

Treasury Committee

Oral evidence: Intergenerational inequality and social mobility, HC 1419

Tuesday 6 June 2023

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Members present: Rushanara Ali; Douglas Chapman; Dame Angela Eagle; Emma Hardy; Danny Kruger; Andrea Leadsom; Siobhain McDonagh.

In the absence of the Chair, Dame Angela Eagle took the Chair

Questions 1 – 49

Witnesses

[I:](#) Ian Mulheirn, Independent Economist; Lord David Willetts, President, The Resolution Foundation; Resham Kotecha, Social Mobility Commissioner, Social Mobility Commission.

Examination of Witnesses

Witnesses: Ian Mulheirn, Lord David Willetts and Resham Kotecha.

Q1 **Chair:** Welcome to the Treasury Committee evidence session on intergenerational fairness and social mobility. I am grateful to all of you for coming in to speak to us on this really important issue. Could I please invite the witnesses to introduce themselves?

Resham Kotecha: I am Resham Kotecha, one of the Cabinet Office-appointed Social Mobility Commissioners and head of policy at the Open Data Institute.

Lord Willetts: I am David Willetts. I am a member of the House of Lords and president of the Resolution Foundation, where I chaired our Intergenerational Commission.

Ian Mulheirn: Good morning. I am Ian Mulheirn. I am an independent economist and policy expert.

Q2 **Chair:** Thank you very much. I am just going to ask you one general question before I get into the details of the questions on intergenerational inequality. Is intergenerational inequality more or less important than class inequality?



Lord Willetts: I would say that historically in Britain we have been very aware of some unfairness and inequity on class, gender and ethnicity. There is a lot of analysis of those, and they are real things. Until recently, we were not very focused on gaps between the generations. Those, I would suggest, are equally important because they are a growing problem.

One reason why they are important is they do magnify other forms of unfairness. Unfairness between the generations can in turn be a barrier to social mobility and also affect the life prospects of people from different classes. It should be on the list, sadly, as another way in which British society could raise its game and do better.

Resham Kotecha: We are used to hearing the term “class”. On the commission, we prefer to talk about socioeconomic background. It is an easier definition. It is easier to collect data on that. It is more relevant. People self-identify as different classes. Those measures change. In our upcoming *State of the Nation*, we talk about socioeconomic background—what your parents did when you were aged 14—as a better way of being able to classify and utilise data to understand those changes.

Intergenerational inequality is hugely important. We see it as one of the challenges to social mobility progression. It is very important. Your question on which is more important depends on who you are and what you are trying to achieve. From our view, in terms of social mobility, we are looking at how you progress compared to your parents. What are your life chances compared to your parents?

That does not necessarily neatly tie into generational divides because people have children at different ages. That does not fit so nicely, whereas we view intergenerational inequality in terms of generations. We are looking at the baby-boomer generation compared to millennials or Gen Z. There are differences that matter, but in our work we are focused on social mobility. If you do not tackle intergenerational inequality, you make tackling social mobility harder.

Ian Mulheirn: I would agree with all that. I would just add that it is definitely right to see it as an exacerbating factor, but intragenerational inequality of wealth is still the biggest single thing to worry about. The intergenerational aspect is layered on top of that. It is something to consider and something that exacerbates pre-existing disadvantages that happen within generations, which is probably what we should care most about.

Q3 **Chair:** Resham, you sounded like you were saying it was easier to analyse intergenerational inequalities because it was easier to define the generations than it is to look at some of the more complex inequalities that Lord Willetts was mentioning between women and men, in relation to socioeconomic background and the rest of it.



Resham Kotecha: No, I would not suggest that it is easier. It is more that that is how we view the differences. When we talk about social mobility, we are very neatly comparing a person with their parents.

With both my Open Data Institute hat on and my SMC hat on, without good data it is really difficult to analyse and provide evidence on what the issues are and where the challenges are. That means we need to have data standards. We need to be able to assure that data and make sure it is good quality. We need to recognise the gaps and biases in the data. Everyone looks at data and interprets that data differently. What you bring to that data, how you choose to interpret it, how you choose to analyse it and how you choose to report it will change the inferences from the data.

It is really important that we mandate data standards and that we give people and the general public the tools and the literacy to be able to analyse that. It does not just need to be Government that is analysing that. It should be open so we can have broader views and so people with lived experience and different perspectives can analyse and assess the data.

It is less about what is easier or harder and more about evaluating what data we have available and what data we do not have available, and therefore what data we need to go out and collect or make available. The more interoperable these datasets are, the more we can look at intragenerational and intergenerational inequality and what that means for social mobility, and the more we can enact policies or create recommendations to tackle that. The quicker we close the gaps, the better.

Q4 **Chair:** There is a further general question that has occurred to me while you have been answering my first one: is social mobility important? Everybody assumes that it is. I am certainly a person who assumes that it is. Could you make observations on why you think social mobility is important, if you believe that? As the obverse of that, if social mobility is important, should we be worried that people are stuck very much in the position in which they were born?

Resham Kotecha: It will not surprise you to hear that my view is, yes, it is hugely important. Along with the commission, my fellow commissioners and I imagine plenty of people in this room, I want to live in a country where everyone can do well and everyone has the opportunity to succeed regardless of where they were born, what their parents did, what their financial circumstances were and a whole bunch of other protected characteristics.

Yes, it is really important. There are positive trends depending on which elements you look at. There are multiple factors that we measure, whether that is education, income or occupation. We also have to acknowledge that there is sometimes downward social mobility. We want to make sure that people have the opportunity to progress.



Q5 Chair: You cannot have social mobility upwards and not have it downwards.

Resham Kotecha: Yes. There will be some movement in both directions. It is important to recognise that not everyone is always going to be going up. It is about how we can make sure the opportunity is there.

Lord Willetts: Napoleon once said of something his opponent said that it was worse than wrong; it was a mistake. With social mobility, it is partly just morally wrong, but it is also a mistake in that it is wasteful. It means there are people of talent who, because of their backgrounds, are not deployed in the jobs they could best fulfil that would generate the most prosperity and wellbeing for the rest of us.

Ian Mulheirn: The other thing I would add is that the reason social mobility is important is because it underpins the legitimacy of a market economy. If you have a market economy where people start from grotesquely unequal starting points in life and therefore can benefit from the market economy as a result, that weakens support for it. For those of us who think a market economy is a good thing, social mobility is a necessary adjunct to it.

Lord Willetts: If I may add one point about downward mobility, there is a generational issue here. It does look as if there was a time in the post-war period when there was a surge in white-collar jobs. You had more people moving to a different type of what we could call, very crudely, middle-class employment. People look back on that period of greater social mobility. That may have been one of the reasons. If you do not have that as your economic and social background for a later generation, that form of social mobility, just driven by a change in the employment structure of society, is no longer available.

Q6 Chair: There has been lots of discussion on intergenerational inequality in the UK. How would you define it? We have begun to do that a little bit, but not perfectly. Can we pinpoint when intergenerational inequality started increasing and why? David, you have had quite a lot to say about this over the years.

Lord Willetts: Yes. It goes back to your question of how you measure things. It is tricky because, in a way, it is an understandable process. Old people tend to have had time to build up wealth; old people tend to have more wealth than young people. Often, as you go through the jobs market, middle-aged workers have higher earnings than younger workers.

Intergenerational unfairness arises when those processes are not just a normal lifecycle effect. There is something exacerbating them, which has meant that one generation has got a particularly good deal and another generation may be getting a particularly bad deal. The evidence is pretty clear that for the younger generation, both when you look at incomes and at assets, you find a similar story.



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For incomes, the wages of younger workers are no higher than people of the same age 10 or 15 years back. It looks as if some of the drivers for improving your earnings, like moving jobs, have declined. That is another important form of mobility. There is less employment mobility for young people.

For me, the biggest issue is assets and wealth. It does look harder for the younger generation to acquire the two classic assets. The company pension scheme, which is a fantastic asset, is basically closed to younger workers. The new auto-enrolment scheme is a great example of cross-party success—it is up and running—but the amount of money in those pots is tiny compared with the pension entitlements the previous generation were building up.

Then, of course, there is housing. Ian may talk about this, but getting started on the housing ladder and buying your own home is harder. The younger generation are doing quite badly on incomes and very badly on assets.

Resham Kotecha: Housing is a huge point there. Between 2004 and 2021, London house prices went up 128.8%. In the last 50 years, 1970 to 2021, there has been a real-terms increase of 207% in the price of housing. Back in the 1980s and 1990s, it took the average 30-year-old three years to save up for a deposit. That is now closer to 20 years.

I say this as someone in the millennial generation. I would understand and expect people of older generations to have more. The question is not, “Do they have more than I have now?” The question is, “What do my life prospects and those of my generation and younger look like? Will we be able to have a home? Will we be able to retire? Will we have a pension?”

That is where the challenge comes in, because increasing house prices across the UK impact where you can live. They impact the age at which you can have a child or afford to have a child; they impact your family size. They impact the jobs you can take. If you cannot afford to move to a place where your job might pay you more, you are essentially undermatched. That entrenches the inability to progress with life in the way you might want to.

We see that as an issue with an ageing demographic. The estimate is that 157,000 children have not been born between 1996 and 2014 because the cost of housing meant that people could not afford to have the children they wanted to have. This has far greater implications than just generational fairness. It impacts what we will be able to afford as a society, as our demographic continues to change.

That is driving real change across the cities as well. People are being driven out of cities. In Southwark and Lambeth, the number of households with at least one child has fallen by over 10%, and we are seeing that move to suburban areas. Barking and Dagenham has now had an increase of households with children of 34%. You can imagine



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what that does to pressures on infrastructure and schooling. We have inner-city schools closing because of that.

As Lord Willetts mentioned about pensions and what we are expecting different generations to get, if you were born in 1956, you pay a huge amount of tax over your lifetime, but net, according to the *Economist*, you expect to get £290,000 more than you have paid in due to welfare. If you were born in 1996, you get less than half of that. We are talking about needing to consider what the impact is on an individual over the course of their life, what they can expect to retire with and how we can fund those pensions.

In addition to that, we have to think about poverty. 31% of children live in poverty. 20% of pensioners live in poverty. This is not about pitting age groups against each other; we just need to consider where we need to focus that support. Again, it comes down to the data. Where do we have data? How can we use that to shape policy to tackle the issues that really matter?

Q7 Chair: What policies could have an effect on that, Ian? For example, we have a tax system at the moment that charges a particular amount on income and often less on earned wealth such as shareholdings. Are there implications for the inequality that has just been talked about in our tax system, particularly the current shape of our tax system?

Ian Mulheirn: Yes. If I may also just add to the previous answers, it is worth thinking long-term about the historical context here. Total household wealth as a proportion of GDP bumbled along at 300% through most of the late 20th century, and then it exploded from the late 1990s onwards. To your first question about when we can pinpoint the start, that is the start of the issue.

As Lord Willetts said, there are two further trends. First, income stagnation for the younger age group has stopped that. The fact that their wages are not rising has stopped them from being able to accumulate more savings. More education has meant they start later so they earn later than their parents did. Then the asset price boom, particularly in housing from the early 2000s and then in pensions as well, as interest rates fell has really driven up that huge stock of wealth, which is driving this intergenerational distribution.

As you say, there are policy implications in terms of making sure that we limit the extent to which people can benefit from windfall gains and capital gains that happen irrespective of how much effort they have put in. Some of that is about removing exemptions from inheritance taxes and capital gains taxes on death and possibly moving to something like a lifetime receipts model. Some of those sorts of things would limit the extent to which those vast volumes of wealth can just be passed straight down the generations.



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It is important to make the distinction between these piles of wealth that have grown because of the effects of falling interest rates, primarily, and wealth that has been accumulated because of people's lifetime earnings and work. There is a very clear distinction between those two that we have seen really kick in over the last 25 years.

Lord Willetts: I have one way of summarising that. I also agree with Ian on the significance of the wealth-to-GDP ratio. It used to be three times GDP; now it is eight times GDP. That is really important.

Income is relatively evenly distributed compared to wealth. The inequality of earnings and incomes has not significantly increased in 30 or so years. Wealth is more unevenly distributed, much more unevenly distributed than income.

Q8 **Chair:** It also tends to concentrate, does it not?

Lord Willetts: Yes, it is certainly more concentrated than income and earnings. Without any change in either the distribution of income or the distribution of wealth, just with the fact that wealth is more unevenly distributed than income, if wealth becomes much more important in your society—if it rises from three times GDP to eight times GDP—your society may feel more unequal and less mobile.

Inheritance matters more and what you own matters more, even though that does not show up either in an increase in income inequality or in an increase in wealth inequality. It is showing up because wealth has just become more important in your society.

For me, when I started on my political career, I had a picture that people would be able to acquire assets out of their earnings, and we wanted to make it easier for people to acquire assets out of their earnings. When assets are so high relative to income, acquiring them out of earnings is harder and inheriting them becomes more important.

Q9 **Chair:** Finally, I also wanted to talk about the coronavirus crisis and the cost of living crisis. The pandemic had long-lasting impacts on inequality. Does this also apply to intergenerational inequality? What are your observations on the effect of the pandemic and where we are now?

Ian Mulheirn: We have not talked about or gone into in great detail on the drivers of this huge boom in wealth. When you look at the data, it is pretty clear that both in housing and pension valuations the long-term declines in market interest rates for safe things like Government bonds that have happened for the last 25 or 30 years have pushed down annuity rates and driven up the paper value of your pension pot and your house as well. That is the key thing.

During the pandemic, we had a maelstrom of things happening. Better-off people were working from home and saving a lot of money; lower-income people were spending a lot more and perhaps not getting much support. You had all sorts of impacts on active savings.



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The really big effect was 2022, when we saw a sudden jump in long-term interest rates, which will have a big impact on stocks of wealth, as we measure them, and therefore on intergenerational inequality. Quite where that settles remains to be seen because we do not yet have the data, but it will have a big impact on wealth as a proportion of GDP in our society and therefore these intergenerational issues. That is a bigger effect than the pandemic effect.

Resham Kotecha: In addition, some of the consequences will be difficult to ascertain from a data perspective for years to come. I do not believe it is too late to tackle the challenges that children from more disadvantaged socioeconomic backgrounds faced during the pandemic. They were well documented, but we know, for example, that students who had families using food banks during the pandemic had GCSE grades that were on average half a grade lower than expected, so we know there was a significant knock-on impact to the families that struggled.

From previous Social Mobility Commission work, we also know that the poorest children, even before the pandemic, started school four and a half months behind their peers. By the time they leave school at 18, they are 18 and a half months behind their more advanced socioeconomic peers. We already knew that those differences were an issue before the pandemic. It is highly likely that we will see the consequences of that, although the data has not come out yet, so I would not want to commit to that.

Equally, as Ian has mentioned, the cost of living crisis is huge. The Open Data Institute did work last year to look at fuel and food poverty. Whilst you might think that it is only pensioners who are really impacted by fuel poverty—of course, they do tend to live in energy-inefficient homes, and that impacts them more—we also saw a huge impact on private renters and people in younger households and multi-occupancy households. 28.8% of households where the oldest member is between 16 to 24—we are talking about young people without financial means or financial security—were vulnerable to or living in fuel poverty.

It is not just about the pandemic; it is about the ongoing impacts of the Russian invasion, the pandemic and the cost of living crisis. We know that the younger generations will not have built up much equity in their houses, but they will be particularly negatively impacted by the ongoing increases in mortgage rates. There are a lot of different ways in which we need to consider the impact of the policies that we might use to mitigate these effects.

Chair: Of course, 3 million emergency food parcels were distributed last year, 1 million of them to children, according to the Trussell Trust.

Q10 **Siobhan McDonagh:** I just want to look at home ownership. For my mum and dad, the biggest thing they ever did was buy their own home. Getting a mortgage for a blue-collar worker in the 1950s was extraordinarily hard so it was a matter of great pride to them throughout



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their lives.

We are looking at today. In the 1990s, 70% of 25-to-34-year-olds owned their own houses. You have made reference to that, Resham. Today about 40% of people in that age bracket own their own home. In 1997, the cost of a home was three and a half times what an average income was. Today it is nine times. As I am sure you all know, that is the most expensive it has been in 150 years. We have to go back to 1876 to find when it was as expensive to buy.

If we carry on as we are, only a third of the children born today will ever be homeowners. Would you say the housing market is working for young people in the UK? Should they stop trying to save and just keep eating the avocados?

Ian Mulheirn: I will leave the avocados to one side. Siobhan, you are right: the housing market is not working. It is important to keep in perspective that there are two big drivers of the ability for people to get on the housing ladder. It all comes down to the deposit, effectively, or it mostly comes down to the deposit.

One of the drivers is house prices. As you say, they have gone up compared to the average in the late 20th century, when it was three or four times earnings. There has effectively been a doubling of the price-to-earnings ratio. That pushes up the size of the deposit you need to get on the housing ladder.

The issue we do not talk about nearly enough is the impact of the mortgage market. In the 1990s, typical first-time buyers were using a 5% down payment. Now, the typical down payment is 15%. Even if house prices had stayed flat, you would need to have three times as much in your deposit to get your first loan. Banks and lenders have a huge impact on driving home ownership. Before the financial crisis, there was perhaps a laxer attitude to risk and a lot of lending to first-time buyers. Afterwards, there was a sudden pull-back and a very rapid drop in home ownership, from which it took many years to recover.

We have also had a situation through most of the 2010s where those first-time buyers who were able to borrow were paying far higher interest rates than buy-to-let landlords or people with more wealth. The mortgage market is a massive driver of wealth inequality because of the risk-averse nature of banks.

If we look at most other countries around the world, many advanced countries have mortgage insurance schemes for first-time buyers to try to make lenders differentiate less between wealthy people and less wealthy people and to share some of that risk. We could look at doing something like that, as well as trying to get things like longer-term fixed-rate mortgages in place.

Some of these reforms to the mortgage market are probably far more important and much more within a Government's grasp to boost home



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ownership than really anything on prices. I would encourage the Government to look at that.

Lord Willetts: Could I just follow on from that? I completely agree with Ian's analysis. There is a group of young people whose private rent payments are, if anything, higher than they would pay if they had a mortgage, but they cannot access one.

Siobhan McDonagh: In London, the average rent is £2,000. The average mortgage is £1,400.

Lord Willetts: If I may say so—this is the Treasury Committee—I would add to Ian's list of issues how we regulate mortgages. There is a legitimate small-p political trade-off here as to how risk-averse our regulation should be.

Of course, the good news of the last few years is that we have not had lots of housing repossessions, whereas in the crisis in the 1990s we did have a lot of housing repossessions. How toughly should we regulate mortgage lending? What amount of risk do we think there should be?

This is not simply about the risk-averse behaviour of banks. This is the new set of regulations imposed on the financial services industry in the last 10 or 15 years. I have met mortgage lenders who say, "We would be willing to lend to this person, but the regulatory regime managing our overall book, what the overall asset-to-loans ratio is in our book, makes that harder for us". It is a legitimate question as to whether we have overregulated and made buy-to-let mortgages much more lightly regulated.

Ian Mulheirn: Can I add to that? The regulation of the mortgage market is an issue. We have to remember that the big shortfall in home ownership happened in the immediate wake of 2008, when it was not a regulatory thing; it was a market response. There was a sudden pull-back and home ownership absolutely collapsed. Now, there are regulations that are also constraining things, but it is both effects.

We need to see it not as a trade-off simply between increasing the risk we want banks to take and having higher home ownership. There is a different way, and that is the way that lots of other advanced countries do it. Take countries like Canada, the Netherlands or Australia. They have mortgage insurance systems that get you around that trade-off. Those systems mean that the banks do not take excessive risk and households do not take excessive risk, and you get higher home ownership as a result.

Resham Kotecha: As you say, you have to recognise that we are putting people who want to buy homes in a really challenging position. Their rental payments are enormous. That does not count towards any credit score. You might be making significantly higher payments for 10 or



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15 years and still not be able to benefit from that in terms of your mortgage, to show that you are a worthy person to lend to.

The data shows that we have the lowest level of unoccupied homes across Europe. We only have 270,000, which is not even enough to meet the housing supply for a year. Back in the 1960s, we built 3.6 million homes over the decade. In the 2000s and 2010s, we built 1.5 million homes per decade. I totally agree with these two gentlemen, but it is a multipronged approach. We have to put our money and our policies where our mouth is and build more.

- Q11 Siobhan McDonagh:** I do not want to interrupt, because this is fascinating stuff, and thank you all very much for your answers. Skipton Building Society came out with initiatives last week that said that if you had paid your private rent for two years, they would give you an almost 100% mortgage, but only at the weekend the same building society stopped taking on new customers for five-year mortgage deals that are below 90% loan-to-value. Automatically, if you are not part of the Skipton club, you are excluded. TSB withdrew its 10-year fixed-rate deals with two and a half hours' notice, and 20 of the biggest mortgage lenders have increased mortgage rates.

Every single thing the Government seem to do fuels a house price boom. Even with the stamp duty holiday, who was forced out of the mortgage market? It was young people and first-time buyers, because it took longer to apply for a mortgage than if you were a buy-to-let landlord.

Resham Kotecha: It is also a transactional tax. It creates friction in the market. You end up paying it. We disincentivise people to move. To be very clear, I am not suggesting we force anyone to leave their homes, but we disincentivise people who might be looking to downsize.

It disproportionately affects people in London and the south-east, where your allowance might mean you are living in a small flat rather than what people might imagine if you live in the south-east. Personally, a tax that just creates friction and does not encourage movement, in a market we seriously need movement in, is a folly.

- Q12 Siobhan McDonagh:** The biggest financial investment in getting young people in the housing market was Help to Buy, at a cost of £29 billion, but its main effect was to boost the bonus payments of the chief executives of the housebuilders and to boost prices. You have said something about what you think could boost the opportunities of young people. Is there a better way to spend £29 billion?

Ian Mulheirn: On the Help to Buy schemes, it is really important to differentiate between the Help to Buy mortgage guarantee and the Help to Buy equity loan. The equity loan scheme was for new builds. That has been a somewhat questionable policy intervention with a lot of bad side effects.



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The Help to Buy mortgage guarantee scheme is very much along the lines of what you have in many other countries. There is no real evidence that it had a significant inflationary impact on house prices. Its major problem, if anything, was that its take-up was very low. Only a maximum of 10% of first-time buyers were using it. If you go to Canada, the Netherlands or Australia, you will find that all first-time buyers are using mortgage insurance.

The other thing that is wrong with the Government's mortgage insurance scheme is that it only kicks in when there is some sort of crisis, which is bad value for the taxpayer. It should be a permanent compulsory scheme that goes across the economic cycle so the taxpayer is not just bearing the risk when house prices are at risk of falling.

If you had that, it would have a stabilising effect on the market so you do not get this sudden rush in the boom times to 100% mortgages and then a pull-back. We need to stabilise this and remove some of the risks the households face. A permanent compulsory mortgage guarantee scheme would do that.

As I say, to go back to the initial point, that is a different thing from the Help to Buy equity loan scheme, which was a very different scheme with badly mixed-up branding, unfortunately.

Lord Willetts: I have to say that one other effect of the Help to Buy schemes was that there was an increase in prices, but that in turn increased supply. It was partly aimed at promoting house-building, and there is some evidence that there was a 10% to 15% increase in house-building as a result.

You are right to ask what a priority use of public money would be. The Resolution Foundation's Intergenerational Commission has suggested a capital grant for young people. From my perspective, I see it as being in the tradition of property-owning democracy, like council house sales or privatisation shares.

For younger people now, the biggest challenge is the money for the deposit. We suggested giving people £10,000 when they get to the age of 25 or 30. That could be spent on either a housing deposit or, if you wish, you could put it into your pension pot.

Q13 Siobhan McDonagh: There was a Government that came up with something similar. I think they were called baby bonds, were they not?

Lord Willetts: Indeed, yes. Some of them are maturing now, and it is an interesting question as to what should happen to them.

I am very sceptical about universal basic income. When it comes to assets and a stake in society, something actively to promote the opportunities of the younger generation getting a stake in society, given the circumstances we are in, would be very important.



Siobhan McDonagh: I have one last and favourite question. Lord Willetts, this could be for you, but the other panel members should please not hold back. The think-tank Onward just published a report showing that millennials are the first generation that are not becoming more conservative as they get older.

Chair: It is about time.

Q14 **Siobhan McDonagh:** That is because, unlike previous generations, they do not have a realistic chance of owning their own home. Even the Conservative MP Bim Afolami said that “people are meant to become more conservative as they age” and that that is “certainly no longer so today”. Do you agree with that assessment?

Lord Willetts: I take the Tory whip in the House of Lords, but, from my perspective, I believe in that great slogan of property-owning democracy. It is harder for young people to get a stake in society, and Ian is incredibly eloquent and absolutely right on housing, but we should remember that the two great assets are almost equal in value in total, housing and pensions. Those are the two stakes in society.

For housing, for all the reasons we talked about, getting started on the housing ladder is harder. For pensions, the money in the pension pot is very small. The good news is that we at least have created, on a cross-party basis over a decade, a successful scheme of auto-enrolment. That is a potential savings vehicle. I would want to put money into that, and then we would perhaps find, as people went through the lifecycle, they did feel they had a stake in society.

Resham Kotecha: Regardless of people’s political ideology, everyone deserves the opportunity to purchase a home. If we in Britain are proud of our cultural history of being a country of homeowners, we need to make sure that the opportunity to aspire to owning your home, should you wish to, is something we make available to every generation, not just the ones who already have their homes. It is about designing policies for home ownership, not homeowners.

People deserve the right to feel secure where they live. We need not only to ensure they can own homes where they want to, but that, where they rent, should they wish to, they have protections there around good and stable homes, where landlords have the incentive to make sure homes are energy-efficient and liveable and to keep them at a high quality. Not everyone wants to own a home, but we need to make the experience of renting and owning easier, better and happier.

Ian Mulheirn: I was just going to add to David’s point. There is a great opportunity to build on the auto-enrolment pensions thing with a new asset-based welfare type of policy. It could be much broader. For inspiration we could look to places like Singapore, where everybody has a pot in the Central Provident Fund. They have an account they can effectively use for housing, education and ultimately for retirement and



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unemployment insurance. You could bring a lot of these things together. We have the basic things in place to move in that direction.

Resham Kotecha: We should also be incentivising that for self-employed people.

- Q15 **Siobhan McDonagh:** Ian, I think you will find that your old boss is responsible for one of those schemes that did precisely that. I am asking a question now about baby-boomers. We are moving generations to what is probably my own.

Back in 2004, Professor Hills estimated that people born between 1951 and 1956 will receive in services 116% of what they contributed in tax, while people born between 1956 and 1961 will receive 118%. By contrast, the last cohort Professor Hills analysed, those born between 1971 and 1976, were projected to be net contributors. To what extent are the younger generations subsidising the older?

Lord Willetts: That was a really important piece of work that the late Professor Hills did. I would look at it with some embarrassment, because the people who absolutely did the peak best in the balance of benefits and taxes were born in 1956, which is when I was born. I seem to be in the absolute perfect position in the age group that has done best out of it.

It is a real challenge. I have to say that one vivid example at the moment is what is happening on benefits. Of course, you could argue that there was a case for the triple lock when pensions were so low, but now the poorest pensioners have slightly higher incomes than the poorest families of working age. It does look as if benefits for pensioners have gone up by £600 more than inflation and benefits for working-age families have been cut by £800 below inflation.

Given the total amount of social security that a Government of whatever political persuasion think they can afford, within that budget there has been a deliberate decision to do better than inflation for pensioners and lower than inflation for families. That is not generationally fair.

- Q16 **Siobhan McDonagh:** Should older generations be more willing to see policies that are in favour of younger generations in the Budget, and should politicians be braver?

Lord Willetts: Old people do care about their kids and grandkids. It is the other way around. Sometimes I am accused of being a generational warrior. One of the good features of all this generational stuff is that it is a unifying thing. Old people, regardless of their background, want the younger generation to have a better deal. This is a winnable argument. All the polling evidence says that old people worry that their children and grandchildren are not having quite the same opportunities in life as they thought they would and should have.



Resham Kotecha: It is also about being data-driven and setting out an example. If you were to ask most people, they would think that pensioners across the board are less well off than they are. Across the board, they would think that working-age people are better off than they are.

That is why I talk about the data being so important. It really is, because you have to use evidence-based proposals to create policy. In fiscal year 2022-23, 42% of welfare spending is on pensions. That is huge. Given the fact our population is ageing, that burden is going to become greater.

We do need to start thinking about what we offer, what we means-test and what we can afford to give. There is a really important social contract to think about. The more we take away from children and working-age generations, the more we hinder income inequality, the more we hinder social mobility and the more we hinder people's opportunities to succeed and progress.

As I have already said, with 31% of children living in poverty, we are talking about things that will have impacts for decades to come. We are not just talking about a short-term issue.

Ian Mulheirn: I would just add that it is important to remember where we came from. In the 1980s and 1990s, there was a very low state pension for pensioners. We do not want to go back there.

With the decline of DB schemes, a key part of the Turner pensions settlement that we have been touching on is a high and reasonably generous basic state pension that people can bank on. We do not want to suddenly tack away from this by saying that the older generations are getting too much money in their pensions. That is not the way to go.

It is also a mistake to look at things in a static sense too much. The triple lock is going to benefit the next generation of pensioners more than it benefits the current generation of pensioners. In a lot of ways, it is a fairer policy intergenerationally. However, it is also a bit nonsensical. It raises the basic state pension in an arbitrary way according to what is happening to prices, inflation and earnings or whatever. That does not make much sense.

It would be much more sensible to come to a view about what the appropriate level is, to raise the state pension to that, and to link it with earnings only and then to leave it there. That should be the new generational settlement rather than the slightly arbitrary system we have at the moment.

Q17 **Siobhan McDonagh:** My last question is a really interesting one. I will start with you Ian, but it is by no means just for Ian. An Oxford economic study that you were involved in showed that immigrants contribute more, in fiscal terms, than the average person. Did the study take into account pressure on the housing and health sectors?



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Ian Mulheirn: I would have to dredge back in my memory to that. It definitely takes account of all public services and usage by age band.

Q18 **Siobhan McDonagh:** Can increasing immigration ease the fiscal pressures as the baby-boomers retire?

Ian Mulheirn: One part of that study looked at the lifecycle costs and benefits of immigration. We found that most migrants who come in contribute more over the lifecycle than they take out. The reason for that is you miss the childhood part, which is an expensive part of the state's responsibilities to people.

That is not to say that immigration can always be a solution to these problems, but, yes, on average it does ease the fiscal situation because of those lifecycle effects.

Q19 **Rushanara Ali:** Good morning. I have some questions about which matters more, income or wealth. Before I go on, I just wanted to pick up on the points you have made about housing. If you were advising a future Labour Government, what would be the key policy ideas you would propose? I am hearing that you think there should be some sort of mortgage insurance programme and we should look at reforming the Help to Buy scheme so it is much more targeted, if I understand that correctly. We should look at how we de-risk mortgage lending to address risk appetite.

On that last one, what would be the way to do that? Is it Government guarantees? We did that during the pandemic with loans to businesses. We saw a Conservative Government stepping up in times like those. Could we draw some lessons on how we address fundamentally some of the barriers to housing?

You made the point about house-building. In my own constituency, historically, in inner London, house prices used to be much lower. "Gentrification", which tends to be a double-edged sword for most areas in London, tends to price people out. It starts to price out certain groups to begin with. Now even people earning hundreds of thousands of pounds cannot get onto the property ladder.

Supply is a big issue; planning is a big issue. What are the key things that should be done? This Government, in their current position, have gone backwards on planning, for instance. Supply is a big issue for certain parts of the country, as well as cost. I just wondered whether you wanted to elaborate a bit more on a couple of these things, particularly around what Government could do to address the risk point about mortgages. Otherwise, it is not going to happen, is it?

Ian Mulheirn: It is worth splitting some of this out. There are many policy goals bound up in housing. It is worth thinking about two buckets. One is the home ownership side and the other is rent affordability.

On the home ownership side, as I say, it is about putting in a permanent compulsory mortgage insurance system for people with high loan-to-



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value ratios and first-time buyers, and also trying to stimulate a market in long-term fixed-rate mortgages, which would remove the need for a lot of the current regulations that are in place.

- Q20 **Rushanara Ali:** That would basically enable banks to lend, and the loan-to-value issue would be pretty much removed.

Ian Mulheirn: It would definitely be reduced. Banks worry about two things. They worry about credit risk, i.e. that they are not going to get their money back, if house prices fall; and they worry about interest rate risk, i.e. that if interest rates jump people are not going to be able to pay back their mortgages.

- Q21 **Rushanara Ali:** There is no need for any other kind of guarantee or anything, if you go down the mortgage insurance path.

Ian Mulheirn: Those two things, longer-term products and mortgage insurance, would do a lot to get us back towards 70% home ownership. That is what I would do on the home ownership side.

On the rental costs side, it is important to bear in mind that the stats that we have on rents are very different from the popular perception. Market rents have risen slower than inflation for the last 20 years or so, since we have had data. Recently, there has been a big surge in rents, but up to this point that has been the situation.

Rented housing has become less affordable, however. That paradox is resolved because we have had housing benefit cut very deeply for many years and we have had social housing being continually eroded over the past 25 or 30 years. Those two things together have pushed lower-income people into the private rented market. Even though rents have not particularly increased—they have been relatively benign—the people in the private rented sector are much poorer than they used to be.

- Q22 **Rushanara Ali:** Picking up on the rental point, is there something specific that could be done so that banks can look at people's affordability? They could see that they can pay, and that they have a track record of paying private rent. They could take that track record into account so that when they are trying to get a mortgage, they are not caught in this trap where none of that record is being used. Is there a way of doing that pretty simply in legislation without causing market issues?

Ian Mulheirn: Various attempts have been made, sometimes by the banks themselves. Resham mentioned some. I am not sure whether there is a policy lever there or how easy it would be to do that as a policy. There may be data things the Government can do to make that more transparent, but a lot of the things are difficulties with, for example, how a bank knows whether you have shared a house and had shared rent. How does a bank know what your credit is?

- Q23 **Rushanara Ali:** They could just look at the contracts.



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Ian Mulheirn: There are a lot of technical hurdles, with which I am not entirely au fait, but it is certainly possible that that could be done.

Lord Willetts: The other thing we need to do is build more houses. Here we could look at the old new towns formula. To put it very crudely, through the 1950s and 1960s, Governments bought land at agricultural prices, awarded themselves planning permission, built a town, made a profit on it and put the money into the same project all over again. There is a lively debate about this now. We do need some kind of initiative like that. It could either be a completely new town or it could be identifying some growth points.

I happen to be involved in a project, which I am chairing, called Innovate Cambridge. It is clear that Cambridge, for example, has massive housing demand that is just not being met. That is the other side of it: just building more houses.

Q24 **Rushanara Ali:** Just to challenge you on that, in my constituency, in my borough, there has been quite considerable house-building, but there is a massive problem with the price. A one-bedroom flat built by the Berkeley Group is about £1 million in my constituency. That is not even affordable by the executives who are building those homes. We have seen house-building, but it is beyond the reach of most British people.

For the majority of people who can buy, they buy off plan. They get cheap deals and then, when it gets onto the market, it is £100,000 or £200,000 more to British citizens. You have blocks of flats that are left empty. Presumably, it needs to go hand in hand with some changes around how the investment structure works for house-builders.

Lord Willetts: Clearly, there are particular issues in London. You directly experience it as a constituency MP. More widely, there is an approach that says you could have a combination of investment in radial improved transport links and building outside London.

At Resolution Foundation, we have done some research that shows that in the past 30 or 40 years, the increase in the amount of the country being built on—let us put it as crudely as that—in Britain has been very small compared with other advanced western countries.

If, over time, around our big cities—not just London—you just got more places where there was a clear strategy for development and building more housing, you would also hope, over time, not in year one or even in year three or four, that you would have a price effect. We are millions of houses under-stocked now.

Resham Kotecha: Density is important too. There was an *Economist* article recently about Maida Vale being the most densely populated part of the entire UK, which surprises most people when they hear that. That is because they have not gone for lots of houses and then some tower blocks. Everything is mid-rise. It is beautiful and it looks great, but it is still densely populated.



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Young people, first-time buyers, often want the amenities of big cities, but more often they also need to be able to be closer to work because they do not have the privilege of working from home quite so much, coming in later or managing their commute. It is about thinking, "Where do those houses need to be? How can we build them in a way that is right?"

That also means thinking about how we can help people downsize. Are we building homes for older owners that are wide enough for wheelchairs or that can have wet rooms?

Q25 Rushanara Ali: I have a couple of questions on intergenerational inequalities. Would each of you say that intergenerational inequalities are now being driven much more by inequalities in wealth rather than income, yes or no?

Lord Willetts: The wealth effect is more dramatic than the income effect. There is an income effect as well, but wealth is the biggest example of it at the moment.

Resham Kotecha: I do not have data that disagrees with that.

Lord Willetts: That is a ringing endorsement.

Resham Kotecha: I cannot strongly answer one way or the other. My personal view is yes, the same as you.

Ian Mulheirn: I would not give a yes-or-no answer. Which one is most important depends on which aspect of outcomes you are most concerned about. I am sorry; did that not answer the question?

Q26 Rushanara Ali: The question was simply about what is driving inequality more. Is it wealth or income?

Ian Mulheirn: Which inequality? Wealth inequality is being driven by a separate set of things to income inequality.

Q27 Rushanara Ali: I have one more, which is about wage growth. What role does stagnant wage growth and poor productivity growth have on intergenerational inequality?

Ian Mulheirn: There are two main drivers of intergenerational issues between the boomers and the millennials, if we take that comparison. The first is that the millennials have not seen the wage growth their predecessors saw. That is combined with the fact that their education means they earn later as well. Those two things together are the product of productivity stagnation. They are the result of that. That is one of the major things. Of course, the boomers have also had the asset price boom. That is the other big driver of wealth inequality.

Lord Willetts: There is an issue in wages, and the Resolution Foundation has shown that. The other angle is that it looks as if young people are not moving jobs as much as they used to. In the past, that was how you



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moved on in your career and boosted your earnings. They are not moving jobs. Why are they not? This is where you see the income effects and the wealth effects tied together.

First, in the high-wage areas, private rents have also increased so that your net income improvement for moving to a high-wage area is surprisingly modest. When you have a large private rented sector, the gains are captured by landlords. There is not as strong an incentive to move to high-wage areas as there was.

Another factor is that when house prices are so high, there are more people still living with their parents. If you are living with your parents, you are less geographically mobile; you are tied there. Even when you try to understand the wage effect, you find that some of the asset issues appear to be the key factor.

Q28 **Rushanara Ali:** Do you have a view on productivity?

Lord Willetts: Improvements in productivity in Britain now are shockingly low. That would benefit everyone, whatever their age.

Q29 **Danny Kruger:** This has been such an interesting conversation. I am really grateful to you all. Can I just check on Ian's central thesis with Resham and David? This has come out a bit in other stuff you have written, Ian. It goes back to the question of wealth inequality.

I was absolutely struck by something that David wrote in the notes we have, and he might have said it again: it used to take three years to save up for a deposit; it now takes 21. That is absolutely catastrophic on all fronts, if true. When did it used to be three years, David?

Ian Mulheirn: That was in the 1980s.

Q30 **Danny Kruger:** I wondered whether I could ask Resham and David to respond to Ian's central thesis, which is that the principal driver of house price growth over this century so far has not been a lack of supply but low rates. Essentially, the problem is we have had an expansion of the money supply, to which I would probably add QE. I do not know whether you would, Ian. Basically, 25 years of growth in the money supply has driven the increase in asset inflation, which of course creates asset inequality. I hope I have correctly summarised you, Ian. I want to come back to you and ask what should have been done. Let me come to you third, if that is all right.

Resham, is it also your conclusion that that is right? We have had growth in the money supply, which has led to asset inflation, which has led to wealth inequality.

Resham Kotecha: Yes, but it is a combination of that plus a lack of supply for decades, plus more and more globalisation and more interest in the UK as a place for international buyers. It is multi-pronged and it is not as simple as one issue being the main driver.



Lord Willetts: I rather agree with Resham on that. There was one year during the Covid lockdown when we had QE back and asset prices surged as a result of the QE. For pensioners, their average wealth increased by £17,000 in one year, not for having built the conservatory or saved anything extra, just as a result of essentially a deliberate—maybe it was the right decision—loose money policy.

Of course, young people did not have any assets and did not enjoy any increases but, in the long run, we should not use those monetary effects and the regulatory issues that Ian and I were talking about earlier to hide the fact that Britain still has a low housing stock for the number of people we have. In the long run, we also just need to build more places for people to live.

Q31 **Danny Kruger:** I do not want to get into that question, Ian, which we have been around already. By all means, make your point—it is very interesting that you think we have enough houses—but can you look back? I don't think you were working for Tony Blair in office, but David was working in Government over the last 25 years. You were in the Treasury. Resham is not to blame. She is a millennial; she is a victim of you two. What should monetary policy have been over the last 25 years, given hindsight and particularly after 2008?

Ian Mulheirn: There are a few points that need unravelling. First of all, we need to knock on the head this idea that a lack of housing has caused the surge in the price-to-income ratio over the past 25 years. If you take the census in 2001, there were 800,000 more houses in this country, in England, than there were households. By the 2021 census, that is 1.4 million. We may or may not have enough houses in this country, but what we have to agree is that things have been moving in the right direction. We can say they should move faster if we want to, and where we should aim for is a reasonable debate to have, but we should not fall into the trap of saying, "We have not been supplying faster than households have formed".

Then on rent, the other big indicator, the big driver of house prices is rents and interest rates, effectively, because interest rates dictate how much value people place on a stream of future rents that are associated with a house. As I say, rents have actually lagged inflation since we started to get good data at the beginning of 2005. That is consistent with the evidence we have on the rate of house-building, which has been faster than household formation.

Both of these indicators suggest that there has not been a scarcity-driven increase in house prices. In fact, if you look back at when what was called MHCLG published its breakdown of the drivers in 2018, it supported this—that stock is growing faster than households. We may want more housing stock and we have to build fast enough to meet the new demand of 200,000-odd households a year. That is true, but we should not blame it for the price rise that we have had.



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Danny, in terms of your point, I am not sure it is the money supply, as such. It is a broader economic story of falling global interest rates around the world, because we have seen an excess of savings as countries like China have entered the global economy and ageing populations around the world have boosted the level of savings. There has been a too low demand for investment and that has pushed global interest rates down and down and down. When you have interest rates going down like that, there is no model of housing that will tell you that house prices will not boom in that situation.

Overwhelmingly, that is the driver. The problem is that most of the effect is a global one. There is very little the UK can do. It can boost investment domestically in housing, but also in transport and many other things. It should do that and put some of those savings globally to use, but it is not easy to do enough of that, as a small part of the global economy, to actually reverse these massive global tides of macroeconomic change.

Q32 Danny Kruger: I would love to be able to explore more the history and who are the guilty men and so on, but there we are. What you have said is all very helpful.

Moving forward, David, you have mentioned today about how social mobility has improved and inequality has reduced over the years in which there has been a growth in white-collar jobs. Although, in theory, people can move up and down, more people have been moving up over those years. Now, that is slowing. Give us your sense looking forward, as automation, having already eaten the lower rungs of the ladder, is now threatening white-collar roles as well. We are having transformation in the world of work for professionals. Is that going to have a benign effect on inequality? Is everybody affected by automation or developments in technology, or are we going to have a further widening of the classes? What do you think is going to be the impact of the changing world of work on inequality?

Lord Willetts: That is a very good question. I would hazard one guess and it goes like this: all of these surges in AI and digital technologies are basically taking on the tasks of symbolic analysts, people who work in words and increasingly images and sounds. ChatGPT is basically the technology for working out what the next word is likely to be after the one you have just written magnified enormously.

Really, now, quite well-paid white-collar jobs in law, and indeed in coding, may find themselves being displaced, but the speed of technological advance in physical stuff is much slower. The physical world is more resistant. If you go back to the fantasy science fiction books of 40 or 50 years ago, they did not predict that there would be the world's data on our mobile phone, but they did think that we would be living on Mars. They did think we would be taking our jet pack, like James Bond in "Thunderball", to go to the office.



Jobs involving physical stuff and physically doing things are proving, if anything, harder to automate than was predicted. If you then try to think through the social and economic implications of that, you find that some personal service industries—anything that involves physically moving things or physically making things—look relatively resilient.

If I may, I would just quickly pick up on Ian's previous point. He talks aggregates. There is a generational issue in housing. If you look at physical space occupied, older people occupy more physical space than they used to. They are entitled to do that. People, by and large, have larger houses. They have more space. Younger people physically occupy less space than they used to live in. Their living space has gone down. That is why it is not just the bank of mum and dad. It is often the warehouse of mum and dad holding the kids' stuff, because they do not have room to keep it all where they live.

If people, by and large, live in more space as they become more prosperous, it is why there are still underlying housing pressures. We do not have enough space for the amount of stuff and living arrangements people want to have.

Resham Kotecha: On technology and AI, it depends. It depends on how we regulate for it. It depends on how we manage the digital divide. It depends on how we increase data literacy. It depends on what biases we recognise in the technology and what we do to prevent those biases from being amplified. Once you take out human oversight, you end up with those biases being amplified and unchecked.

There is huge potential for good in reducing immobility and inequality if it is used in the right way, but there are also implications for widening the divide if those other lived experiences or minority groups are not accounted for. It could potentially open up significant educational improvements across the board if we enable it to, if we use the policies in the right way and if we legislate for it in the right way.

Q33 Danny Kruger: Yes, if we can move fast enough. We have always been able to do that with technological changes. Historically, this one is quite speedy.

Resham, in your role at the Social Mobility Commission, do you see a tension between mobility and equality? How do you see the trade-off between them?

Related to that, if anyone wants to quickly jump in on this as well, I am interested in geographic equality. We have not really discussed levelling up here. David talked about the decline in geographic mobility. I am not sure that is a bad thing. If you can have the life you want in the place you love, it is a good thing, rather than thinking that everyone has to move to London or Manchester. My questions are about equality versus mobility in your work, and geographic equality.



Resham Kotecha: When we talk about social mobility, we look at multiple drivers and multiple barriers. We think about things like income, occupation, wealth, housing and education, but, as part of that, we have to think about geographical divides. If you live in a place where your opportunities for education, for higher education and higher-paying jobs, are such that you end up what we call “undermatching”, and if you are unable to afford to move to an area where your skillset can be financially rewarded in the same way, you are essentially trapped by your geography because you cannot afford to move, and yet you cannot afford to stay because you are missing out on the ability to improve your life outcomes. Geography and levelling up are hugely important.

Even within different geographies, within regions, that matters based on your access to public transport. It matters based on the employers that are based near you. It matters based on the educational opportunities. Do you have a university or a higher education institution or effective apprenticeship schemes that you can get to without having to move home, if you cannot afford to rent or buy somewhere else? The geography and what you can reach, particularly in places where there is not the public transport to support that, is hugely important.

In terms of the challenges or the differences between equality, we have tended to look at protected characteristics, but we do not, in most policymaking, as a country, think about socioeconomic background. We do not tend to look at intergenerational inequality. We need to move to a place where we have the data and the analysis to be able to compare and look at the impacts of a change in inequality of any type, whether that is gender, race or age, on social mobility.

We have hypotheses. We have things we can test where the data is available, but where it is not or where it is so granular that we cannot expand it to look at making statements for the country as a whole or, on the other side, where we cannot look at the impact on intersectionality, it becomes very difficult to think about what those inequalities do for social mobility.

Q34 **Andrea Leadsom:** We have talked a lot about assets and we have talked a lot about income inequalities. I would like to move on a bit to looking at family and aspiration and what impact that has on intergenerational fairness and also on social mobility. Perhaps I will ask Resham first. We just heard this morning in the news that breastfed babies are more likely to do well in their qualifications and in their learning capacity, and hence their future capabilities, than babies who are not breastfed. To what extent do incredibly fundamental things like the start you have in life and the family you come from impact on your later ability to achieve for yourself?

Resham Kotecha: Your start in life is one of the most important indicators for where you will end up. It depends on your parents’ income, your parents’ education level and your parents’ occupation. It depends on your parents’ social network too. That impacts your social network. If you



know people who have gone into more well-paid jobs or into higher education, you are much more likely to go.

I did not hear the bit on breastfeeding in particular. We have to be careful about correlation and causation. Perhaps you are breastfeeding because you have better physical or mental health, you do not work shift work or you are not working multiple jobs. I cannot comment specifically on breastfeeding in itself, but we do know that where children are read to daily by their parents at the age of three, by the age of seven they are four and a half months ahead of their peers educationally. We do know that where parents have aspiration around education, and the time and opportunity to support their children with that, those children tend to do better.

We have lots of these outcomes in our *State of the Nation* report, but it is about ensuring that parents have the skills to support. We recently went up to Oldham to look at the work they are doing there. Parents want the best for their children, but do they know what the best for their children is? That is not to sound patronising. It is just the case that, if you have not had a positive parenting role model, if you grew up in difficult circumstances, if you were a care leaver, you may not have had the opportunity to see that impact on you.

This is why early years education, numeracy and literacy is really important. It is very difficult to catch up and, as I mentioned earlier, the most disadvantaged children go to school four and a half months behind their peers and leave 18 and a half months behind their peers. It is the early years where we can catch that up, because if you are always starting behind, no matter how good your teachers and schooling are, you are essentially starting the race 100 meters back.

Q35 Andrea Leadsom: I completely agree with you, Resham. The one thing I would just correct you very courteously on is that the peak period for language development is in fact eight months to 14 months old, so reading to your child at age three is already too late.

Lord Willetts, what is your view of aspiration and the impact of, for example, generations of unemployment on your aspirations and your capabilities as a young child in your future life?

Lord Willetts: It very important, and some of the work that has been done in the US by researchers such as Carol Dweck have shown how having a sense that you can control and shape your own life is very important. I know you personally are very committed on this whole issue and have been a fantastic campaigner on it. I would add that some of the evidence on things like brain development now suggests that we carry on learning.

The one thing you said was "too late". "Too late" is dangerous, because we can carry on learning and changing. The teenage brain is also very malleable. In terms of policy, one of the good features of higher



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education is that it is the only stage of education where disadvantaged children appear slightly to outperform. It looks like the arrival at university and a different environment, and perhaps that sense of aspiration, means they suddenly think, "I can shape my life". Kids from poorer areas slightly outperform at university.

The bad news is that for any given degree qualification, they then slightly underperform when you go out into the jobs market. In other words, some of the social capital that you have from your family background in turn helps with jobs. This partly picks up on the point that Danny Kruger made. It may be for kids from tough areas and deprived backgrounds that the experience of moving away from home to university and being in a different environment, that physical mobility, may be an opportunity for them. That is what the evidence on slight outperformance from kids from deprived areas might suggest. Yes, aspiration matters, as does the opportunity to fulfil it in a new environment.

Q36 **Andrea Leadsom:** That is interesting. Ian Mulheirn, would you have a view on the extraordinary outperformance in London schools in recent years over schools in the rest of England, and the correlation between that and new migrants to London, who perhaps have greater educational aspirations for their children than more white, working class people in other parts of England? That was quite a marked change in the outcomes in London schools, was it not?

Ian Mulheirn: I would probably leave it to others to comment in detail on the reasons for London's outperformance. The demographic composition is a key thing to strip out, because it is an important driver, unfortunately. Those differences between different groups are a big driver of schools' outcomes but, more broadly, I would just say that one backdrop to the aspiration problem we have is that, in a world with no productivity growth, where there is very little wage growth, there is a real problem across society in fostering aspiration.

People cannot see a way to a better future if their wages are stagnant and their living standards are not moving. There is also that important, broader backdrop that we need to worry about. Aspiration is fundamentally an economic thing in many ways, and if your economy is not functioning then you kill it, really.

Q37 **Andrea Leadsom:** Is that your thesis: that the reason for lack of aspiration is that it is all hopeless and it is going nowhere?

Ian Mulheirn: I am not sure whether that is the full reason, but it is much harder, as politicians, to run a story about aspiration and getting on in life when wages are stagnant and have been for 15-odd years. People just do not see that opportunity in the same way. That probably puts even more importance on fostering aspirations through other routes, as David was just saying, through higher education, through enabling people to buy a home and through some of the other policies we were talking about. Those things matter increasingly, but you really are just trying to



stem a broader problem, which is the economic stagnation, which really weighs very heavily on aspiration.

Q38 Andrea Leadsom: Have any of you done any work on the new childcare policy? Since 2010 the Government have introduced free or tax-free childcare for children from three, going down to nine months. In terms of the impact, either economically on the incomes of households or on the ability to effectively give children a better start, have any of you done any work on what that does for social mobility?

Lord Willetts: My reading of the evidence is that those types of interventions have had an effect, mainly via boosting parental earnings, particularly female earnings. It is more likely that women get back into the workforce quicker. The evidence about whether they have had an effect on the child's own development, independent of boosting the earnings of the child's family, is harder to prove, but I am happy to hand over to the custodian of the data.

Resham Kotecha: It is harder to prove, and it is so early that we cannot see the impact of it on children's social mobility. As David says, we very much expect that to impact women. We know that girls and women outperform boys at KS2 and KS4. They go to university at higher rates but then, for the rest of their lives, on average they earn less than men. That median hourly earning actually fell between 2021 and 2022, and we would expect Covid played some part in that, with women being primary carers.

Of course, where incomes increase in the household, that potentially increases the opportunity, the stability, the ability to spend more time reading to your child, doing homework with your child, with less living in financial insecurity, but it is too early for us to look at what the outcomes for those children will be, as of now. It depends on the quality of the childcare that you put your children into as well.

Q39 Andrea Leadsom: Yes, of course. Are there no studies of Sweden or Denmark that have had this longstanding policy to put everybody into childcare from a relatively very young age?

Resham Kotecha: Not from the commission, no.

Q40 Emma Hardy: I was really interested in the report from the Resolution Foundation, which said, "It is clear that much of what happens post-university is still determined by certain socioeconomic characteristics chosen for us by chance at birth". It goes on to say, "The IFS have utilised anonymised tax records and student loan data to show that, even accounting for institution attended and subject studied, graduates from wealthier families earned more". Do we know what the underlying reasons for this are?

Lord Willetts: That is absolutely fair and, though I say it myself, that data is data I battled to have released for research when I was the Minister responsible, so I am very pleased that it is now available and



used for research. That is actually the point I was referring to earlier. It is indeed the case that your background, even if you partly overcome it in your time at university, for any given degree, then has an impact in the labour market.

The presumption is that this is to do with all the networks and the social capital and the wider opportunities you bring to your hunting for jobs after you have finished your time or in your last year at university.

Q41 Emma Hardy: If you are a nepo kid, you have an advantage.

Lord Willetts: Yes, and if your parents have brought you a wider range of social contacts. It has had an impact on public policy. Again, as the Minister when the coalition was looking at access spend, we required a significant amount of spending on broadening access to university, even when fees went up, because it would have been a tragedy if putting up the fees led people to think they could not afford to go to university or whatever.

Our access spend was very much focused on getting people into university. In the light of the evidence that you cite, there has been a liberalisation of policy so that access spend can also be spent on less advantaged students while they are at university. To take an extreme example, if there is an internship programme in some particular occupation that is mainly London-based, obviously if daddy has a flat in London or your family live in London, fine. If you are on a low income and do not live in London, you do not have access to the internship.

It is now my understanding that you can use access money for things like funding living costs of people from low incomes doing internships during their last year at university. It is an attempt to tackle what we now understand to be this significant issue that you have rightly described.

Resham Kotecha: As David says, the data is really important. We have done Social Mobility Commission work on why there might be differentials. University, on the whole, is good for increasing social mobility and reducing the gap. Attending a good university reduces the gap in income from the most advantaged state school students to the least advantaged by about 50%. At the top universities, that earnings gap shrinks to almost nothing. There are some universities where there is actually negative value-add, so it is not that all universities add value, but most do.

The reason why is partly behavioural knowledge. It is unconscious bias or conscious discrimination—if you have a different accent or come from a different background, if you do not fit with partners. It is the social capital, absolutely. It is the financial safety net. You might have a house or home, but it is not just having a house or home; you might just have the financial safety net that you can take risks and fail, knowing that does not mean you will be homeless afterwards.



We call it the internal locus of control as well. Generally, people from higher socioeconomic backgrounds feel more in control of their life. They feel as though they can ask for more. If you are from a disadvantaged socioeconomic background, where you are offered a salary that is far more than your parents have ever earned, you are far less likely to ask for more because, to you, that seems like a lot. Your peers might just have the confidence or the knowledge to ask for more. Again, you tend to undermatch. If you cannot afford to live in big cities, you undermatch. You take jobs or opportunities in less expensive places because that is what you can afford.

- Q42 **Emma Hardy:** If we understand and we know all of that, to what extent is higher education limited, therefore, in its capacity to improve social mobility, and what can the Government do? You mentioned the access spend and the refocusing towards giving people from ordinary backgrounds the same advantages and networks that perhaps mummy and daddy might have, but what else?

Lord Willetts: Resham and I are absolutely in agreement here. As I said, higher education is a net good, but it does not overcome these things. It is more than just education. Again, I may be out of date, but there have been attempts to ensure proper regulation of internships in the labour market. It was a scandal that it was basically unpaid work; and, if it is unpaid work, people from affluent families where your parents are subsidising you can do it, but you cannot afford to do it if you are low paid. It is about proper enforcement of labour market conditions, including being paid for a lot of these roles, which do involve set hours, for example. That is where the approach has got much tougher than it was, and it should be.

Also, there is a recognition by some employers that they should look beyond elite and the most prestigious universities. They should broaden their recruitment. It is still the case that in the Russell Group universities, by and large, there is less social mix than in some of the less prestigious universities. If you chuck in the bin the job applications for young people who are not at a Russell Group university, you are probably also discriminating socially. You should look beyond the status of the university and have a broader recruitment. There are City law firms, for example, that have changed their recruitment practice, I am sure partly under pressure from the Social Mobility Commission, to avoid presumptions like that.

- Q43 **Emma Hardy:** Before I move on slightly, the narrative coming out from some areas of Government feels quite anti-university, like going to university is a waste of time: "Even if you go to university and get a degree, you are paying all this money and it is not worth it. Would you not be far better staying in an FE college for people like you?" To what extent do you think education can be that route out of poverty and can be that route for social mobility? If there is this push from Government for people in certain areas to just go to their FE college, not to a Russell



Group university, what impact would that have on social mobility?

Lord Willetts: In terms of going to university, the figure in my head, which you would have to check, is that 71% of kids going to private education go to university. They are not all making a terrible strategic error for which they are being ill advised. They know something about the way in which the British economy and British society works. It is always reasonable to try to offer kids from more disadvantaged background the same opportunities as those seized by kids from affluent backgrounds with well-informed parents.

Higher education is a powerful avenue for social mobility. It is not the only one and, of course, the apprenticeship agenda is one I strongly support. I want to see that as well, but we should not diss going to university. It is one of the best levers we have for helping people into well-paid jobs.

Resham Kotecha: The stats do show that, but the point is that we do not want to create a two-path education system where people from advantaged socioeconomic backgrounds go to university and then on to higher-paid jobs. We do not want that. We know that universities, overall, are a force for good. Having said that, half of grads are in non-grad jobs 10 years after they graduate.

Q44 **Emma Hardy:** Yes, but they do tend to be from the poorer backgrounds. Graduates who end up in non-graduate jobs tend to be graduates from lower socioeconomic backgrounds.

Resham Kotecha: There is a question about whether people are doing degrees that they need for the jobs they do and whether employers are requiring degrees for jobs that do not need degrees. Are they using a degree or a graduate degree as a proxy for a skillset? It is about working with employers to make sure that they are actually recruiting in a way that does not disadvantage people from lower socioeconomic backgrounds.

It is also about making sure we have the data on progression. Yes, it is great if you have apprenticeships. That is wonderful, and the expansion of apprenticeships has been really positive, but are your apprentices then able to progress and succeed financially and in terms of occupation once they are in your business? Are you demarking them into a lower tier of progression? FE colleges are great for lots of people, but are we using that as a lower ambition for a certain group of people, or are we using that as a really viable alternative for people who perhaps want something academic?

Q45 **Emma Hardy:** I do think this idea that silly undergraduates are choosing the wrong degrees and therefore they are not getting the right jobs falls apart slightly when you look at the impact that your parents' background has on the jobs that you get. If it was just about degree choice and choice of university, that would be the same across your parents'



socioeconomic background, and it is clearly not.

I want to ask quickly about race as well. The analysis covering the period 1996 to 2017 shows that, despite strong employment growth in recent years, Bangladeshi and Pakistani graduates are 12% less likely to be in work than white British graduates. Indian and black Caribbean graduates have a jobs gap of around 5%. Is there evidence to suggest that it is harder for people from ethnic minorities to move up that income distribution ranking than white people?

Resham Kotecha: We will be talking about that in our *State of the Nation* report. Due to parliamentary privilege, until it is laid before you I cannot discuss those findings. That should be out in September, but we do look at that. Again, there are some of those same elements around social networks, social capital, behavioural knowledge and parents' education level. Often our research shows that there is greater downward mobility for immigrants who have come from other countries where they have higher education levels and higher skillsets. They actually come and take lower occupation jobs. We are looking into that, and our research will give further detail on that.

Ian Mulheirn: There is a macroeconomic story behind the skills and university expansion issue as well. We had a big expansion of university attendance in the 1990s. Many of those people, in the next couple of decades, are going to reach retirement and our human capital stock, if you like, how educated our workforce is, is going to start to plateau. It has been driving growth and productivity, such as we have had, for much of the last 20 or 30 years. There is a risk of it tailing off if we do not raise our ambition in terms of school.

Lord Willetts: This choice of subjects is really important, and that is where, again, there are subtle understandings, often for people from more advantaged backgrounds. There is a tendency, I often find, for people from more disadvantaged backgrounds to focus on very vocational courses. At one point, the most popular degree subject amongst FTSE 100 chief executives was history. I think Ian was making this point: you cannot take risks, so you train to be an accountant or a lawyer. There is not the idea that if you go and do history, you will find that there is a whole range of different things that you can do. There is a danger that if we are very apparently utilitarian in the course choices we push, we do not provide some of the wider opportunities that the more advantaged kids know about how to take.

Resham Kotecha: How many of those got their first jobs from their family networks? You can have the freedom to do history if your parents are going to get you your first job in a bank or in a consultancy. That is the challenge. It is really hard to delineate the cause and the effect and the choices that you make without the data and the drivers to understand if someone else with a history degree could have achieved the same.

Q46 **Emma Hardy:** Resham, in your report you said, "In our view, too many



interventions are focused on getting people to leave the place where they grew up, acquire brilliant academic credentials and gain entry into an elite professional occupation”, which is an issue I care a lot about. You should not have to leave the place you love for the job you want. To what extent do you think the changes to the way we work—remote working and those opportunities—can equalise the labour job market, so that you can stay where you wish to be but still have the opportunities to do those higher-paid, higher-status jobs?

Resham Kotecha: It depends a lot on what stage of your career you are at. When you are in your early 20s or the early stages of your career, that face-to-face contact, building that social network and social capital and learning some of the softer skills of work that you just do not learn in education is really important. Even if you can work remotely, you miss out on a lot of that networking and a lot of that growth by being further away.

Although it helps—and it does help—the challenge is, again, whether we are creating a two-path system whereby people who already live in, or have parents who live in, the right place or can afford to move to the jobs have more ability to build up that social network. That network is so important when it comes to promotions and career progression. Perhaps you can afford to stay where you are and Zoom, but does that hold you back? I want to look at the impact that has on career progression. The ability to travel maybe once a week with transport is still important earlier in your career.

Lord Willetts: I may be disagreeing with you and with comments from Danny Kruger earlier. I am still a believer in geographical mobility as well. If in doubt, look at what the well-advised kids from advantaged backgrounds do. For example, the distance between family home and place of study at university is greater the more affluent you are. They take it as an opportunity to go and find out about a different place. Commuter students tend to be concentrated amongst poorer families from more disadvantaged backgrounds, partly because of issues like pooling costs of living and things like that.

There are specialisms and there are still some brutal truths. If you were brought up in Derby and you have always loved the sea and want to do surfing, or if you are living in Cornwall and have always really cared about aeroengines, the fact is that you probably ought to be moving rather than trying to stay there. I am a bit of a traditionalist. I am a believer in mobility in most respects, and they tend to come together. Geographic mobility is strongly associated with social mobility.

Q47 **Douglas Chapman:** We are on the homeward stretch now. Maybe we can make it a bit faster if we put our jet packs on and do it that way. You all have one, I presume. I was going to ask some questions about probably my generation, in terms of baby-boomers and pensions and so on. That is really an important one for a lot of people. Thank you for putting things in context today. With some of the answers, we could have



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had a double session on this quite easily.

In the UK, retirement age for pensionable people is at one of the highest levels in the OECD. The average is 63 and a half years for women and 64 for men across the OECD. In the UK it is 66, rising to 67 quite soon. One Tory grandee has suggested that that should be raised to 75. The trajectory is, for many of us, heading in the wrong direction. The UK also devotes a smaller percentage of its GDP to state pensions and pension benefits of the most advanced economies.

In terms of the changes in either the state or private sector defined benefits, how do they either help or hinder that level of intergenerational cohesion? If you were looking at two things that the Government could do or you could suggest as a policy development area, what do you think these couple of areas might be, to help us get over some of these difficulties? While you say it is not an "us versus them" situation, for some people it might look like it and it needs to be more of a "We are all in this together" type of approach. How do we actually take our society forward into the future in a much more cohesive way?

Resham Kotecha: The challenge with raising the pension age is that the richest 10% of people live on average 10 years longer than the poorest 10% of people. There is a correlation between your income and the manual labour element of your job, so you can potentially work longer if you are in good physical health and working a job that does not require physicality as part of your job. We have to think about the progressiveness of any policy and the impact that has. Perhaps that means we mean-test an element of the pension for the first X number of years.

In terms of challenges, we have doubled the number of over-85-year-olds between 1985 and 2010. By 2035, over-85s will be 5% of the population. That is not an answer, but it is a consideration. What can we afford, not just for the baby-boomer generation, but for every cohort after that? What can we afford that maintains a social contract, but also means that people can afford to keep working and afford to live when they stop working?

Lord Willetts: I have two comments. I remember the coalition discussions on all of this. To some extent, there was a policy trade-off, and part of the defence of the triple lock was that the coalition would also move faster on raising the pension age. Again, there is a legitimate public policy trade-off. Do you want, to put it very crudely, slightly lower benefits but for longer, or, if you are going to increase the benefits, do you want to increase the pension age to help make it affordable? That is a legitimate policy decision. Different political parties may make judgments about it, but there is a trade-off there.

Of course, our pension age is not a retirement age. In some countries, it is linked to a retirement condition. It is possible for people to carry on working longer. Looking back, the people for whom the adjustment was



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toughest were the women who faced quite rapid increases in pension age at quite short notice. I can see that and that was a grievance.

Where one must hope that things like the lifelong learning entitlement work is that people will need to carry on being able to access provision for training and retraining during their working lives. That is an area in which we have been going backwards, with, if anything, fewer adult learners. We need a better way of financing it and we also need a bit more flexibility in accessible short courses, rather than having to sign on for a longer, more academic course. Carrying on providing training matters.

Ian Mulheirn: I agree with most of what has been said. I would just add that some kind of link between life expectancy and the state pension age is sensible. The Cridland review talked about how you might do that. Setting some principles there seems important. Obviously we have the problem at the moment that life expectancy is falling/stagnating, which is a significant concern.

I would not go anywhere near trying to means-test the state pension. That undermines the key stability that must exist across generations and across Parliaments, which is really important to getting people to save for themselves. They need to know there is a stable provision from the state and it is not going to be torn up at short notice.

There are other innovative things you can do to get around the inequality that Resham mentioned in terms of wealthier people living longer. For example, you could, if you were really radical, give people a lump sum rather than a state pension at their state pension age, and they could take it to market and annuitise it. Better-off people would get a lower annuity because they are going to live longer than would people who have been in, say, manual jobs. You could use the market to equalise some of those outcomes, but I would definitely not go near trying to means-test some of those things. That would be a risky route to go down.

Q48 Douglas Chapman: We have talked quite a lot as well about the built-in benefits of being born in a wealthier area or a wealthier family or things like that. In the last statement made by the Chancellor, people were allowed to increase their pension pot by up to £60,000 a year. In my constituency, the average wage is something like £25,000 or £26,000. I would imagine that a lot of young people would be at the bottom rung of that band.

Again, the people who would benefit most from that, in terms of regionality, probably live in London and the south-east. I am making a broad generalisation, but they would benefit more from being able to advance their pension pot than people in Wales, Scotland, Northern Ireland or northern England, for example. As another layer that fits on top of the intergenerational issues, there is also regionality. Is there



anything that you would look to do to genuinely try to level up some of the areas across the UK and stimulate growth?

We really need to do this as a nation. Resham, one of your original points was about the idea that, as the Bank of England might say, maybe we just need to accept the fact we are getting poorer and poorer. Maybe our birth rates have gone down. Maybe our tax base is not as wide and as broad as it should be. From a regionality point of view, would you make any recommendations?

Lord Willetts: First of all, just in terms of that tax change, one should report that the Chancellor, as a former Health Secretary, was doing that because he was particularly focused on the problems of medical consultants retiring.

Douglas Chapman: That is quite a narrow band.

Lord Willetts: I was involved early on in some of the discussions on this, years back, and the trouble is that it is hybrid to create a special regime for NHS consultants. The only way he could do something about the NHS regime was doing a wider thing.

The Blair Institute has done some very interesting work on regionality. There are cold spots where there is not a local town with a university, so they might be looking for an anchor institution that brings in some quite well-paid professionals, that provides opportunities for local people and that can help with R&D for local businesses. Every city now has a university, but there are some quite reasonably sized towns that do not. There are some really exciting initiatives, like the one in Hereford.

Given that we are going to have an increase in the number of 18-year-olds and an increase in HE participation, creating new universities and promoting FE colleges in cold spots that do not have them is quite a good regional policy for tough areas.

Resham Kotecha: Raising the cap impacts, even in London and the south-east, a very small proportion of people, because you have to be earning enough to be able to save that.

I totally agree with your point on the regional challenges around pensions, and it is why we are so keen to focus on increasing social mobility within and between regions because, by improving your life chances wherever you live, your opportunity to earn and your opportunity to have a higher level of occupation, it will mean you are better set up for your old age too.

Q49 **Douglas Chapman:** You have talked a lot about data as well and, just generally in the UK, we do not collect enough data and explain that data well enough to the general public and ordinary citizens. What could we do in that space, in terms of educating people about their pensions as they move forward? I know it is always a difficult one to interest younger



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people in what their pension might look like 40 or 50 years on. There has always been a weakness in the system, and we have not done enough to help with that. What other bits of information or data do you think we should be collecting that would make it much easier to sell the message?

Resham Kotecha: You are totally valid on the data and the financial literacy. I am huge fan of us introducing more data and financial literacy in schools. We should be teaching in the curriculum what pensions are, why they are important and how they translate through for something that feels like a very long way away until suddenly it is not a long way away. You talked about collecting data and explaining data. Actually, it is really important that the Government opens up data. Data should be thought of as public infrastructure. It should be something that people have access to.

As I said, people have biases. Everyone has their own view. What gets measured gets done, when it comes to policy. It is about collecting more of it and thinking about how those datasets are interoperable. Are we collecting the data on who is saving and how much they are saving? Are we collecting data on what education people are receiving on that? Could we have more on financial literacy in job centres, more in graduate training, more in careers advice at university or in school? The earlier we start, the easier it is for people to build up a successful pension pot that will mean something when they are older.

Lord Willetts: This is a great note on which to end, because so many of the questions that the Committee has asked during this session have been about understanding the incredibly complex processes driving social mobility. What is frustrating is we do collect a hell of a lot of data. We have a very large amount of administrative data. We have evidence about babies, health records, education records, employment records and tax records. We are collecting all this stuff and, wearing my hat as a member of the board of UKRI, the public research funding agency, there is absolutely a new impetus to try to make it easier for researchers to link up these different datasets in ways that preserve privacy, so that we can better answer the kind of questions the Committee has been asking this morning.

Chair: Thank you very much. It has been a fascinating session, and I would like to thank all of our witnesses for the insights that they have brought to what we all recognise is a very complex but really crucial issue that perhaps Parliament does not focus enough on. I hope we can bring some focus to it. We have a session on regional disparities coming up, which may add some colour to the map that you have presented us with today. I would like to thank you very much for giving evidence today and conclude this Treasury Committee session.