HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Intergenerational fairness

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Watch the meeting

Members present: Frank Field (Chair), Mhairi Black, Ms Karen Buck, Neil Coyle, John Glen, Richard Graham, Jeremy Quin, Craig Williams

Questions 230 - 290

Examination of Witnesses

Witnesses: **Philip Booth**, Editorial and Programme Director, Institute of Economic Affairs, and **Shiv Malik**, Investigations Correspondent, The Guardian, gave evidence.

Q230 Chair: Committee meetings have to begin somewhere and I just ask people to identify themselves for the sake of the record. I hope that is valuable. It does give us a start. Philip, will you introduce yourself and then we will ask Shiv to?

Philip Booth: Sure. I am Philip Booth, Academic and Research Director at the Institute of Economic Affairs, and Professor of Finance, Public Policy and Ethics at St Mary's University, Twickenham.

Shiv Malik: I am Shiv Malik. I am an investigative journalist for *The Guardian* newspaper and also the co-author of a book called "Jilted Generation: how Britain has bankrupted its youth".

Q231 Chair: Philip, through the IEA you argue that the triple lock should be abolished.

Philip Booth: Yes.

Chair: Why, and what do you want it replaced with, please?

Philip Booth: Why? The answer is because I think it is crazy to have a system by which the pension rises by the greater of three different figures and it just leads to a totally arbitrary level of the state pension, certainly, if it is continued over a long period of time, whereby the real value of the state pension or the state pension relative to average salaries will depend upon the relationship between three variables going forward: inflation, 2.5%, and increases in wages. It is just an unsound method in general for determining the level of the pension. You can make a case for linking the pension to price increases so its purchasing power is maintained. You can make a case for linking the state pension to wages so that it doesn't fall behind median or average earnings, but to have it somehow linked to the highest of three different variables, especially if we enter a prolonged period of deflation or below target inflation, which is quite possible. It is just not a sensible policy.

Q232 Chair: Do you see any value in having the triple lock if only for this Parliament? Do you think there was any necessary catching up with pension or income or not; tougher?

Philip Booth: In general the basic state pension has never been—and was never intended to be by Beveridge—at subsistence levels. That is why earnings-related top-ups were added, and of course Beveridge wanted a system whereby people would supplement what they received from the state with private means. I am comfortable with a pension of a lower level as long as we have a system whereby people are encouraged then to make private provision on top.

If you did want to increase the value of the state pension, for whatever reason, then the right thing to do would have been to choose a target level of the state pension in relation to wages or in relation to prices, whichever the right variable is chosen to be, and just increase it to that level, rather than set in motion this strange process by which the real value of the pension—its purchasing power—would depend upon the relationship between these three variables.

Q233 Jeremy Quin: Chairman, that has probably answered my question. I was going to come back on the same point as you just asked Philip. When you looked at the rationale—given we have had Steve Webb back to this Committee explaining that he felt there was a catch-up period—your answer is simply, "Look, if there is a catch-up, if you do need to get to the right place then you do it in one fell swoop or you set a target and you edge towards it gently".

Philip Booth: Yes, absolutely. I may not have the same view about the necessity for the catch-up but, if you are going to have a catch-up, then this is not a good way to do the catching up either.

Q234 Jeremy Quin: Okay. If I move on to a different topic and turn to Shiv, if I may, from the point of view of millennials, the issues we have with intergenerational affairs, as policymakers to what extent are we all able to influence that or to what extent do you think it is purely global forces and we are pushing against a very strong tide?

Shiv Malik: Demography is obviously a massive part of all of this study. I was in a fortunate position that for the last year at *The Guardian* we were able to—funded by the Joseph Rowntree Reform Trust—look at these issues on a much wider scale than had been done previously. We did not just look at the UK. We tried to figure out whether the same issues were affecting the US, Germany, Italy, France and so on, so we had eight countries all in all. I think that has left us in quite a privileged position because no one had done that before. No one had been able to do it before because the data simply did not exist. It had not been around for long enough, if you want to make one generation comparison with another.

The two lessons that perhaps come out from that are first, in terms of disposable income growth, it is much worse in other countries. Take the US. Independent families who are aged between 25 and 29 in the US have seen about 1% growth compared to their contemporaries 30 years ago in their disposable household incomes, which is pathetic over a 30-year period when the US economy has been growing between 2% and 3% over that same time period. The same applies for Germany and Italy, so very slight growth. In the UK there has been decent growth for that same cohort compared both in absolute terms and in relative terms, so we have done compatibly well. Globalisation is another big factor, so when—

Q235 Jeremy Quin: Can I ask you who the beneficiaries have been of that? You are saying GDP growth has been significant but one particular cohort has been doing less well relative to the relevant GDP?

Shiv Malik: Yes.

Jeremy Quin: Who has been benefiting from that? Is it going to a very small cohort in society or has that been lost in investment or going to the benefit of investment? How has it worked through?

Shiv Malik: If you then break up what we had, we had these five-year cohorts and, just from an age basis, if you looked at it again as to who were the beneficiaries, you could see pensioners and early retirees especially, so those aged 65 plus. In any country you care to name that we looked at, they were massively better off than their contemporaries 30 years ago. They were massively better off than their contemporaries 10 years ago. In France now I think, if my memory serves me correctly, 65 to 69 year-olds earn more—as in their income is greater, I should say—than anyone under 50, which is astounding. That just has not been the case almost in history. You could forget that people who were retired once took home almost nothing and were desperately poor. That is now not the case in the developed world.

Q236 Jeremy Quin: Just to play devil’s advocate and support them a bit, isn’t that a good thing?

Shiv Malik: Absolutely.

Jeremy Quin: You are not advocating pensioners being on subsistence levels when they retire, are you?

Shiv Malik: No.

Q237 Jeremy Quin: They have worked for many years. That generation were part of defined benefit schemes in many cases. They are now reaping the benefits of what they sowed throughout a working career, I suppose.

Shiv Malik: The astounding thing is that no one champions this outside—a witness who is about to come on—James Sefton. It is actually the greatest mitigation of poverty since the creation of the middle classes in the developed world. It is huge. It is absolutely huge but there are issues with that. If it is coming at the cost of the next generation then we have problems, because it is not as if you have one generation in which there is an unequal share or distribution of wealth. We have dealt with that in history for thousands of years and in a sense economies can deal with that. What has not happened before is you have a whole slew of people who are suddenly less well off than the people before them. That throws up all sorts of problems. For 100 years or so in economic terms we have expected each generation to be better off. It has become so that lots of systems, such as debts—

Q238 Chair: Each generation, so apart from pensioners? They assumed if we were in work we would be better off than our parents. What you have been explaining is the first generation of pensioners who are better off than they expected to be and better off than more modest aged cohorts?

Shiv Malik: Yes.

Q239 Chair: What policy conclusion do you draw from your analysis for us?

Shiv Malik: In that sense, you would expect politicians to want to do everything in their power to start to reverse these trends that are beginning to appear, and that appears not to be the case. The reason is because you don't have to deprive pensioners of income to make—and I stress this point quite strongly—young people better off. We have one major issue. One of the major policy levers to increase pensioner incomes has been through the tax expense methods. We have given them cash benefits largely to militate against deprivation. I don't think that will work for the next generation because they are facing globalisation, so systemic forces such as that; systemic forces such as demography, which is a smaller cohort than ever before. Again, Britain does not quite face that and, particularly in this country, what we found is housing in this country is a massive issue. I could almost rephrase that and say Britain is a very unique position where, because the millennial generation is better off than in most of these other countries, we could fix this quite simply in this country if we focused on housing in that sense. Those are what the figures suggested and that is what we found.

Philip Booth: Could I just very briefly comment there? Once you are in the position we are in it is quite difficult to do anything about it. As the economists say, bygones are bygones. If you set up a system with no prefunding of healthcare, relatively little prefunding of pensions and so on, and the working generation falls relative to the size of the pensioner generation, you have a problem. But you cannot suddenly say to all 70 year-olds, "Tough luck, you now have to prefund your own healthcare" or whatever it might be. Although you can prevent these risks developing and worsening in the future, it is very difficult to do anything about the position we are already in, except for this issue that Shiv has just mentioned of housing. That is the one policy that could be transformative for the younger generation relative to the older generation to liberalise the land use planning system. Ironically, it is not such a pensions or welfare policy.

Shiv Malik: Just to come in then perhaps with one set of numbers. We studied what had happened over the last 10 years to young, independent families versus, just in this country, 65 to 69 year-olds. The figures from ONS that they crunched them for came up with that 25 to 29 year-olds, after inflation is accounted for, are £900 worse off than they were 10 years ago, and early retirees—those aged 65 to 69—are £5,500 better off. If we are playing a catch-up game, we have caught up and if you are worried about pensioner poverty you don't have to be, not half as much as you used to be. We have different issues and they have arrived comparatively very quickly, mainly because of the success of what we have done for pensioners.

Q240 Chair: Philip was saying you cannot change these things when people are on the gravy train. Mrs T did. She overturned an Act for pensioners that increased pensions by prices or earnings, whichever was the greatest, to one of prices and she sold it on the basis that, "I am protecting the real value of your pensions". We might all now be a bit more sophisticated. Are you saying, Philip, no Government would get away in an election with scrapping the triple lock?

Philip Booth: No, I am not really. I was talking at a more fundamental level than that. Certainly there are things—like Mrs Thatcher did—that you could do to constrain the level of spending going forward and reduce pensions relative to earnings and so, and in a very slow burn way. But what I was saying is that once you have set up a system of healthcare where there is no prefunding, so pensions that are largely dependent upon not having prefunding, and you have these huge demographic shifts, which of course are worse in other countries than they are in this country, yes, you may be able to do things, to tweak things at the edges, but most of the things you are going to be doing will make a difference over the very long term, which is the case with what Mrs Thatcher did. There were not big changes in two or three years. There was a big change when she implemented the price indexation over a period of, what was it, 18 years.

Q241 **Jeremy Quin:** Frank asked you about policy interventions and, just to stick on that, there is one particular area, which is housing, which has a massive impact on intergenerational wealth. I wonder if you have any thoughts on that. If you could address it, either of you.

Shiv Malik: I have many thoughts.

Philip Booth: Well, I think we would both be of the same view. A colleague of mine has written—and Shiv used the same phrase when we were talking outside. There are not many things that are a silver bullet when it comes to policy but housing comes very close to that. The cost of housing in the UK relative to anywhere else in the OECD, other than Australia, is extraordinary. The cost of housing relative to earnings, by any measure housing is extraordinarily expensive. That not only lowers disposable income after housing costs, it also raises taxes because of the cost of housing benefit and prevents young people also from accumulating at least a form of an asset, even though it may not be readily liquidated to provide an income in old age. The basic problem is if housing was, say, half the cost—as I think it roughly is in Germany—relative to earnings, it would just be transformative for the younger generation.

Shiv Malik: It would be transformative for our country. The rate of consumption, presumably, the ability for young people to save and invest and become and join properly the middle classes would be completely transformed.

Philip Booth: And business productivity as well.

Shiv Malik: Absolutely, and be able to take risks. Let me make perhaps—

Q242 **Jeremy Quin:** This is purely supply and demand. Germany has a much higher rental sector, but is it purely supply and demand that is driving that?

Philip Booth: Yes, it is planning.

Shiv Malik: It is planning. We don’t have enough housing. Then within that, if you want to work within the housing stock, our private rented sector doesn’t work for young people in any way. It wasn’t built for families. It wasn’t built for people to go into the housing and stay there and have children, because they can be thrown out at basically a moment’s notice, as happened to me as has happened to everyone I’ve known. You can compile the figures on it. You can ask Shelter about it, I am sure. There is plenty of research.

Two things to add perhaps: historically speaking it is the first time when rates of ownership have declined in this country in 100 years. That should be absolutely salient for every politician. If you want a property-owning democracy, well, we have now reversed that trend for the first time. The second thing is it is more of an emotional argument. It is, “Well, how do you expect people to live?” This isn’t just a London argument. This isn’t a south-east argument. There are hotspots across the country in large metropolitan areas where the jobs are, in which young people are completely—as part of this I spoke to a soldier. He had served time in Iraq. He was a soldier for seven years. He had retrained. He had done everything right. He had done everything that everyone had ever demanded. He retained after coming out of the army. He got himself a good job. He lives in Cardiff. He is with a partner. He is in his mid to late 20s. He said there is no way he could ever afford a home. In that sense, he does not know what to do with his life because he doesn't want to bring a kid into the private rented sector because he cannot afford his rent either. It is an emergency in this country and I don't think we have quite grasped that.

Q243 Chair: A final question from me and then Mhairi and then we will get back to DWP responsibilities. Are you saying that if any political party thought it could win two elections it ought to major on liberalising the planning laws because, by the end of the second Parliament, the effects of pushing down house prices would be dramatic on younger people, given that soldiers wouldn't mind seeing our assets diminish in value or not rise as fast? Is that what you are both saying?

Philip Booth: Yes, absolutely, and not only that I might add. One little discussed aspect of the planning system is the way it restricts business productivity growth. There has been work done on this by Paul Cheshire at the LSE, particularly in relation to the retail sector. We often talk about land use planning issues in relation to housing but it also affects business productivity, which then has an impact itself on real wage growth in the long term.

Q244 Mhairi Black: One of the concerns that has been raised multiple times and is a concern of your own, Philip, is around this idea of a time bomb, which is what you describe as the pay-as-you-go commitments about state pensions and health and social care and things. Your recommendation for that is to move towards a prefunded model. Just to start, could you explain in layman's terms the difference between a prefunded model and what we have now?

Philip Booth: Yes. What we have now is that the Government make commitments to future pensioners every time an individual accrues a year of national insurance contributions or whatever, and similarly in full public sector workers. Also implicitly, because we have an entirely state-financed health service, which is quite unusual in Europe, we have people essentially accrue a right as well to future healthcare. About 50% of healthcare costs are borne in the last 18 months of life, so in a sense healthcare costs are also like pensions. These are Government commitments, implicit or explicit to a varying degree. My view is that, when the Government make those commitments, in effect they should go explicitly on the balance sheet. They should be just like other Government borrowing, so we can see how indebted the Government is. There are lots of projections that are done by different academics and bodies, such as the Office for Budget Responsibility, which try to measure the impact of these commitments and how they will change over time given the demographic profile of the population. Essentially, these are commitments on behalf of future generations made to the next generation of retirees. They are made when we don't know how big the next generation is going to be, of course, and if the next generation is relatively small and the last generation lives longer then potentially this is a problem.

I should say that in the UK and France, because of our relatively high birth rate, the difficulties are not nearly as great as they are in, say, Germany, Italy and central Europe and so on. The alternative is to have an explicitly-funded system whereby people make the commitment, sacrifice as you go along, so that you invest perhaps for not necessarily your entire healthcare but at least have a savings account that will help supplement healthcare costs and also invest in order to buy pension in old age. When it comes to the politics of this or the political economy of it or the real world, as politicians might think of it, there are ways you could do it. You could go in with a big bang in the way that Chile has, so you have a fully funded pension system. You could take a voluntary approach, as we used to, with a system of contracting out from the earnings-related part of the state pension whereby some people had separately funded private pensions, or you could have a half and half type approach. You would not have to go fully to a big bang fully funded system.

Also, this issue of intergenerational justice—and I may be treading on Shiv's toes here—should not necessarily be a dividing line between socialists and people who believe in free markets. It is perfectly reasonable for a socialist to believe in intergenerational justice, believe in prefunding but have that done through some sort of Government investment programme and everything explicitly on the balance sheet. I would not like that, of course, but there is no reason why people of left and right, as people describe free marketeers, should divide on this issue of whether or not we should have prefunding.

Q245 Mhairi Black: Is one of the key factors of a prefunded model almost as though what you describe there, for instance, that I would bear responsibility on me to put aside X amount of money for myself?

Philip Booth: Yes.

Q246 Mhairi Black: Is that realistic with a universal health service that we have just now and the universal benefits that we have? How would that realistically fit in?

Philip Booth: It is perfectly realistic and it is done to differing degrees and in different ways in different countries. There are problems that it throws up and there are interventions you might want to have to solve those particular problems. If somebody was not sufficiently well off to save you could argue that their savings should be supplemented by the Government during their working life, rather than their pension being supplemented when they retire. If you feel that you don't like the risks of private sector investment in relation to the whole of somebody's pension, you could prefund, say, part of the state pension and the other half not. If you are worried about the political economy of the whole thing, you can have a system as we had in the UK before until contracting out was abolished. Before that it was emasculated by Gordon Brown, which is why it went out of fashion. But 14 million people used to contract out of the earnings-related part of the state pension system and have privately invested prefunded pensions. There are lots of ways you can overcome the political problems and difficulties that you might see in relation to the poor not being looked after properly, and so on, without going whole hog and having a fully non-funded pension and healthcare system.

Q247 Chair: Isn't it more than that, Philip? Let's imagine there is a pension scheme country with 100 people in, and you are saying to Mhairi, "Don't worry about it, Mhairi, you start paying for your own contributory-based pension". The truth is that Mhairi is paying my pension. If she stops contributing into the pot where is my pension coming from if she is putting it into a contributory system, which presumably—

Philip Booth: I see what you mean, yes. I think that is an advantage of moving towards—

Chair: But who is going to pay my pension, never mind about Mhairi—

Philip Booth: Let me come to that. I think that is an advantage of trying to move to prefunding, because when the commitment is made to Mhairi the Government are no longer getting revenue from the national insurance contributions that are just going on general Government spending. What you have seen recently is that contracting out has been abolished and the Government have taken those extra national insurance contributions, which were previously invested privately and they are going to go into general government spending but they make sure the Government are—

Q248 Chair: Philip, it is simpler than this, isn't it? At the moment, whether it is through the national insurance scheme or other schemes, Mhairi pays in money now so I can draw my pension. If Mhairi isn't paying in the money and it is being paid into a separate scheme—and we can do an actuarial basis on her contributions—where is my money coming from if we are not to increase taxes to pay for it?

Philip Booth: The Government will have to balance its books properly. In a sense, the Government are borrowing now but not telling us that they are borrowing. This borrowing should be explicit. It should not be brushing this implicit borrowing under the carpet.

Q249 John Glen: Philip, you have got to the heart of the conflict between the pure economic analysis and the political reality. Essentially, the only way you could do it, if you did it in a very staged process over several generations, given the fact that you know as well as I do that the politics of increasing taxes or shifting public expenditure around to pay for Frank's pension, while at the same time holding on to Mhairi's individual pot for 40 plus years, is unrealistic. While in an academic sense it could be seen as an appealing solution, politically—notwithstanding the examples of other countries, we have to deal with the political culture and expectations in this country—it is totally unrealistic to do that. How could anyone go to the electorate and say, "For the next generation if you are under 25 all your contributions don't go towards paying Frank's generation's pensions and, by the way, we have increased life expectancy"? It is surely totally unrealistic to think that that is politically achievable.

Philip Booth: To be honest, politics is your problem. I am supposed to tell you where you ought to be and it is up to the politicians to plot a way to get there. To be clear about the problem, you are not wrong. There are several countries—Poland being one, Hungary being another, Argentina being another—where the Government has effectively nationalised private sector pension assets, taken the money on to the Government's balance sheet and replaced the private sector pension assets with a Government promise to a future pension. This does happen all around the world, yes. Politicians do do that type of thing and it may well be true also that, if you are going to reverse this process, it would have to be staged. It has been done before. Mrs Thatcher did it through expanding contracting out of SERPS. Barbara Castle did it in the first place by introducing SERPS and allowing the contracting out. In fact, before that, that was done in the 1960s, so not all politicians are necessarily purely focused on the short-term electoral gains in the way that you might suggest that current day politicians are.

Q250 Ms Karen Buck: Has anybody done it against a background of long-term declining real income?

Philip Booth: That is a good question. It has certainly been done in very difficult political and economic circumstances, but there is absolutely no doubt at all that it is easier to do it in times when the Government balance sheet is healthy.

Q251 Ms Karen Buck: Do you know if anybody has done it in a difficult economic context when—

Philip Booth: Yes, most central and eastern European states. Two or three of them then reversed later. But the central and eastern European states in post-Communist times took on some very difficult reforms. It is also true that nearly every one of those Governments then got chucked out the following election. It is true that you might have to find a path to get there, which is somewhat gradual but surely politicians are not going to forever just avoid difficult short-term decisions, are they?

Shiv Malik: The worst thing is that those who are currently retired, or just about to retire, don't understand the point that it is Mhairi and me who are paying for their pension. They think they have saved for it themselves. That is a real PR problem because suddenly now you have this thing where they go, "No, it is my money" and you go, "Well, our generation are making almost a sacrifice we never thought or were never asked whether we wanted to make, which is to pay for your extended life, while also paying for our extended life".

Philip Booth: We do have a difficult problem with—

Shiv Malik: Well, no, now it is not an issue. You can now look at it two ways: is it an issue of fairness or what happens to an economy when that happens, when younger people suddenly have to make this double sacrifice for both themselves—without even taking Philip's ideas into account—and for the generation above? The answer is: consumption falls and plummets.

You might get some better answers from the IFS, from Paul Johnson about that. They have done some research that shows what is happening with consumption with younger people. It might point towards that and that is very worrying. That is very worrying because it is not now about fairness or, "Oh, well, I have had a harder life", but it is about the economy as a whole and whether that stands up.

Philip Booth: But also if the main Government headline accounts were proper intergenerational accounts, which took account of these implicit commitments, it would be an awful lot easier because if you change the pension system you would essentially have to borrow more in terms of explicit borrowing. You would be borrowing less, though, in terms of accumulating future pension liabilities and the two would cancel each other out. If you had proper, transparent Government accounts, in other words if the Government accounted in the same way it requires the private sector to account, then you might get a different answer and it might be a lot easier for politicians.

Chair: We are going to come on to that in our second session when James Sefton in here.

Philip Booth: Okay.

Q252 John Glen: Can we talk about the universal pensioner benefits? I think the IEA and others have certainly raised this as an example of something that needs to be scaled back in the interests of fiscal sustainability and intergenerational fairness. When we look at the numbers, if you looked at the higher and additional rate taxpayers among the senior citizens and you taxed them, it would bring in a very small amount—about £250 million. This is not a significant policy area, is it, particularly given the costs of administering something like that?

Philip Booth: In order of ideal policy: scrapping the benefits all together followed by keeping things as they are, I would put both above taxing them. The complexities of having these odd benefits, giving them to people and taking them away through taxation again to save almost no money, I think would be ridiculous. You should either keep them or get rid of them. I think there is a strong case for getting rid of them. If you don't think that pensions are high enough—and these are of course non-means tested benefits—then go back to the previous conversation: you should raise the basic state pension and not provide on a per household basis this odd payment called the winter fuel payment but has nothing to do with fuel consumption. It has nothing to do with how cold the weather is and all the rest of it. I would scrap them and you should just decide how high you want the pension to be, a decision that has already been taken that it should be just above the means tested subsistence levels as it happens.

Shiv Malik: I agree. This was a debate for five years ago, this is still a debate now, which is: why on earth—if the Government says they want to cut and they want to enter a period of austerity and they want to do it fairly—wasn't the winter fuel payment the first thing to go? Again, if you look at the number of pensioners, we have a very set image of what pensioners are like, which is that presumably they are all very poor and deprived. That used to be true. It just isn't true now. The median pensioner's income is almost at the median level for those who are in work. Pensioners take home more from not working as people who do work, which is an astounding proposition, but there we go. So why do they need £2.3 billion in winter fuel payments when, as Philip says, it does not go to fuel? People spend it on whatever they like, whether it be claret or something of far more necessity.

Chair: We have been following your evidence very carefully. Thank you.

Shiv Malik: Why on earth then, if you are cutting, would you cut the education maintenance allowance or the future jobs fund before you cut winter fuel payment? I don't understand that. I find it horrifying that a Government would do that, that any Government would do that, and I don't think it would change from party to party either because it is a matter of politics, staying in elected office as opposed to worrying about your economy and your future investment. I find it—if I am blunt—disgusting.

Q253 Ms Karen Buck: It is all fine, isn't it, but in the end, if people don't vote for it, it is pointless saying it is about politics, isn't it? The argument surely is not about who you blame for whether we can win that argument but how do we win the argument? How do you win the argument? Whether it is the Conservatives or Labour or the Scots Nats who do it, it doesn't matter. In the end, somebody has to win the argument with the public and we are not winning the argument with the public that this problem exists.

Shiv Malik: First of all, the EMA—I didn't say that for no reason—it is because 17 year-olds don't have a vote. You can always recommend that 16 year-olds have a vote. That might help. That is one thing. That is always one thing. But then, you are right, young people don't vote, and this is on young people as in statistically speaking they don't vote. But it turns out from some of our own *Guardian* research that it is not like they are not interested in politics. They are deeply cynical. They don't have any loyalty to parties, certainly compared to other generations, but they are deeply invested in small "p" politics and their lives.

Q254 Chair: We could put it around the other way, Philip, couldn't we, that one of the roles of a Select Committee is to propose things political parties might not wish to and then to see whether the Committee is blown up and if it is not it might be something they get behind?

Philip Booth: I must say the political opportunity to deal with the winter fuel payment and now free bus travel—which I think should be an issue for local authorities by the way, not national government, but anyway—the time to have done that would have been when the flat rate pension was introduced. This is a major reform. Putting aside whether or not I support that reform, it is a major reform of pensioner incomes and, essentially, the introduction of the flat rate pension negates the reason to have the winter fuel payment.

Shiv Malik: The former Secretary of State for Work and Pensions also had these issues. I don't know, I am not fully abreast, but it would seem from reports that he also had these very same issues that he was unable to force through his own Department.

Q255 Neil Coyle: I want to come back on to planning and home ownership. You made a point about the planning system. I do think it is easy to blame the system rather than individual actors within it, so which specifically planning laws and regulations would you change to boost home ownership especially among younger people?

Philip Booth: The restrictions around building on green belt. It is not entirely a south of England problem. I think there are only two districts in the whole of the UK where house prices are around about German levels, but it is broadly a south of England problem. I think it was in 2013 or 2014 when more houses were built in Barnsley than either Oxford or Cambridge. This is broadly a south of England problem and the green belt was defined back in 1947 or 1946 when there was a much smaller population. It is like putting a belt on an individual who has grown fatter and fatter and fatter. That belt is no longer appropriate, given the preferences we ought to have for housing versus environmental amenities 70 years on.

Q256 Chair: But never mind about that, how do we get more land on which we can build? Your proposal would be, wouldn't it, that if you bring forward land for development the local authority gets half the increase in the value and you get the other half?

Philip Booth: That would be one possibility.

Chair: There is a real interest in local authorities approving use quickly.

Philip Booth: Yes. There are lots of practical proposals around in order to help oil the wheels. That is one possibility. Another possibility is just to localise local government finance to a much greater degree so local governments have an incentive to allow their populations, particularly business populations, to expand. A third proposal would be to have some principle of compensation within the planning system, so that developers did have to compensate in some way those residents who were affected when their environmental amenities were affected by increased development. There are lots of ways to get the market and to get consensual approaches back into building and development and facilitate something that is currently completely stuck.

Q257 Neil Coyle: I would like to hear cities as well, but some of those rules are around investing in transport and health facilities. That is already within the planning system, so isn't there a greater need to incentivise developers to build the kind of homes we need, genuinely affordable homes, we need for the domestic market? Constituencies like mine are seeing massive regeneration development projects but local people don't feel enough that they are the beneficiaries of those schemes.

Philip Booth: We are still seeing very low rates of house building, particularly in the south-east of England.

Neil Coyle: I appreciate my constituency may be an exception.

Philip Booth: Okay. That is the underlying problem and there is huge opposition. I live in a village, which is the source of much opposition whenever there is even a small development. It is perfectly possible—and again Germany shows an example—to have building development, house building that is very sympathetic to the environment but we don't have good incentives within the planning system to facilitate that. You have an all or nothing system, if you get the rights to develop you can develop. There are lots of things that can be done. As I say, compensation, localising local government finance, all of those things might take the—

Chair: Shiv, lastly to you.

Philip Booth: Redrawing the green belt is critical.

Shiv Malik: Three brief points then on housing. First, it is worth noting that the 1947 Town and Country Planning Act was devised not to restrict development but to set out the terms of development. It was supposed to be the Government who did that after the Second World War, and they did do that and when they stopped doing that private developers have not been able to pick up the slack. It turns out it is quite complicated to build. What we need is new towns and new cities. That is not easy, especially in the 21st century when you need all sorts of infrastructures. Developers in this country, most especially, are basically about building fairly shoddy, cheapish housing from which they can garner quite a handsome profit off the back of already existing infrastructure, because that is what we have told them to do for about 10 or 15 years as well. They have become specialists at it. We need a completely transformative thing, and one would hope that that would be an amazing thing for politicians to latch onto. The idea and notion, which the Conservative Government have done now, of building new places to live for the 21st century that actually work and, yes, that means clearing large sections not of the green belt but of the countryside.

Q258 Neil Coyle: Where are they?

Shiv Malik: Kent is perfect for this and now I am sure Kent County Council will send me a strongly-worded letter.

Q259 Ms Karen Buck: *The Guardian's* front page this morning was talking about building on the green belt.

Shiv Malik: Yes, indeed. I did not like that article. I would have written it slightly differently and made sure it was a good thing. I think we could all probably applaud some of that.

Two very brief things: room standards. We don't have room standards in this country, which is astounding.

Chair: Anymore.

Shiv Malik: We did in the social sector, which were the Parker Morris standards. We don't have that anymore. The third thing is rent contracts. Rental contracts and our rental market is still very much a legacy of the Rachman years. We wanted landlords to be incentivised, to invest in renting, and so we created those contracts back in the early 1990s—in 1994 I think—and they are too short term for families to live in. We have 1 million plus families living in the private rented sector. That has never happened in the last 30 years.

Q260 Chair: Tell me, is that your third point?

Shiv Malik: That is my third point and that is it.

Chair: Great, brilliant. All right, thank you.

Philip Booth: Bath is a great example of a privately planned town with infrastructure provided with it and all the rest of it. It can look nice.

Chair: Brilliant of you. Thanks very much. You saw it was lively from our side as well as yours. Thank you very much.

Examination of Witnesses

Witnesses: **Paul Johnson**, Director, Institute for Fiscal Studies, **Andrew Hood**, Research Economist, Institute for Fiscal Studies, and **James Sefton**, Professor of Economics, Imperial College London, gave evidence.

Q261 Chair: James, while people are settling down, might you identify yourself for the sake of the record? I will ask the others, and then if you have any comments on that previous session, you can give them to us; if they could be brief.

James Sefton: My name is James Sefton. I am currently Professor of Economics at Imperial College. I think I am here because over 16 years ago I worked with Larry Kotlikoff here in the UK in building the first set of generational accounts, which was part of an initiative with the Treasury.

Chair: It was also a recommendation of the then Social Security Select Committee that we should do so.

Andrew Hood: My name is Andrew Hood. I am a Research Economist at the Institute for Fiscal Studies.

Paul Johnson: **Paul Johnson**, Director of the IFS.

Q262 Chair: Any general comments, James, on the first session?

James Sefton: I think when we talk about generational accounts I can refer to it. There are a couple of points I would pick up on Philip, but within the context of talking about generational accounts it will come out a lot clearer, the points he made about when bygones are bygones and what we mean by intergenerational justice. I will touch on those when we come to them.

Chair: Richard, do you want to begin or shall I begin for us?

Richard Graham: Why don't you lead however you like?

Q263 Chair: Yes, and one step at a time is enough, Richard. All right, Paul—but I would love James to answer it as well—the person that piloted the triple lock now says it is unsustainable. Do you agree with that and, if so, why? Paul and then James.

Paul Johnson: In a sense the triple lock is arithmetically unsustainable in the very long run because, as it rises with the fastest of three things, it will eventually, over several centuries, take up the whole of national income, so clearly in the very long run it is unsustainable. In the next 40 or 50 years it will increase spending on pensions by something like a percentage point of GDP relative to increasing in line with earnings. That is not unsustainable in the sense that we cannot afford that. We can choose to increase taxes by that amount to cover it over that kind of time period. I think the real question is whether over a long run this is a rational way of increasing pensions. The amount that you end up increasing them by derives from a somewhat random relationship between increases in prices and earnings and whether they are above or below 2.5% in any particular year, rather than having a particular focus or aim for. If what you are trying to achieve is to ensure that pensions go up at least in line with earnings over time but never dip below prices in those unusual years when prices are going up more quickly than earnings, then it is pretty straight forward to design a system that achieves that but doesn't ratchet it up over time.

Q264 Chair: If you were doing a draft for the Committee on what we might propose on the triple lock, what would the short paragraph read like?

Paul Johnson: It would probably say: if what you want to achieve is to increase pensions in line with earnings over time and you want to ensure that in no particular year that pensions fall behind prices, you would say that in normal years you would increase in line with earnings, and those years when prices are fast going up higher than earnings you will increase in line with prices and then, over time, bring it back to the point such that it is rising in line with earnings over time. It is a relatively straight forward thing to achieve if that is what you want to achieve.

Q265 Chair: That is the Barbara Castle view, isn't it?

Paul Johnson: I don't know what the Barbara Castle view was on this, I am afraid.

Q266 Chair: Well, you don't have to do a sale. She actually did a bill amount. Wasn't that what she put in the Act, the up rating?

Paul Johnson: I don't know.

Chair: Oh right. Well, it was. James?

James Sefton: I don't have much to add. The OBR things that we learn about, 0.39% of the growth rate of total aggregate pensions having this triple lock as having it just linked to earnings, so it is a number. I think the big thing here that you have to think about is that what it gets away from is any conversation about intergenerational risk sharing. The idea of pensions and how they should rise is that if we have shocks to the economy, how are those shocks shared across the generations? These predefined rules—exactly like this triple lock—stop any intergenerational risk sharing going on because effectively it says the pensioners are not going to take any of that shock. I think you have to think about that and get the conversation going on in terms of intergenerational risk sharing.

Q267 Chair: That is the opposite of what Paul said, isn't it? Paul was in favour when the shocks occurred that we should make it up again, as I read it.

James Sefton: I think Paul would say if GDP recovered after the shock then that would be the time to make it up. If it is like the present crisis where GDP never hit back to its glide path from before, then it is not made up. If you scale it with mean average earnings that is the impact it will have.

Q268 Chair: Are you thinking, if we could only get a greater public understanding of intergenerational accounts that could lead to a more rational political debate, James, on these issues?

James Sefton: I think there is an awareness of intergenerational sharing. When you talk to people they are very well aware of it, the old as well. They very much see the future of the country in terms of the young people and they very much want to be behind that, so there is an awareness out there. I think what is lacking is a conversation and figures to base that around. We don't understand exactly what the amounts are, what the key factors are, how they interact, how the Government sector interacts with the private sector and what the key areas are. We just do not have a set of figures. I know IFS has done a lot to close that gap but I still think there is a big gap there. We need to get the figures out there first to get the discussion going. I don't think there will be as much resistance as everyone fears once there is a better understanding of what is going on.

Q269 ***Richard Graham:*** I think what is interesting and what comes over is the IFS picture appears to be, Paul, that the current model of the triple lock is basically unsustainable. But I guess the opposite view, in a sense—and Steve Webb has put that at one of these meetings—is that there is a period of catch up. For such a long period before the coalition Government came in, pensioners' incomes had fallen behind considerably and there was no point in doing anything in the short term because otherwise pensioners would carry on being quite a long way behind and still playing catch-up. How do you respond to that?

Paul Johnson: I think there are two important points there. One is that in terms of the state pension specifically there is a case for some kind of catch-up because obviously that was raised only in line with prices for a 30-year period from 1980 onwards, but that is a judgment about where you think the right level should be. It seems to me that if that is what is happening and the judgment is that it should not be at whatever the single tier is, 25% of earnings, it should be at 30% of earnings, then you should set out a rational plan to get it there rather than this kind of random look, which is essentially what the triple lock gives you. The second point is that it is very important to be clear about this difference between the state pension and pensioner incomes because it is certainly not the case that pensioner incomes were falling behind over that period. They were actually rising every year since 1990 relative to the below pension age group.

Q270 **Richard Graham:** Yes, but just on the state pension, do you buy into the idea that what we are trying to do is align the tax-free allowance for people with pensions and those who are working and once the two are identical you then move them together and that they move at exactly the same pace thereafter?

Paul Johnson: I am sure that is what will happen and I can't see any reason for that not to happen. We are pretty much there, aren't we?

Richard Graham: So you support that?

Paul Johnson: I see no reason for not supporting that.

Q271 **Richard Graham:** James, what is your feeling about possibly retaining the link with earnings and inflation but not necessarily having this absolute return as a sort of bulwark of underpinning and moving pensions up automatically?

James Sefton: I think that is the obvious one to get rid of, especially as we might move into a deflationary environment. I know Andrew has a chart, I can see it out of the corner of my eye, and the mean average earnings of pensioners now are roughly equal to the main population. I think we have done the catch-up now, so again I would support that.

Q272 **Chair:** It may relate to your point a moment ago, James, that if you have all three of them you are making sure a very large section of the population can't share in the costs of readjustments when there is an economic crisis.

James Sefton: I think that is precisely what it means. If there is a crisis or if we suddenly move into a deflationary environment and there is a crisis and a fall in output, pensioners will not take any of that shock.

Q273 **Richard Graham:** Looking at another angle, do all of you think that the country at large recognises that state pensions are paid out of current tax being paid on an annual basis rather than out of a pot of money somehow magically linked to national insurance payments, or do you think there is still a perception out there that when you "pay in"—something often used by constituents—that actually that money is in a pot that provides pensions and welfare benefits and all the rest of it?

Paul Johnson: There is certainly a misperception about the closeness of the link between contributions and pensions and payment. I don't know, to be honest, whether there is recent polling evidence on the extent to which people believe there is a fund that it is paid out of, I am afraid.

James Sefton: I don't know about that. I guess that is an attitude survey and a question you would have to fire at John Hills. I look at the Government Actuary report and that tries to marry up the national insurance fund with the level of pensions and it struggles hard to do so. At some level I must admit even I get confused when reading the Government Actuary report about exactly what is coming from the fund and what is not. If we are confused, I am sure that is shared with the general population.

Q274 Richard Graham: That would impact people's perceptions of the fairness or otherwise of increasing pension whether you describe them as rights or benefits. It would influence people's perceptions of that if they realised that it is going to be their children and grandchildren who are going to be paying for it.

James Sefton: That brings up a nice point about what is contractual and what is not contractual in terms of these promises. I struggle slightly here because I do see pension rise in some way as contractual. They have been promised. I think that view is shared and so when there are changes in policy that affect rights going forward I do think people feel that is unfair. Then there are the non-contractual benefits that people get, which Philip touched on, which is health, and then they are ring-fenced probably because they are non-contractual. That again is a confusion that needs to be cleared up.

Q275 Richard Graham: Yes, but you are not suggesting that if the average lifespan of an individual moves from, say, late 60s to early 90s that the pension age should remain the same willy-nilly?

James Sefton: I am maintaining that if you are going to change state pension ages then you have to announce it well in advance. You can't just do it on a sudden passing motion and say, "Everyone from next year is retiring at 68".

Paul Johnson: I think it is a really interesting question there about what it is that has been promised. It is rather important in the private sector as well as in the public sector because the implied or expected promise from 30 years ago was for whatever it would have been, 10 years, of payment of pension and it has turned out to be 20 years of payment of pension, which has turned out to be a much more generous and expensive promise than expected. That applies not only to state pensions but perhaps even more importantly to occupational defined benefit pensions where there is a very clear redistribution going on here because the promise was made on the percentage of final salary. It was not made on the pension.

Q276 John Glen: James, can we get your definition of generational accounting and could you explain whether you think it is realistic to get to a point where we could have a clear measure of the intergenerational impact in the same way that we see after the Budget there is always an assessment of how it affects different deciles of wealth in the population? Is it realistic for your method to get us to that transparent, politically debatable, understood truth around the relative impact?

James Sefton: I have a few points I wanted to make on that. How long do you want to give me?

John Glen: As long as you want within reason.

James Sefton: Do you want me to quickly outline what generational accounts are first?

John Glen: Yes. I think that would be helpful.

James Sefton: These generational accounts were started with research in the US by Larry Kotlikoff and Alan Auerbach. It was generally done as a response to concern about the strongly rising cost of Medicare and Medicaid in the US and the implications that would have on taxes and, therefore, on future taxes paid by younger generations. That was the impetus behind it and they came up with these generational accounts. What the generational accounts try to do is measure the net present value of transfers of a representative agent of a given age with the government. What you are trying to do is estimate going forward what are all the likely taxes this, say, 30 year-old is going to pay at the age of 31, 32, 33. We discount them back to put them in present value terms, using an interest rate; that is important. We use an interest rate; we discount them back. We also calculate what they are going to receive from the government in terms of welfare transfers and in-kind payments, predominantly health and education. On a very broad basis we try to allocate collective expenditure, such as defence, as well and we just spread that across the population. Therefore, you have the net position and you tot it all up over their expected lifespan and you see what is their position, how much is their net transfer to the government. Then you compare that across all people in all the generations.

Given that, you have done all that exercise, you can ask two questions, and this is important. The first question is about sustainability. Assuming policy stays the same, we can add up how the population is expected to change going forward. We know the net transfers of each individual with it and so we can work out what the total net transfer with the government is and whether in the long run the revenues will pay for all the expenditures. On that sustainability level, when we first did the generational accounts that is what the Treasury ran with. They used this sustainability measure and it became the basis or the spine of what was called the long-term public finance report and more recently it has become the OBR and fiscal sustainability report. That is a broad description of the model underlying all these projections in these reports. I know the OBR started with that. They have gone a little bit more sophisticated than that but that is the broad idea behind it. For sustainability, it does seem quite a powerful tool for highlighting where the pressures are going to come from and in that respect it seems to have been widely accepted and widely used here, in the US and the EU. The EU do all their own generational accounts as well.

It has one advantage when you phrase it this way, compared to the other approach that has been adopted, which is this whole of government wealth accounts that you see, and this comes to estimating the size of that imbalance. If you look at the whole of government wealth accounts, what you see is a huge liability there of unfunded pension liabilities, and they put it at £1.3 trillion, which is a big number. It is very hard to get your head around what that actually means. It is a large percentage, nearly 70% of annual GDP, so it is a big number being paid to teachers, the army, civil servants and so on. That has to be met and almost 70% of GDP in one year has been promised contractually to these people. That is tough. How do you get that number? You have to discount back these promises made to the teachers and the NHS staff and you have to use an interest rate. The sum you get of £1.3 trillion is very dependent on that discount rate. They used

5%, but if you used 4% that number would double; if you used 3% it would triple and it would suddenly look like three times GDP. Getting your head around it is really difficult.

The advantage and where the generational accounts have gained some sort of traction is that it allows you to say how much revenues have to rise as a percentage in order for it to balance. Then we get numbers like income tax must rise by 6% and then we will balance and it is sustainable now. People understand what that means. They know that, "I am going to be paying whatever. If it has to go up by 3% I will be paying 3 pence more in the pound on my wages. I get it. I know how unsustainable it is." That has been a real major contribution of these generational accounts in trying to measure that sustainability, and certainly the OBR have modified it slightly but the fiscal gap is the same idea.

The second question is then about the impact on the generational and I think it has been less successful here. There are a lot of problems with it and I did write them down. The first thing is the data. Trying to estimate who is getting what from a particular type of welfare benefit is fairly easy when it is a welfare benefit because we can look at the records and we have very good information on that, but when it comes to health and education it is pretty tricky and we could not do a reasonable job there. We are trying to estimate. When it comes to things like inheritances it gets very tricky to try to pick up all those benefits, who is winning and who is losing from that. Then the incidence problem gets even harder. Again, inheritance is a great way of illustrating that. If you cut inheritance tax, which generation is benefiting and which one is losing? Are the winners the old people who are going to get more money or is the young people who are getting the bigger amount of money? When it comes to forecasting forward we find it very easy. We allocate it to the old people because inheritances are paid in proportionate to the number of people who are dying so it is a very easy question. To get the best projections, it is dying. But when you are looking at benefits and the incidence of a change in that tax and who benefits, that is a lot more tricky and probably you should allocate it to the younger generation who are going to receive those inheritances. That is a tough one.

Corporate tax is a tricky one: who actually pays corporate tax in the long run? Is the incidence of corporate tax on the equity holders or is it that prices change when you change corporate tax and the result is, "If I am going to have to get that money from equity holders, what I will have to do is cut wages so that I can then make the desired level of return to the equity holders"? In the end the incidence is on labour. If you change the corporate tax, who is actually paying for it or who is benefiting from that? The incidence is not clear as well.

Then to make it all much harder, the government do not act on their own. There are offsetting changes in the private sector. There are fantastic examples that have been highlighted by some other work. There was a great case example where Ecuador introduced a pay-as-you-go pension in 2006. Suddenly, instead of young people supporting their parents and you could track the family private transfers to older people, the transfers reversed and the older people started giving money back to younger people. This was the offsetting effect and you saw it. Again, working out the incidence and who benefits and loses from a policy change when the private sector reacts and prices change gets very difficult to pin down. Those are all the difficulties.

Having said all that, you have to start somewhere and this where I want to say something about Philip Booth's comment. It is very hard to say is policy using generational accounts, the sort of question that Andrew asks, fair relative to the previous generation, maybe they have died or they are pensioners now, and current living generations? Where it is more useful, and I would defend it, is saying that is a sunk cost, as we call it, that is bygones are bygones, but what we can do is make sure policy going forward when we do those changes is fair between current living generations and future new-borns. Mistakes might have been made in the past but what we can do is learn from that and make sure policy is good going forward. Generational accounts can be very useful in that exercise, subject to all those qualifications.

Q277 John Glen: James, if I try to summarise that: generational accounts is good at making an assessment of long-term fiscal sustainability; it is less good at quantifying at what point in time because of the nature of the assumptions and the allocations in between different generations, but it is potentially having some value in measuring a policy change against an uncertain measure of the starting point.

James Sefton: Absolutely, and then focusing more on making sure that policy change is good going forward, making sure it is generationally fair going forward rather than trying to right a balance of what has happened in the past where it does not really try to answer that question.

Q278 John Glen: Without the accurate quantification of the starting point, doesn't it negate the value of the assessment of the intervention going forward? It is against an uncertain platform at which you have introduced an adjustment. You could say if you do this, it is relatively better for the younger generation than the older generation but it is still up for debate.

James Sefton: I get it. You are right, I agree with you. However, I would say it is very difficult to go to the population and say, "You did very well in the past and because you have done very well in the past, I want you to stump up now and you are going to have to pay for it because you have had the good times in the past". It is possible to say going forward, "We now worry about generational fairness and going forward we think this is the fairest way to do it to make sure that your children are treated in much the same way as you are treated". I think that is a message that most people will buy. It is not what you really want to do, possibly, but it is an easier message and it is certainly one that you should do when you can't do anything about—

Q279 John Glen: You have spent a lot of your professional life looking at this. Is there no better mechanism or tool out there to look at this stuff?

James Sefton: Andrew is here.

John Glen: We will come on to him in a minute.

James Sefton: He has done some good work. John Hills also did an excellent piece in 1996 where he was the first one to talk about the generational economy. He looked at generations going way back to when they were born in, I think, 1920 and their generational account and how these individual generations benefited in terms of the welfare state. The results of that were unsurprising in that there was a one-off windfall to people born around about the 1930s because they got the start of the National Health Service and the pension start without having to pay the contributions. That was important work done. It has been carried forward now by the IFS—and I presume you will want to contribute to that later—but it is a tougher question and you should have John Hills in front of you to talk about that and the welfare generation.

Q280 Chair: The difference is that when that cohort was coming through national income was rising, wasn't it?

James Sefton: That is true and also there is the issue that Philip Booth talked about of bygones are bygone. Assuming demographics are constant going forward and you have a single one-off change in policy, then who bears the cost? You could effectively kick that cost down the road from generation to generation to generation and all you get is one generation that is better off and all the others are fairly treated. What happened then was you had these promises and then you got adverse demographics hitting you and so it was no longer possible to kick that ball down the road any further. You had a contraction and that is the problem. It was not necessarily a slowdown in productivity growth. It was the adverse demographics that meant that it became much trickier to kick that ball down the road.

Q281 Chair: Andrew, can I bring you in? Here we have this wonderfully rational view about how we could make political decisions but if I bring you down to a specific one, which I think comes from your work and Paul's work. If one maintains the present status quo for guaranteeing pension increases as the state pension, that will be paid for by raising the state retirement age progressively. Is that not—

Andrew Hood: The country always has a choice over what share of national income it wants to dedicate to overall public spending and particularly what share it wants to dedicate to state pensions. If one takes the view that that share can't rise indefinitely and that a greater share of the population will be pensioners, say, then that would require a decrease in the generosity of the state pension. That is just maths. You can either say we want to keep the generosity for each pensioner constant and we want to keep the total share of national income constant, in which case we are going to have to keep the number of pensioners constant by raising the state pension age over time, or we can say we are going to allow the number of pensioners to rise and then we are faced with a choice. We can either spend more of our income supporting that larger group of pensioners or we can reduce the generosity of the provision they receive from the state.

Q282 Chair: Stepping back from that, Andrew, if you were considering you are the Government now and have to make a decision about going into the next election on promising increases whether you are going to do the triple lock or not, you could pay for the triple lock by hoping Mr Cridland will come forward with radical proposals to raise the state pension age. But that is having a distributional impact, is it not, on who is actually paying for the increase? It is upsetting the payments that people below retirement age proportionately will be paying towards this bill.

Andrew Hood: That goes back to exactly what James was saying about that contracting. The nature of the state pension age is such that it is seen as something that we cannot change year on year. It is not a parameter of the system that you would want to be altering year on year, whereas to some extent the level of the state pension is seen as just such a parameter, something on which the Government could reasonably decide in 2020 to change the level. As James was saying, you could not really announce overnight, "Right, the state pension age is this". So, because of that difference any reduction in generosity coming from changes in the state pension age will not affect current or soon to be pensioners because there is always going to be that time delay built in, whereas changes in the generosity of current state pensions affect current pensioners and those who will soon be retired. That trade-off is not the same across generations because of the timing difference from those two kinds of policy changes.

Q283 Chair: A factor that James introduced—and maybe it was in other people's minds but it was never codified as clearly as James did it for our Committee—was that he marshalled this great lecture on three ways of property rights. There was the economic rights, the political rights and the social rights. James is the first person who has said that while the social rights to benefits are far less secure than property rights—you generally deliver on property rights in this country—they should nevertheless be part of the equation when you are bringing your analysis to what James is saying over into generational accounting.

Andrew Hood: Absolutely. The criticism of the triple lock is to do with the fact that it leads to an arbitrary level of the state pension. We are not criticising the triple lock because it is generous to state pensions. We are saying that it is not a good way to achieve any policy objective you want to go after. That is the fundamental criticism. It seems to me hard to argue that there is a right to a level of the state pension that is some function of how earnings and prices relate to each other time. One might think that there is a social right to a state pension that replaces some share of the earnings that I have earned over the course of my life, but the idea that that should be in some sense determined by how earnings, prices and 2.5% relate to each other over time seems surprising to me.

Q284 Chair: James, how do you think we get your ideas out there in a more popular form? The Government produced a leaflet on the European referendum and I thought it was pretty boring. I wanted them to produce one every week to change the balance of the argument. But there are problems, aren't there? Behind what you are talking about, although you have explained it clearly to us, there are immensely complicated ideas that will change the framework in which, first of all, politicians and then, we hope, voters behave.

James Sefton: We did try it once on "Newsnight" with Evan Davis. We found the Brown family and we got all the Brown family in. Brown was no coincidence; it was the Brown family. We are working with the Resolution Fund at the moment. I come back to my first point: I think we need data and despite brave efforts all around, we are really short of data on this issue. The first thing you have to have is a site where we have some graphics where this data can be represented very easily. Maybe it is going to be the IFS. I am talking personally to the Resolution Fund. They are very keen to fund it as well, to try to put that data up in a visual way and then people can play with policy initiatives and say who wins and who loses, assuming incidence is constant—a big assumption but we can do that—from various policy changes and understand it. At the moment, no one has an idea: is it pensions, health or house prices that are more important? Which is causing the biggest intergenerational transfer? I agree with Philip before that it is probably houses but, again, I don't have data to support that.

Q285 Chair: Might you tell us, James, what do you think should be the next tranche of data that Government are collecting so it would help in this respect? Not now. You might give us a submission on it.

James Sefton: Okay. We will try to work on the idea. It is called the generational wealth accounts. It needs to include both the government sector and the private sector and it needs to do a similar exercise to the government sector as with generational accounts but it does it in the private sector as well. I would push you to look at the generational economy. It is the work done by Ron Lee and Andrew Mason as part of the national transfer accounts. They have written a fantastic publication there where they started to look at this idea across the whole of the economy and have broken it down. At the moment the work they look at is a single cross-section, but what you want to do, like generational accounts, is build in projections as well and there you have the basis of what I think you need to look at.

Q286 John Glen: Can I go back to you, Andrew? You were saying about the triple lock and it not being a very useful tool. It would be useful if it had a ceiling imposed up to a percentage of median earnings or whatever and maintained at that point thereafter. That would be a meaningful policy that would be understood but capped. Is that what you are saying really?

Andrew Hood: What we are saying is that you can make two sensible moves. One is to say that you think that over the long run state pension should be a fixed share of average earnings. That seems an entirely sensible position to hold. The second is that the state pension now is not at that optimal level or the desired level. You could say we want it to be 30% and we will have the triple lock until it is there. My sense is that is still not what you want to do because the rate it gets there will be a function of—you should just say, "We want it to be here. We don't think, for whatever reason, that we want to do that in one go, that next year we will set it at that level. We think that we want to do it over the next five years, 10 years", and you lay out the plan. There is then the separate issue of how you deal with variations in the economic cycle where it seems to me again a reasonable thing to want that when real earnings fall pensioners are protected and so you have to build in a mechanism to allow that to happen and then claw it back. But ultimately even if you put that ceiling on, there is a better direction of travel than the triple lock. That is even without starting to talk about the 2.5% bit. Even if it was just a double lock, still that is not the way to go.

Q287 Chair: Are you not disagreeing with your boss, Andrew? I thought he was in favour of the double lock.

Andrew Hood: If you took the 2.5% out of the triple lock and said the state pension will rise with the higher prices and earnings, you still have the problem that over the long run it would rise faster than both. During the recession it would have risen in line with prices, therefore becoming a higher share of average earnings, and then because it goes up in line with average earnings after that, that has now got baked in, it has got locked in. The Australian system is that imagine you have the recession, state pension goes up in line with prices rather than earnings until it has caught up, but now when real earnings grow you only raise the state pension in line with prices until it catches back up to where it was as a share of earnings before. In the long run it rises as a share of earnings, sorry, it is constant as a share of earnings and, therefore, constant roughly as a share of GDP, but pensions are protected when real earnings fall. You can have your cake and eat it on that one. You don't have to have the triple lock or the double lock in that sense.

Q288 Chair: In a sense, that is what Paul did explain to us but you have explained it more openly than he did, only because he did not have time. The sting in the tail is the adjustment.

Andrew Hood: Yes, absolutely. The sting in the tail is what you are saying is that when real earnings recover you don't allow the state pension to rise in line with earnings straight away. It rises in line with prices until it has caught back up. Going back to the point about intergenerational risk sharing, in a world pre-recession where we mostly thought of previous recessions as temporary shocks, so if there is any fall in output we are going to get it all back, then all you are doing is smoothing that for pensioners. In the world we are in now where real earnings are always going to be lower than we thought in 2007, we might never get back to where we thought we would have been before the crisis, then this system means that pensioners do feel some of that pain because the level of earnings that they are linked to is lower than it would have been without the financial crisis.

Q289 Craig Williams: I know where James is coming from, after a very thoughtful contribution, but can I call Paul in? In the IFS written evidence you talked about the difficulty of providing a comprehensive assessment of the relative economic circumstances of different generations. I would like to get your thoughts on to what extent generational accounting can provide us with a comprehensive insight.

Paul Johnson: In a sense, you are always going to get a somewhat partial picture. What we have tried to do is build up what we know about the difference between the generations. It is useful to try to build up the complete picture and then come up with a number at the end, but it is the component parts of it that are always going to be the most interesting element of that. I think that is where you can say something about the differences between the generations, particularly in a world where tax as a fraction of national income has been pretty stable for the last 20 years and is projected to be pretty stable: 37% of national income, give or take one or two percentage points, for a 30 or 40-year period. On the receipt side you have a fair degree of stability.

On the outcome side you have a series of things that we know quite a lot about. We know quite a lot about house ownership and how that has changed over time and how the value of housing has changed over time and, therefore, we can say quite a lot about how one generation may be doing better than another. We know a lot about defined benefit occupational pensions where there has been a very clear and explicit redistribution from the younger generation to the older generation, and we can measure that fairly clearly. We can look at, in terms of state pensions, both the actual amounts received over a lifetime by generation and, interestingly, we can also compare that with the amount they might have expected to receive, which may change either because levels change or indexation rules change or pension age changes or, most importantly over the last 20 years, because longevity has changed.

There are a series of individual parts of the system where you can compare both the experience and expectations of different generations and then you can do what you can to put that together either in the piecemeal way that we have done, frankly, or in the rather more ambitious way that James is talking about. Even when you do it in the more ambitious way, people will understand it better by opening the black box and looking at the individual parts.

Q290 Chair: Thank you very much, all three of you. James, you will give us a short note on the data, won't you?

James Sefton: On the data, yes.

Chair: Thank you very much.