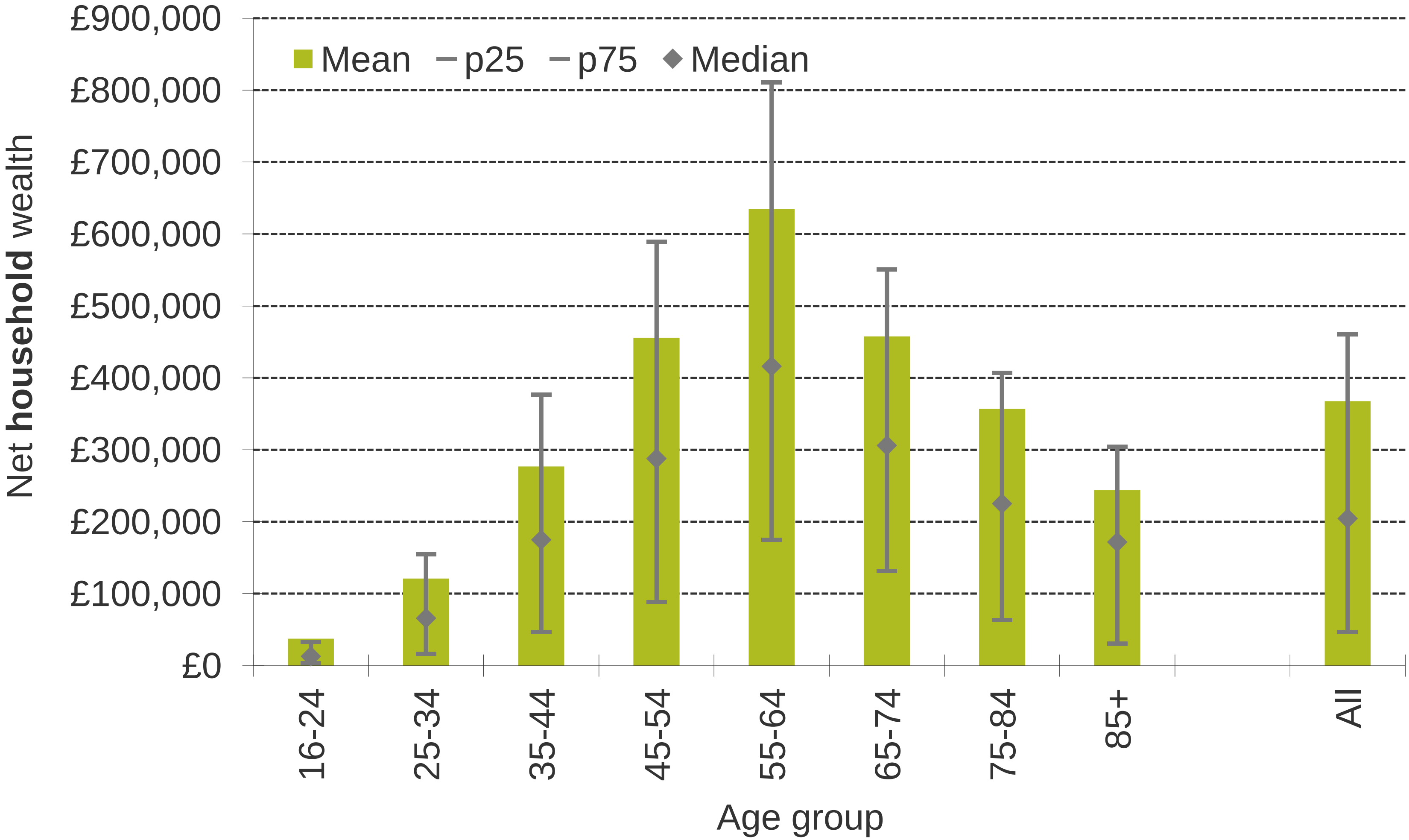


Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

The distribution of wealth



And concentrated at older ages



Of course the old hold the cash

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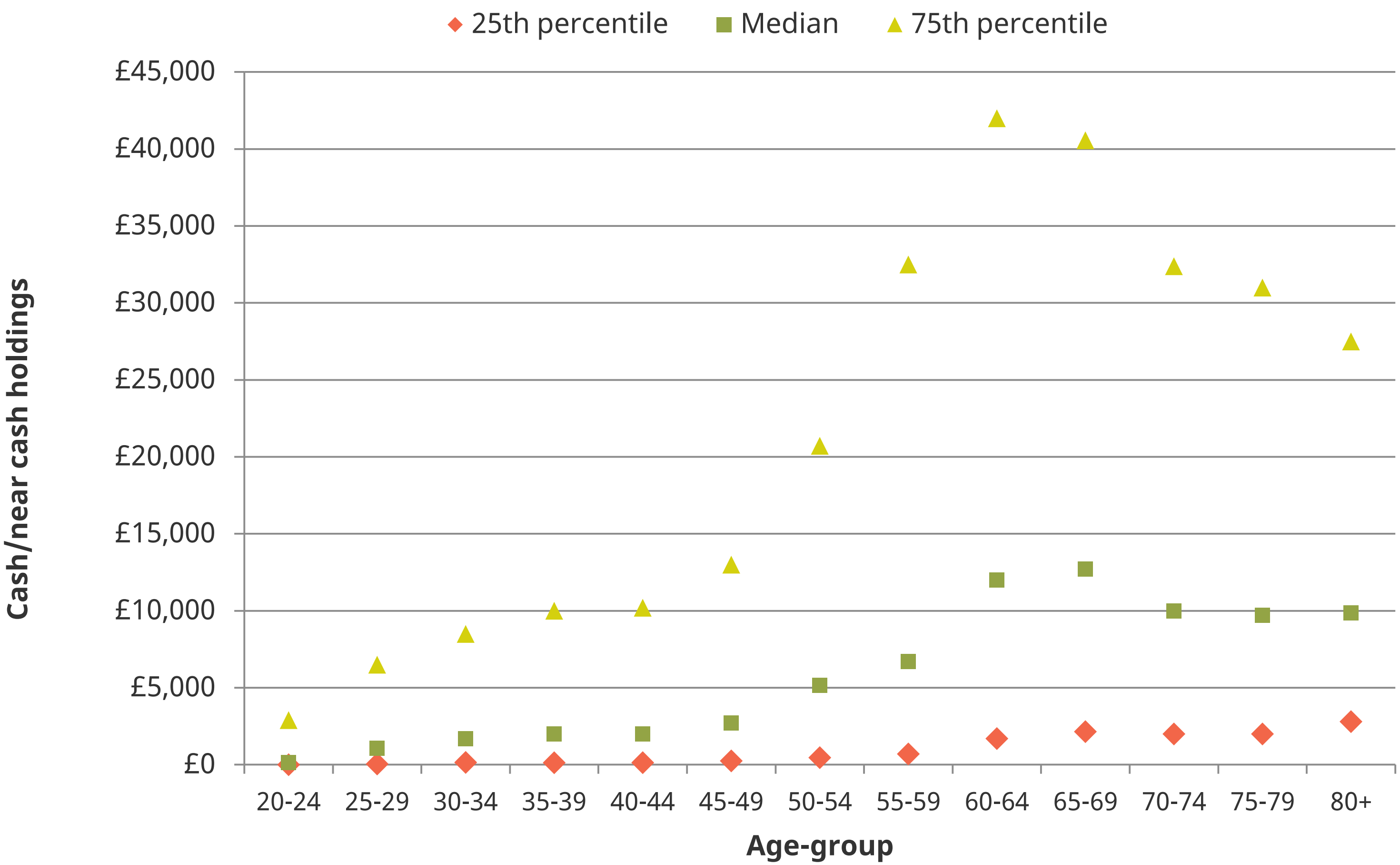

But it's the young who can't build up savings

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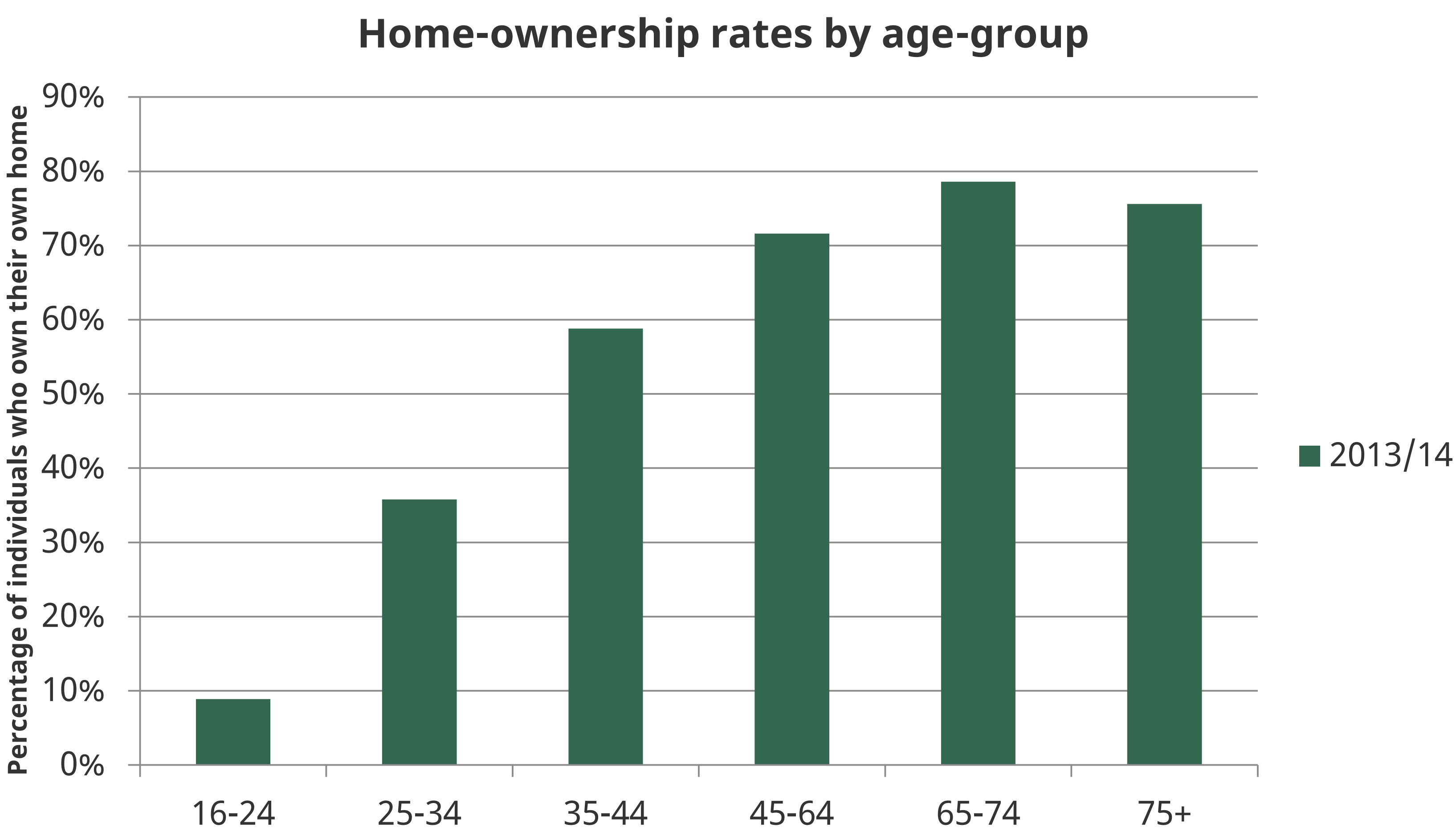
If you work until 67, die at 90, and have earnings that grow 2% p.a.

With 4% real interest rate you need to save 10% of income to replace 50% in retirement

With 0% real interest rate saving rate needs to be 30%

The old also hold the housing wealth



Source: English Housing Survey

Much more so than just 15 years ago

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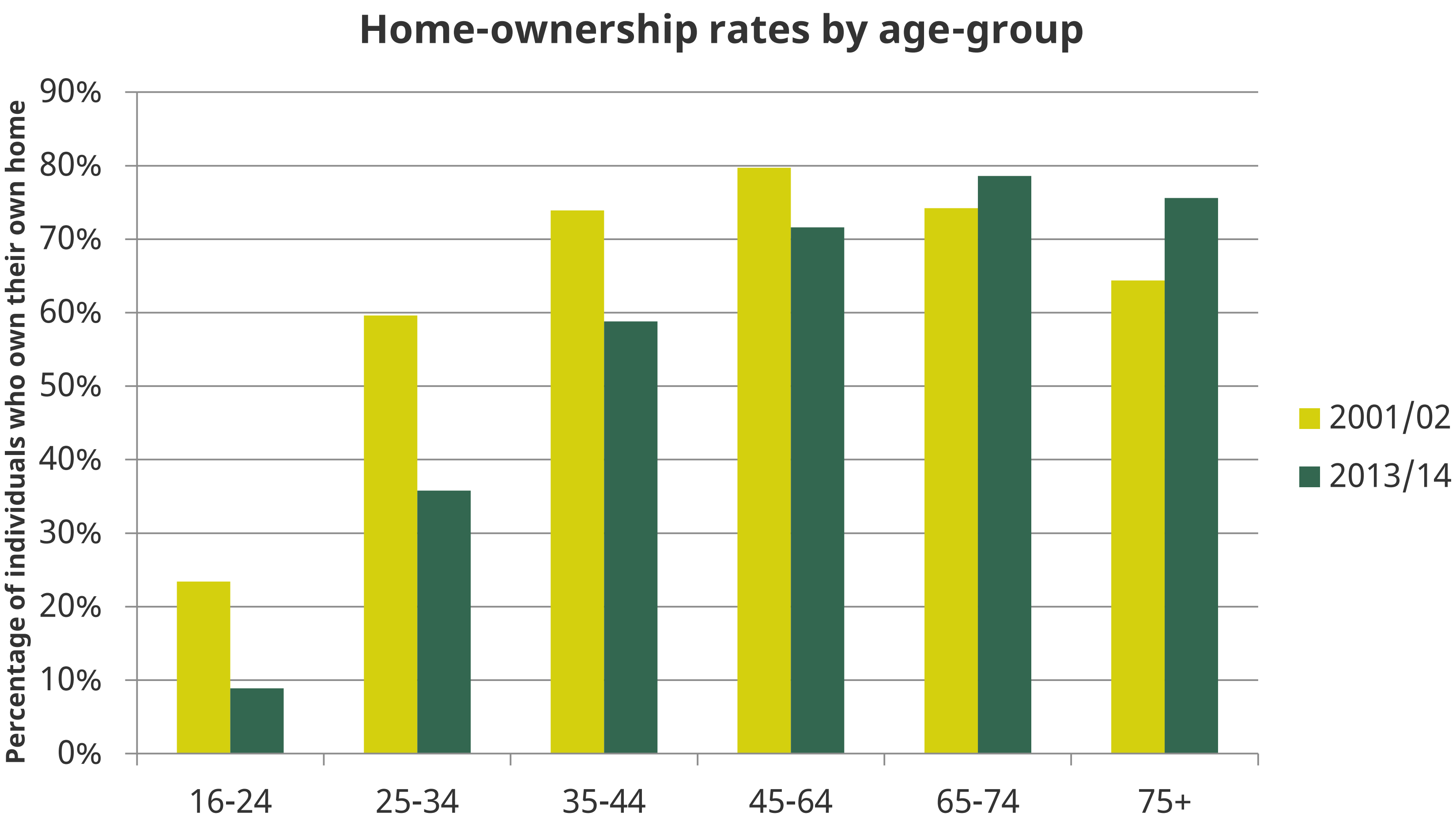
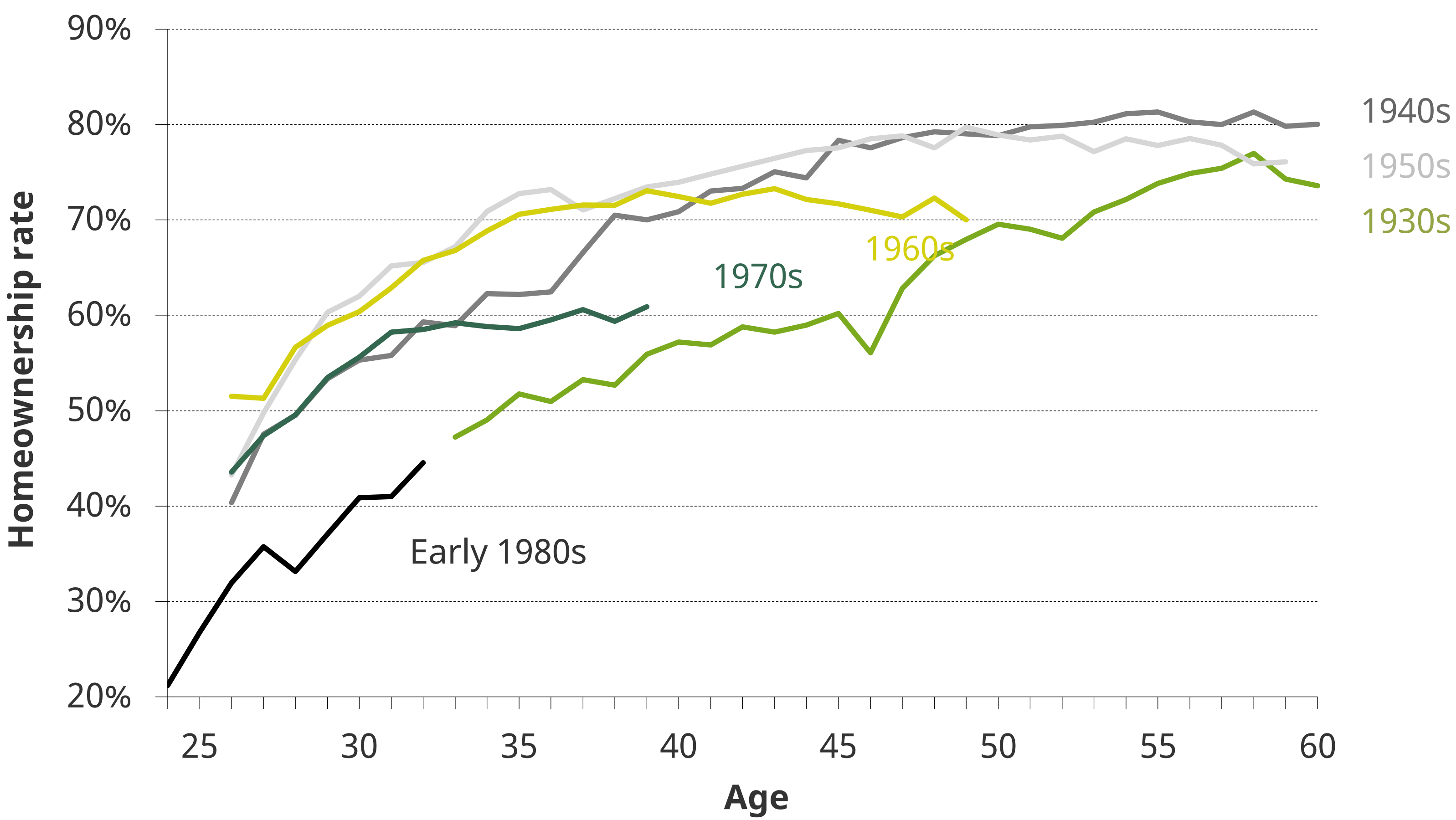


Source: English Housing Survey

Younger cohorts much less likely to be owner occupiers



And DB pensions have collapsed

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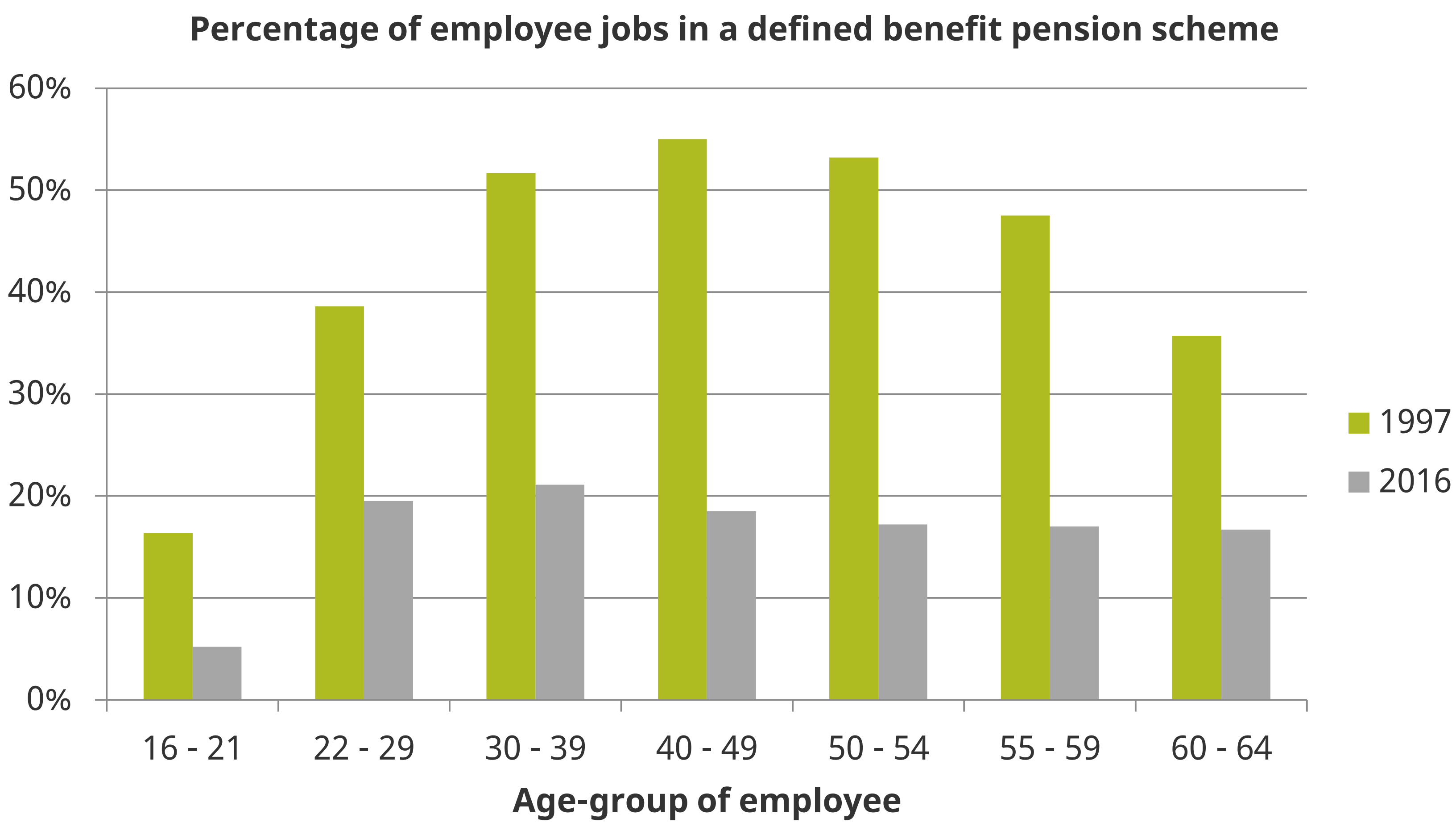
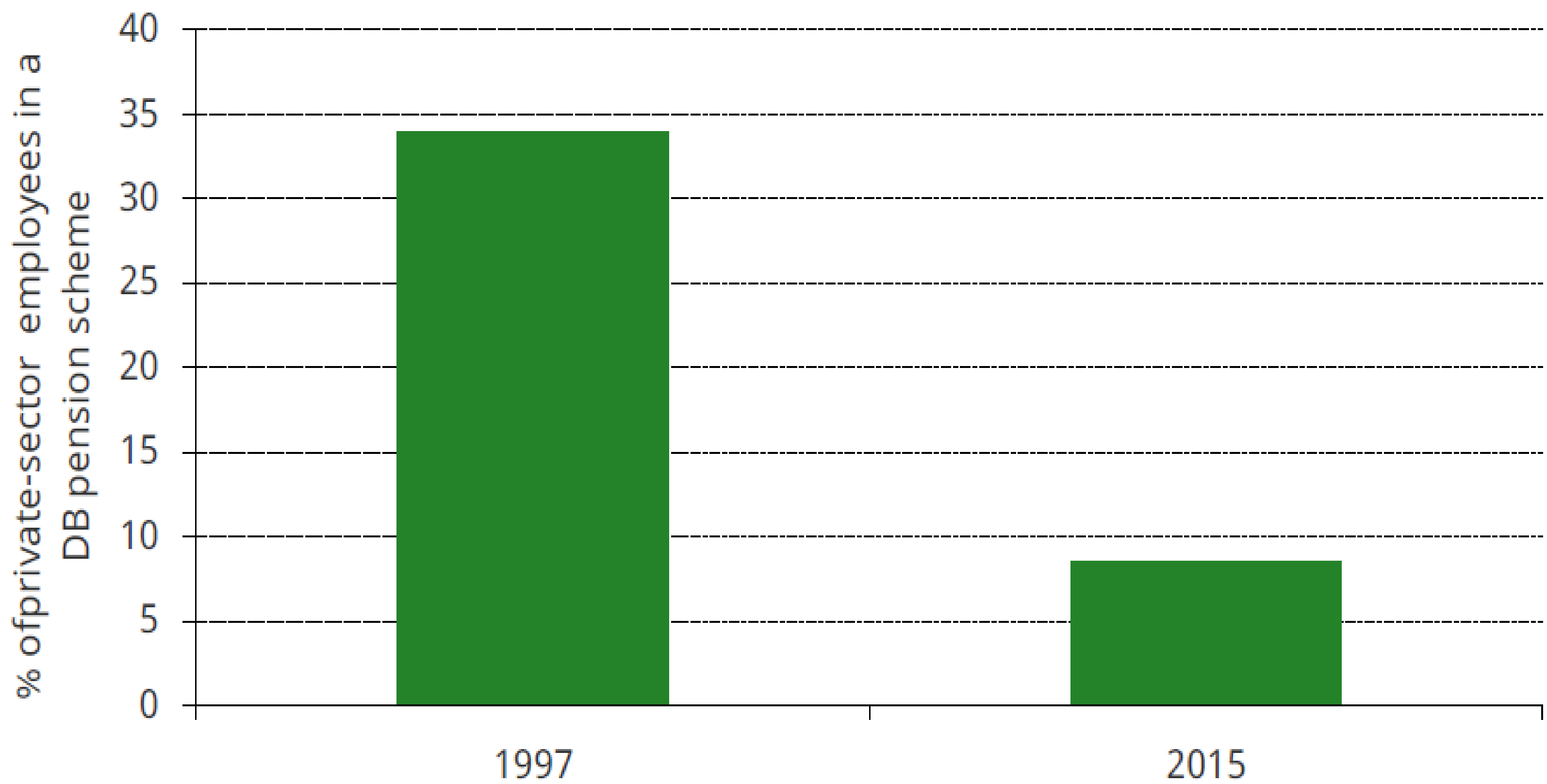


Source: ONS

Proportion of private sector employees in DB scheme 1997 and 2015



But there is an increasing aggregate deficit of DB schemes

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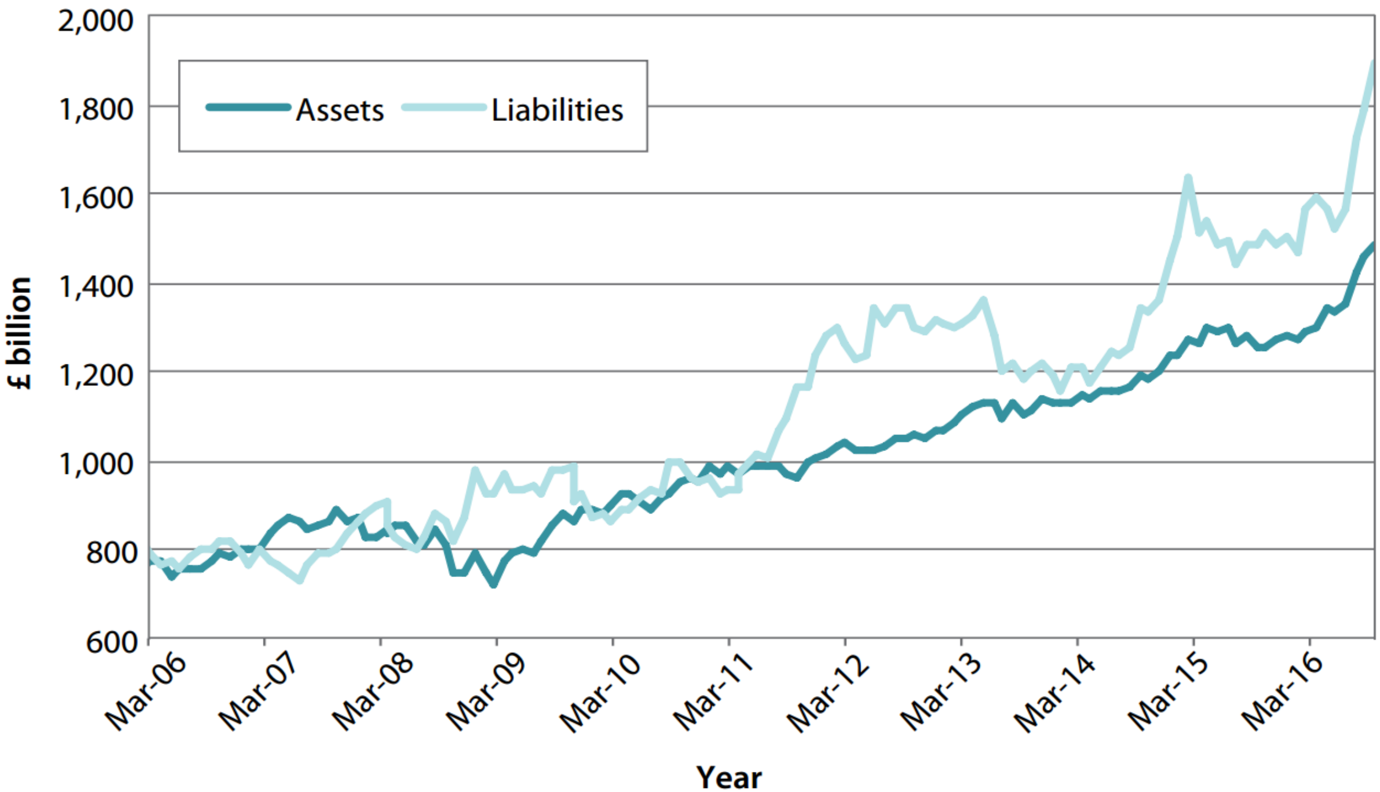
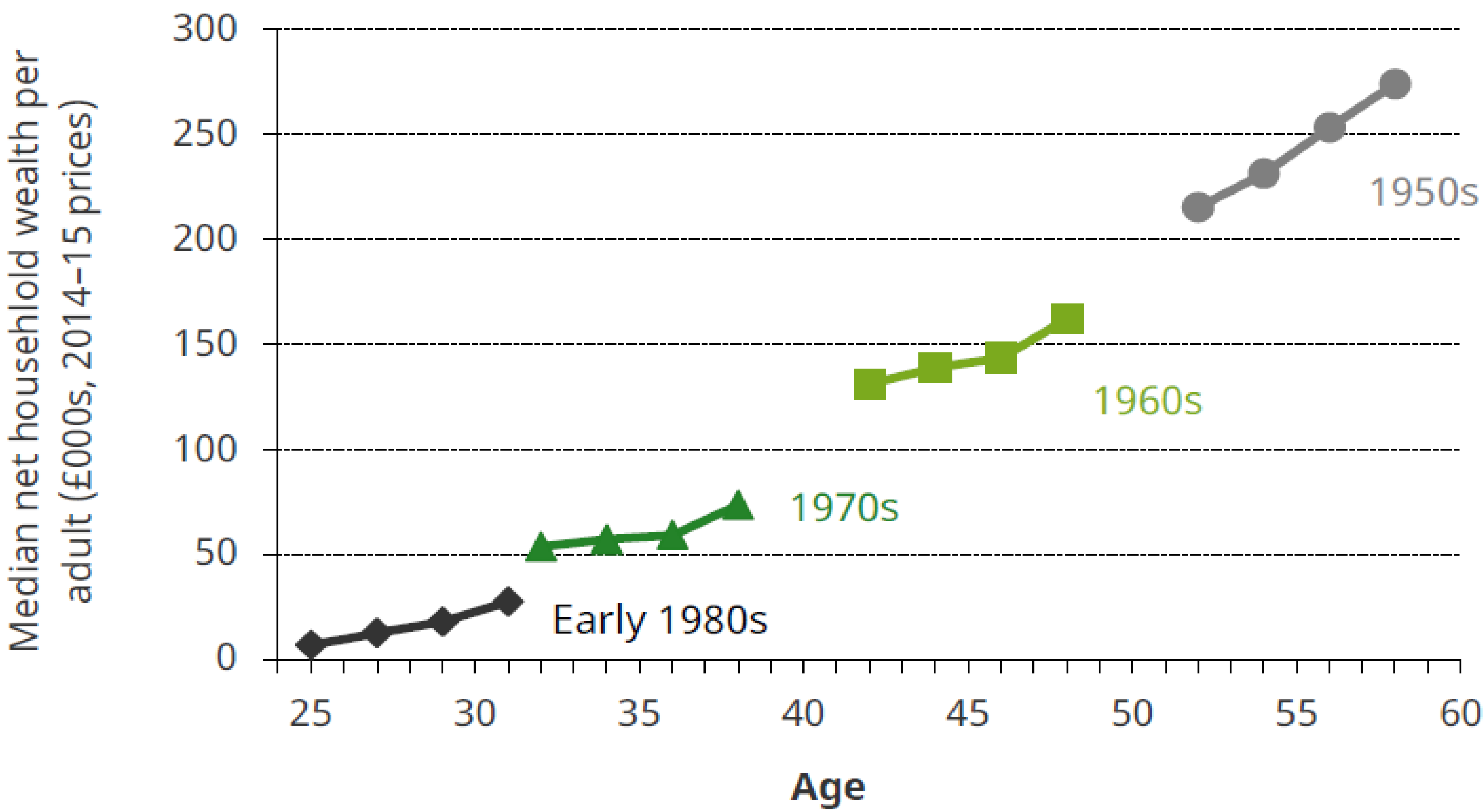
Assets and liabilities of DB schemes in the Pensions Protection Fund



Source: PPF/ The Pensions Regulator

Overall younger cohorts accumulating less wealth



Loose monetary policy supporting tight fiscal policy

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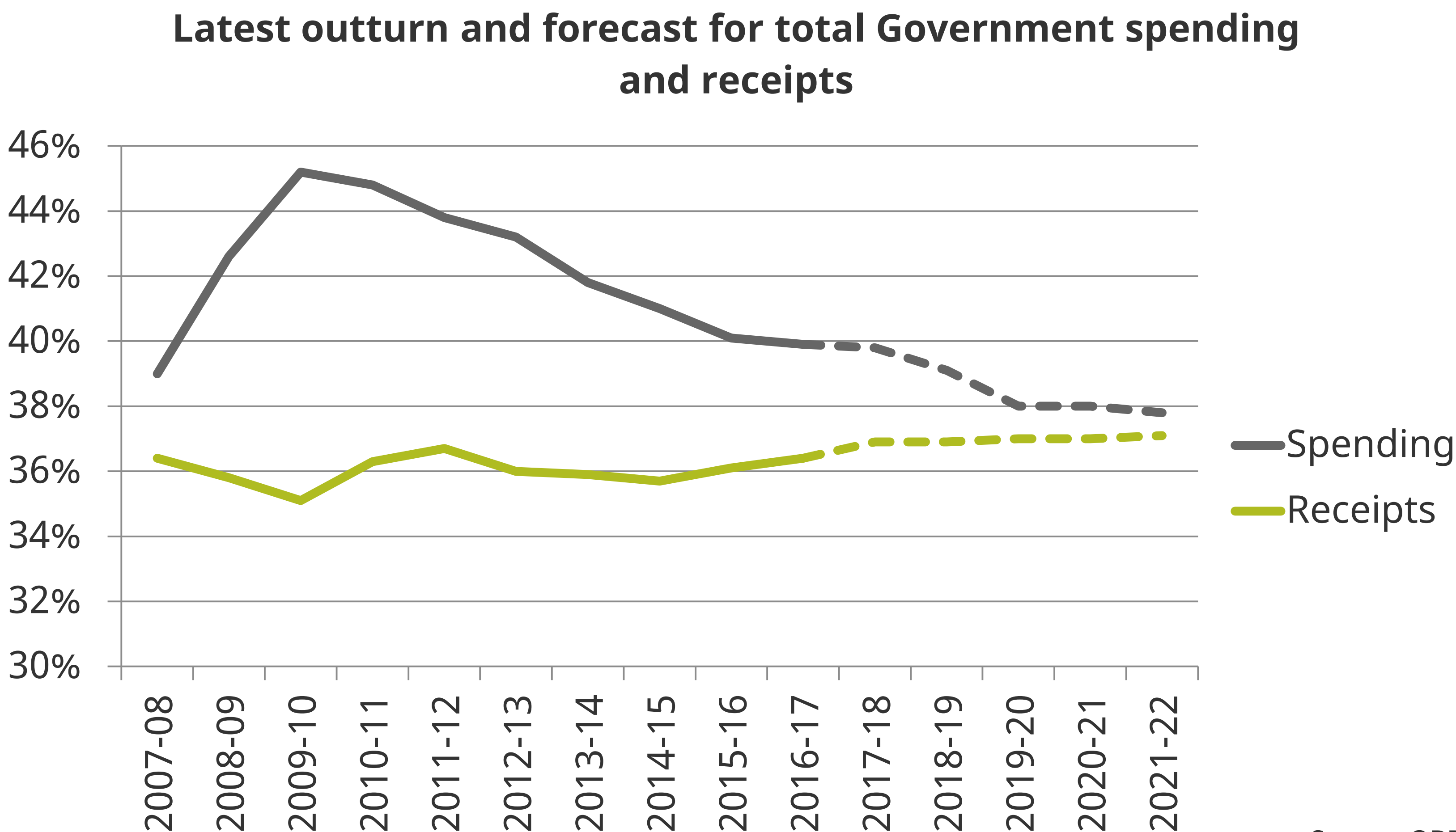

Source: OBR

Crucial point: after 8 years of "austerity" the size of the state is just back at pre crisis levels

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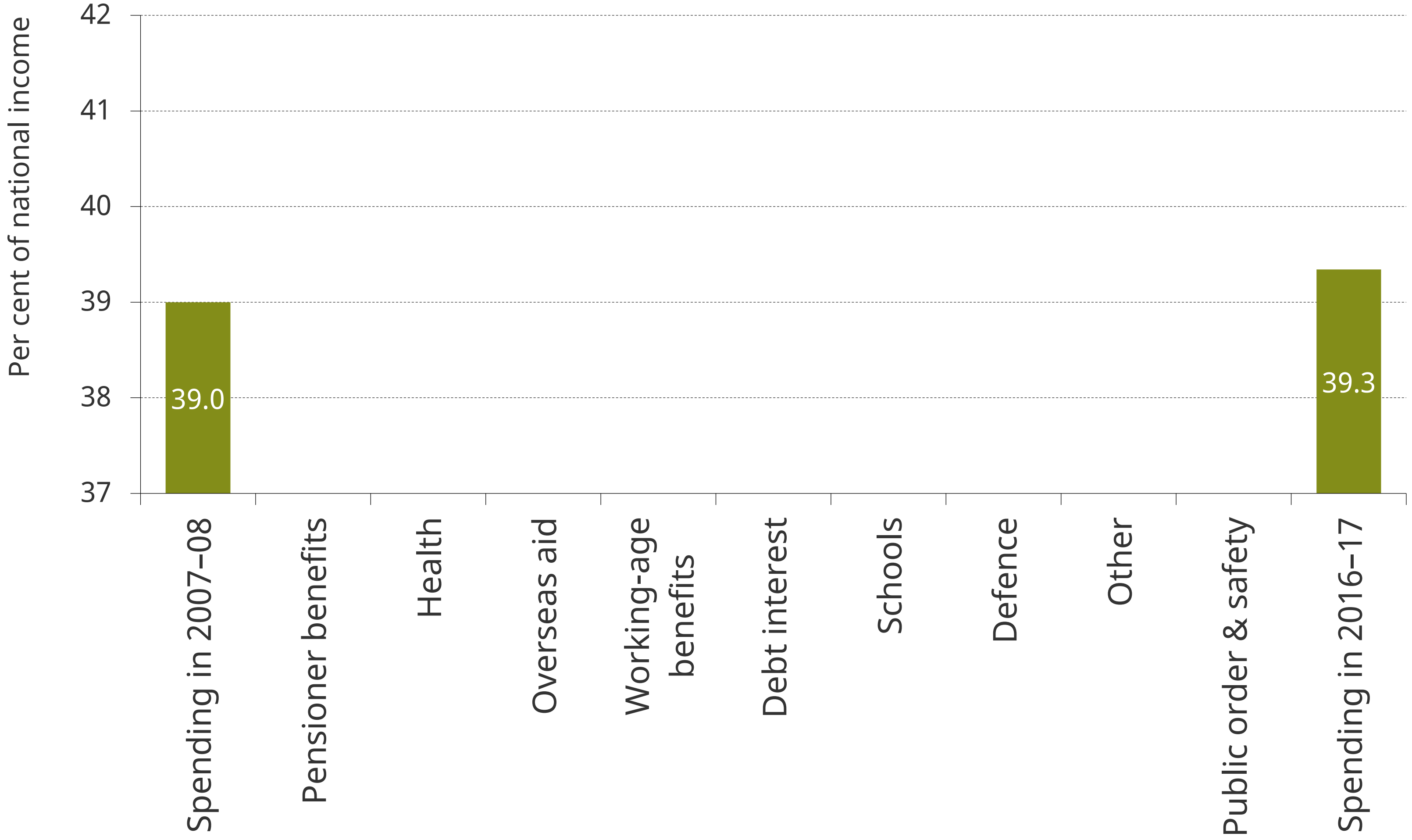

Increases in spending on pensions and health offset cuts elsewhere

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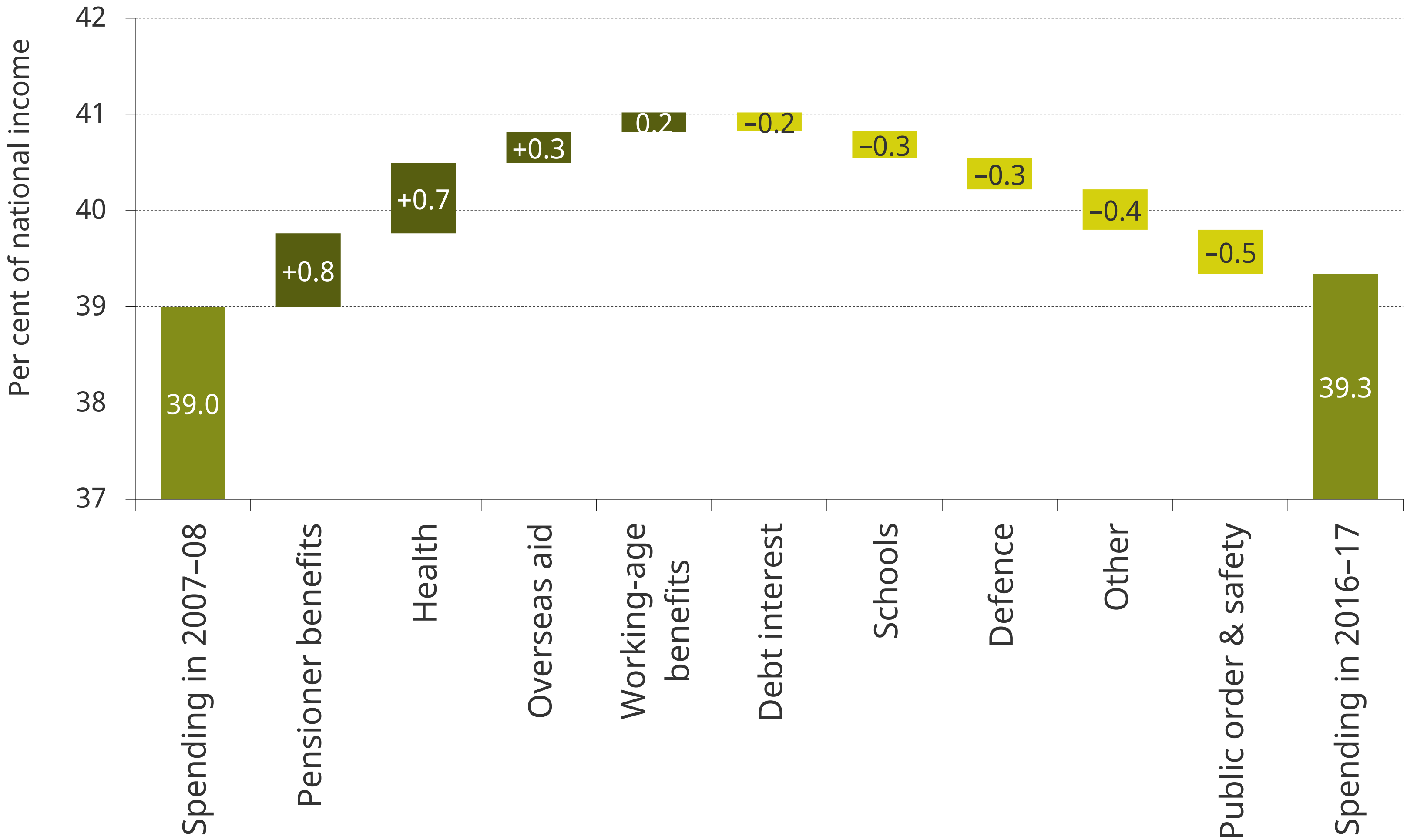
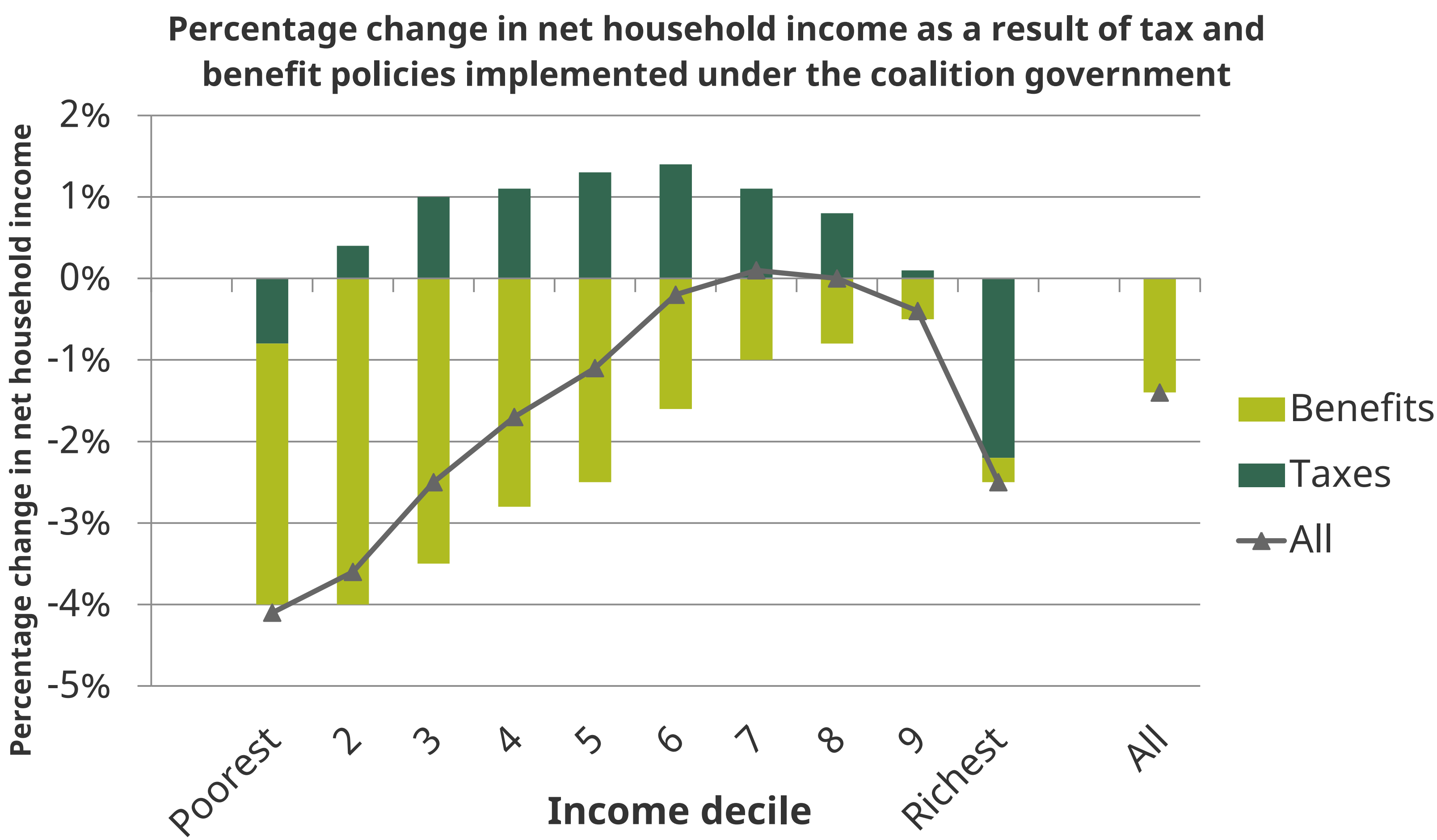
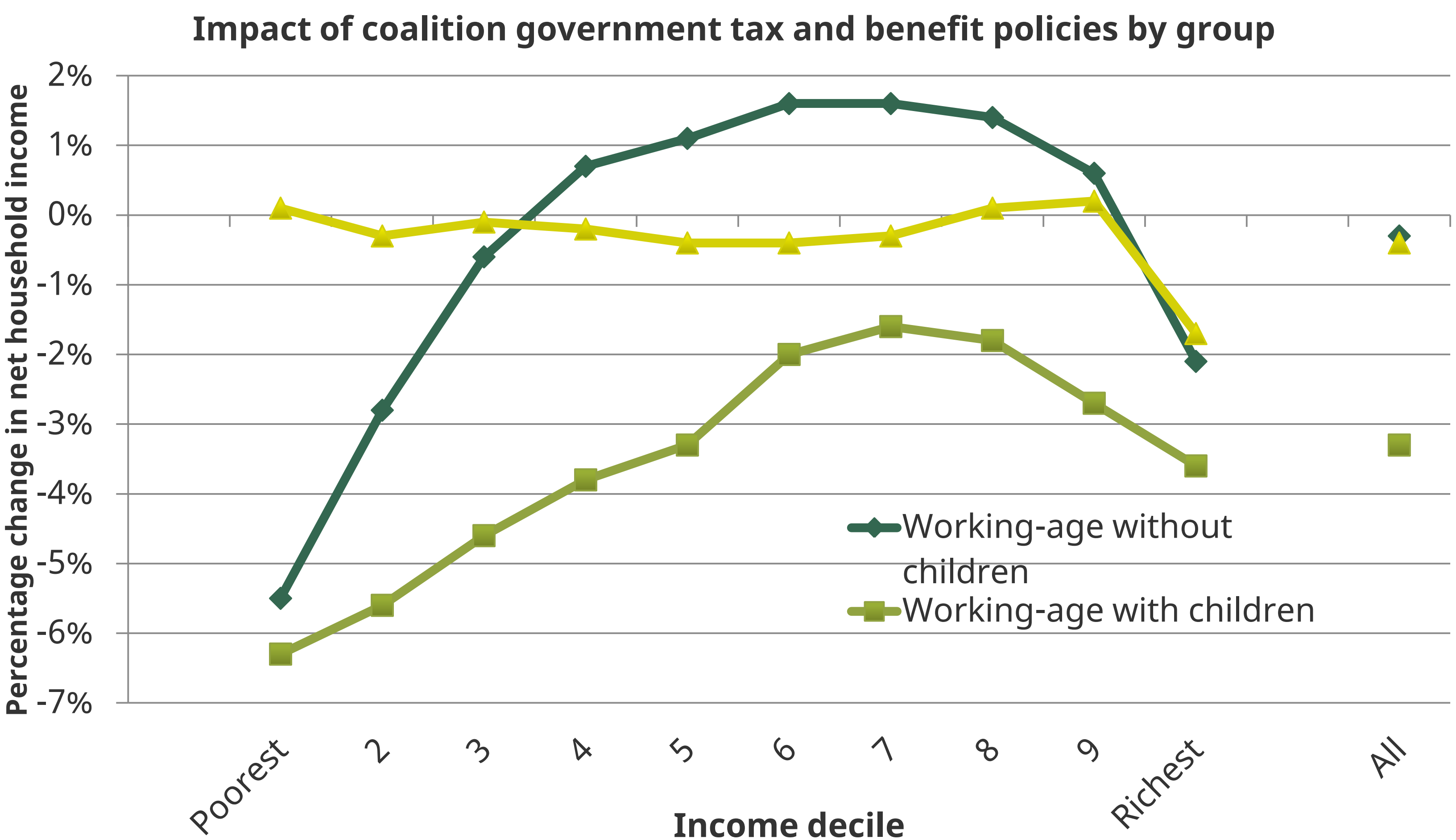


Tax and benefit changes have hit the bottom half and the very top



Source: IFS

Pensioners protected, those with children hit hardest



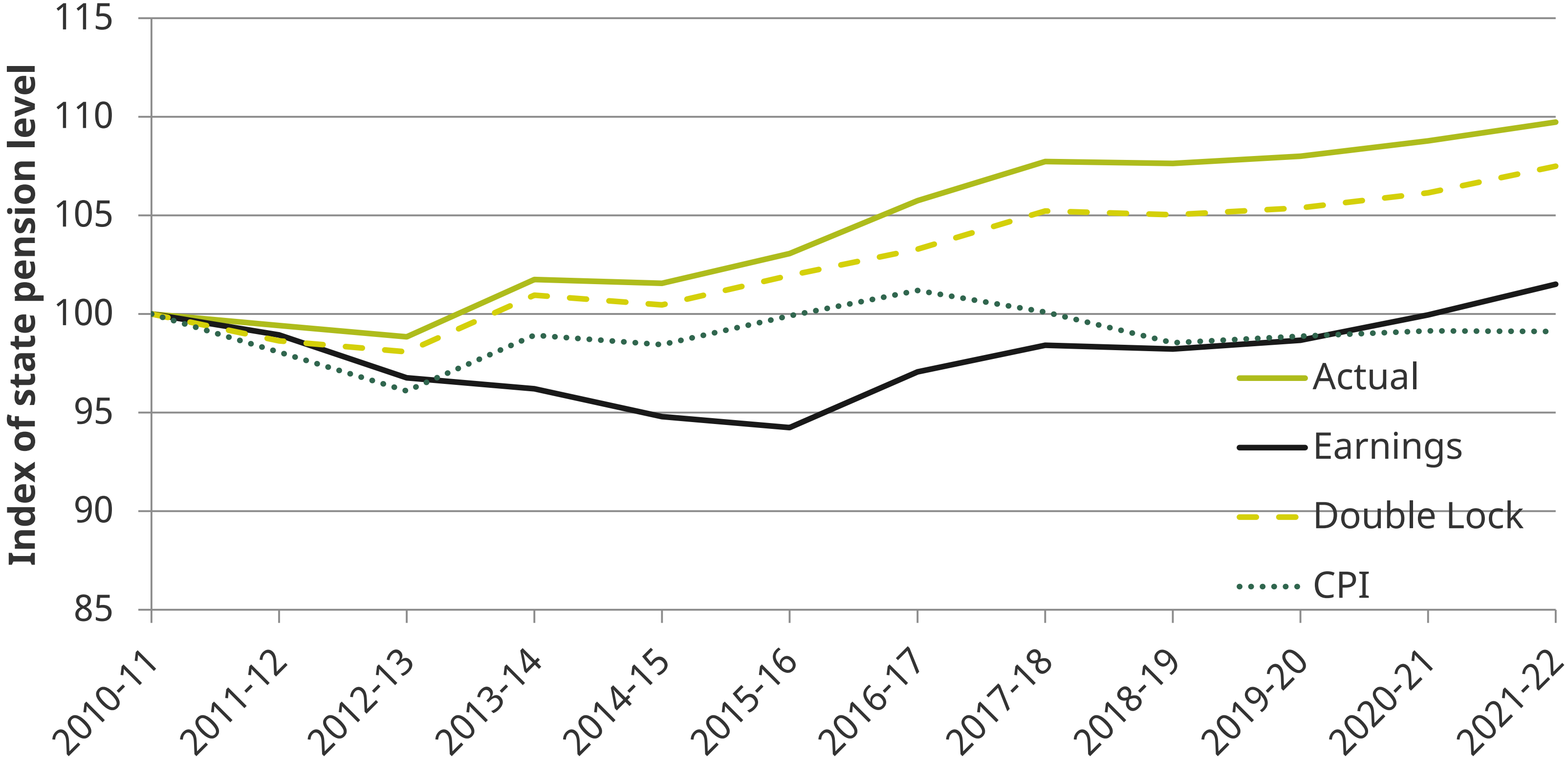
Source: IFS

Fiscal policy has worked with monetary policy and underlying trends to protect the old and hit the young

1. **Triple lock** means basic state pension has grown 9%pts more than average earnings since 2010-11.

The triple lock

Growth rate of basic state pension compared to average earnings (2010-11 level = 100)



Source: OBR and author’s calculations

Policy changes have exacerbated existing trends

1. **Triple lock** means basic state pension has grown 9%pts more than average earnings since 2010-11.

2. **The state pension** age for men has not kept up with increasing longevity

Dramatic increase in numbers living longer in recent decades

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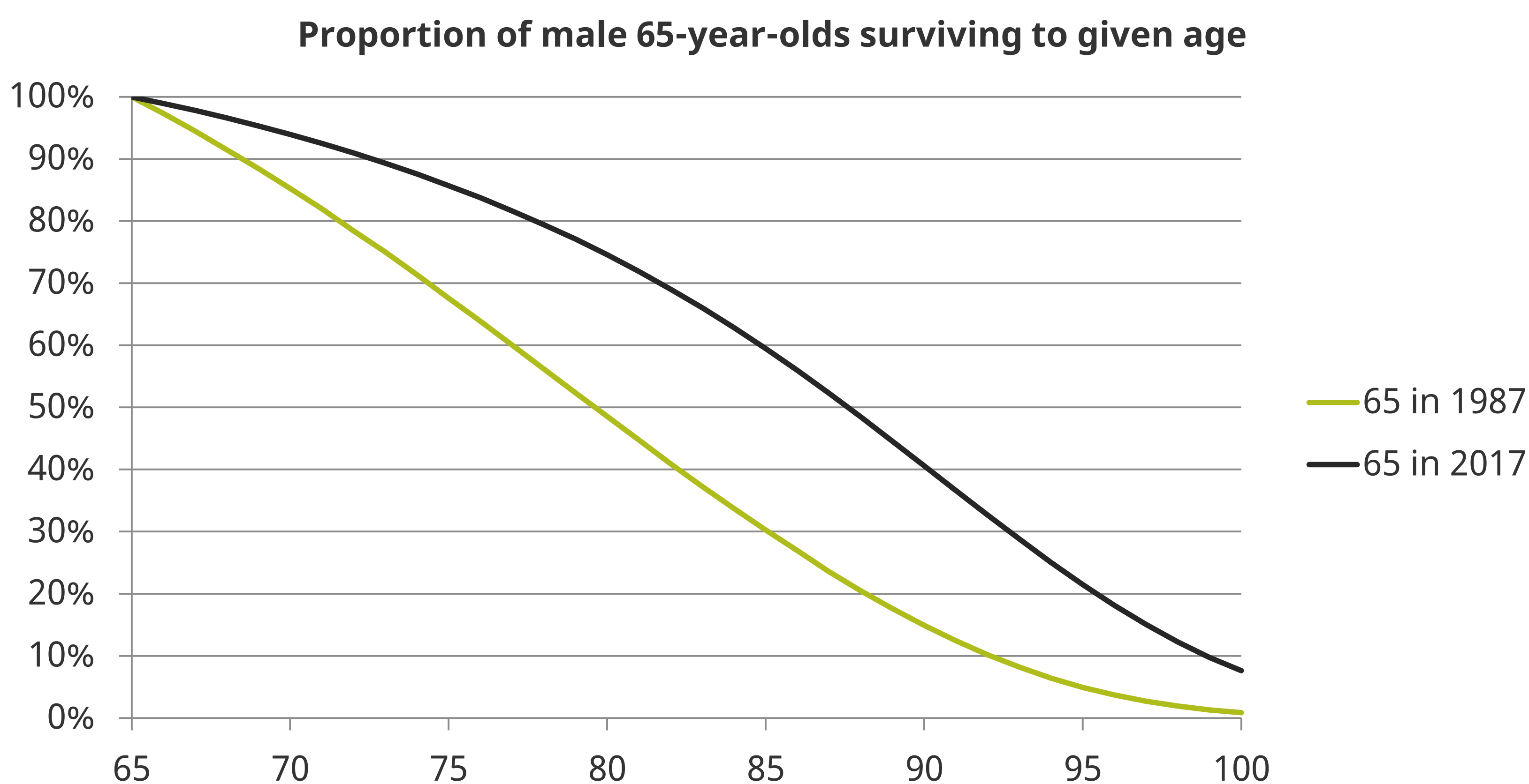

Source: ONS Life Tables

Policy changes have exacerbated existing trends

1. **Triple lock** means basic state pension has grown 9%pts more than average earnings since 2010-11.

2. **The state pension** age for men has not kept up with increasing longevity

   - Without further rises in the state pension age, pension spending will rise rapidly as a share of GDP, and require other spending cuts or tax rises.

Even without triple lock, state pension spending will rise as a share of GDP

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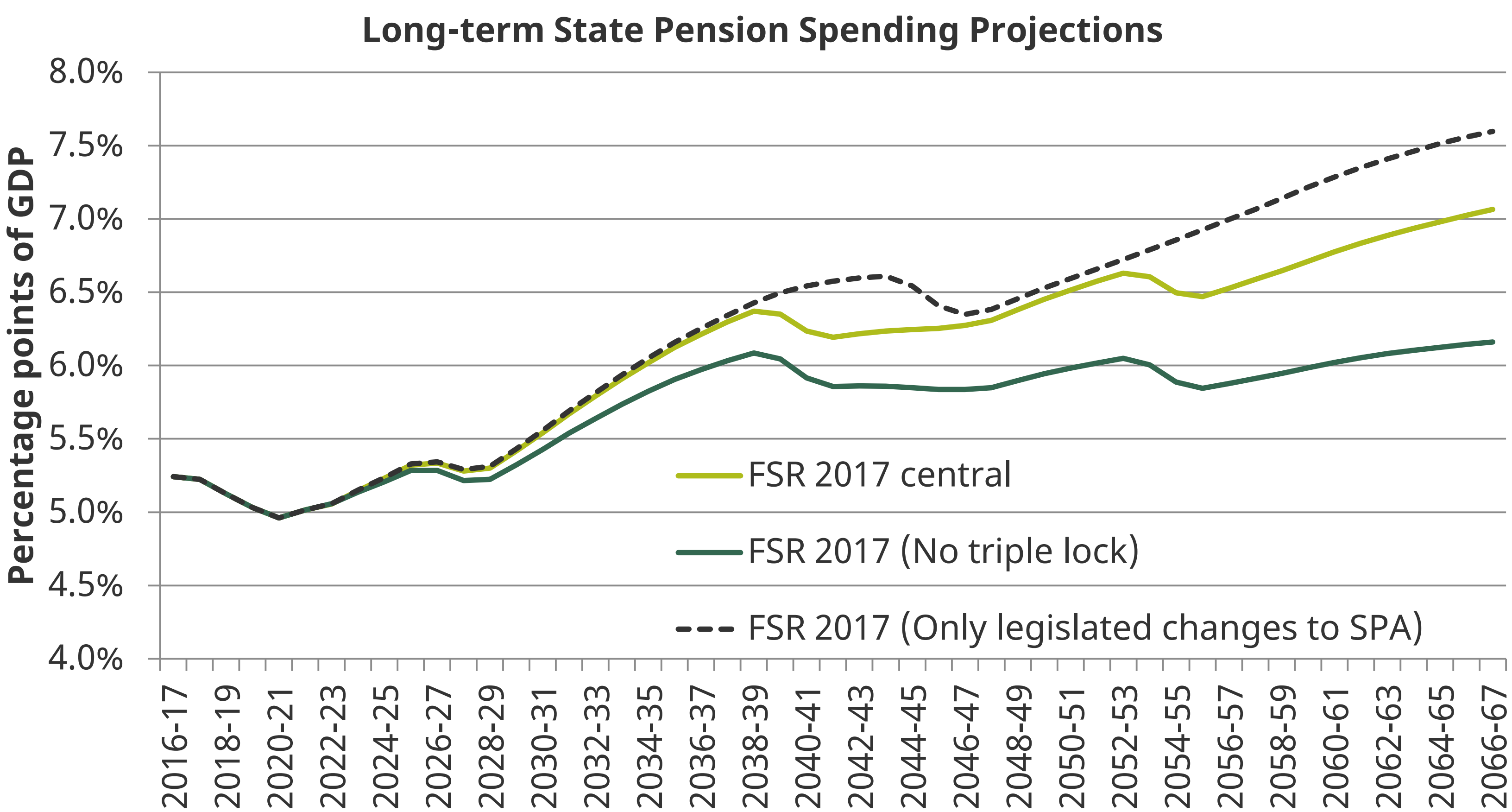

Source: OBR Fiscal Sustainability Report

Policy changes have exacerbated existing trends

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1. **Triple lock** means basic state pension has grown 9%pts more than average earnings since 2010-11.
2. **The state pension** age for men has not kept up with increasing longevity
3. Reductions in pensions lifetime allowance have not hurt current pensioners but those who are currently of working age.
4. Cuts to public service pensions mostly impact those of working age
5. Taxation of housing continues to favour those who already own

Fiscal attempts to offset have been minimal, counter-productive or ineffective

1. Ending requirement to annuitise pensions

   response to low interest rates

2. “Help-to-buy” intended to help first time buyers

   has likely raised prices

3. Attempts to increase housebuilding ineffective
4. Taxes on buy-to-let as a ‘third best’ response

Fiscal and monetary policies together

Distributional effects of fiscal policy regularly analysed:

- Increasing focus on impact by age, not just income

Impacts of monetary policy less easy to define:

- What is the counterfactual?
- Would need to know impact of monetary policy on asset markets

Attitudes matter

- Changes to asset values seen as “act of God”
  - Impacts via e.g. DB schemes may not be visible
- Those who already have money notice changes to interest rates
  - But bigger impact on those looking to build savings
- Fiscal policies reducing entitlements of old seen as “retrospective”
- Tax increases/benefit cuts for working age deemed acceptable