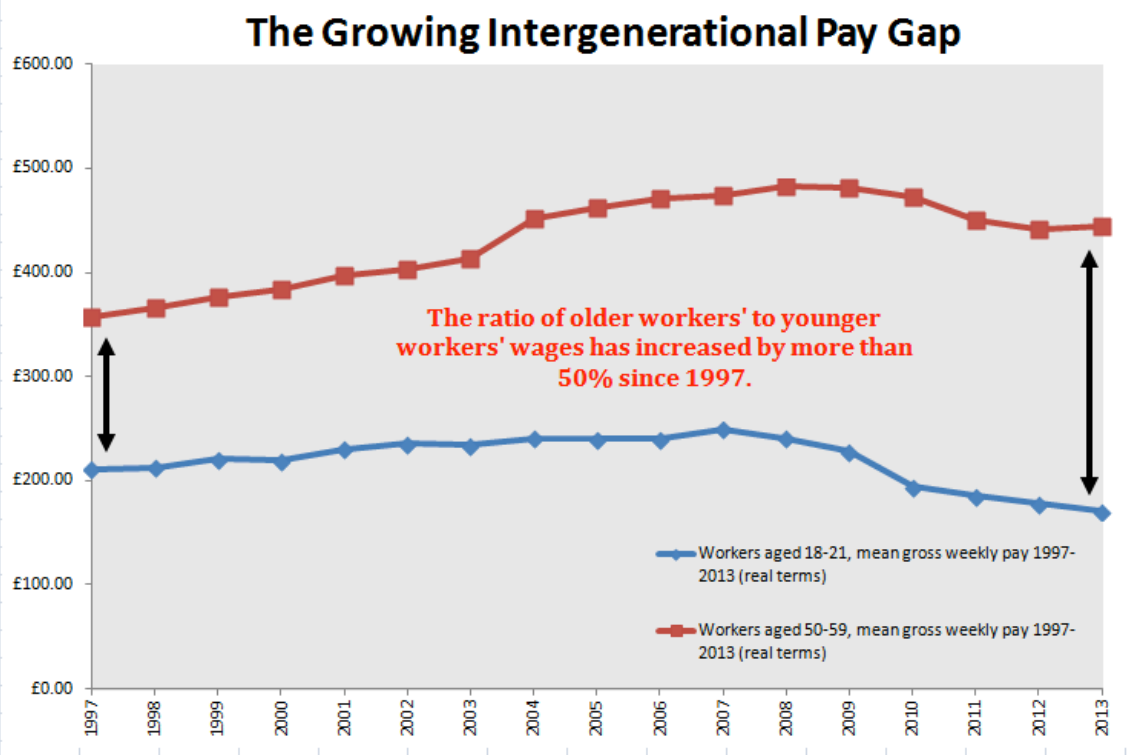
Squeezed Youth

The Intergenerational Pay Gap and the Cost of Living Crisis



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intergenerational foundation
Fairness for Future Generations

The Intergenerational Foundation

The Intergenerational Foundation (www.if.org.uk) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making. Whilst increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education to employment, taxation, pensions, voting, spending, transport and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact whilst losing out disproportionately to older, wealthier cohorts. IF questions this status quo, calling instead for sustainable long-term policies that ensure younger and future generations are better protected by policy-makers.

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Executive Summary

Young people have suffered a "double squeeze" since the turn of the Millennium, as their average incomes have fallen while those of the "baby-boomer" generation have risen strongly, while at the same time they have been the biggest victims of the cost of living crisis due to rising rents, energy and transport costs. The gap between wages of the under 21s and the over 50s has risen by over 50% since 1997. Key points:

Earnings

- Median gross weekly wages have fallen by over 19% in real terms since 1997 for workers aged 18–21. Median gross weekly wages for workers aged 22–29 have remained virtually stagnant over the period, rising by only 2%, while the over 50s have enjoyed a huge 25% risen in their earnings.
- As a result the so-called "Intergenerational pay gap" has widened by over 50%: in 1997 workers in their 50s were earning 1.7 times as much as workers aged 18–21, but today's figure is 2.6 times.
- Average annual wage growth for workers under 30 has lagged significantly behind the rate of inflation since the beginning of the recession in 2008.

Consumption

- Almost 45% of all the money spent by 20-something households now goes on a small range of essentials: housing costs, fuel, power, food and transport. This is more than for any other age group.
- The cost of renting, fuelling and powering a home now accounts for nearly a quarter (24%) of all the money spent by 20-something households, up from 15% just a decade ago.
- Spending on net rent (the cost of rent minus any housing benefit received) rose by nearly 35% in real terms for 20-something households in the decade to 2012, showing that the "Generation Rent" label is accurate. This severely restricted their ability to spend money on other things (see Fig.8, reproduced below):

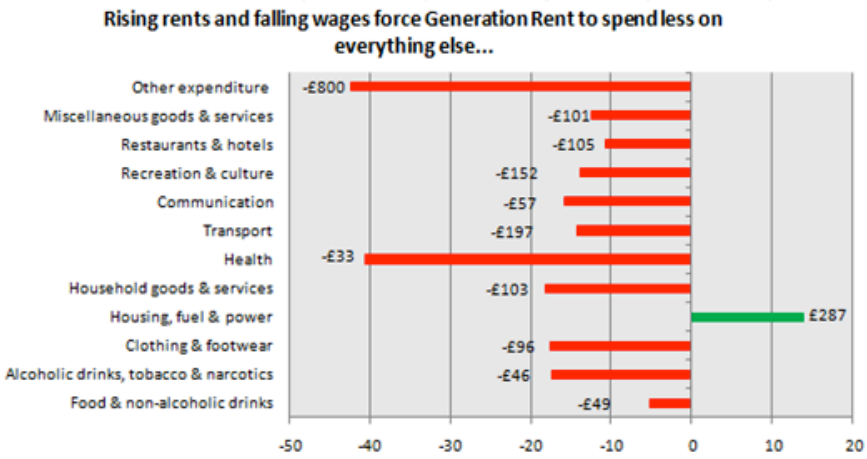

Fig.8 Average percentage change in annual expenditure per year for each household member within households where the HRP is under 30 between 2007 and 2012 (2012 prices)[12]

All data is sourced from annual editions of the ONS Family Spending survey and the Annual Survey of Hours and Earnings. For detailed methodology see Appendix 1.

Introduction

Young workers have been hit hard by a double-whammy of declining wages and rising prices for the necessities of life that has resulted in them being placed under an enormous burden. This has led to a decline in both their earning and spending power which means they have failed to share in the prosperity enjoyed by many of their older counterparts, in particular members of the "baby-boomer" generation of people born between 1946 and 1964. As Paul Johnson, the director of the Institute for Fiscal Studies, argued last year:

"Work done by the Institute has shown that in terms of employment, income and consumption it is the under-30s who have really borne the brunt of the recession."[1]

The Intergenerational Foundation has analysed official data taken from the annual Family Spending survey and the Annual Survey of Hours and Earnings (ASHE) run by the Office for National Statistics to see how the incomes and expenditure patterns of young adults have changed since these surveys began tracking them in 2000 and 1997 respectively. The results reveal the true extent of the struggle which faces Britain's younger generations as they attempt to make their way in the world.

[1] Wright, O. and Cooper, C. (2012) "The Old Get Richer, the Young Get Poorer" *The Independent (online)*, 26/06/12

Earning Power – The Intergenerational Pay Gap

ONS data shows that the distribution of average earnings tends to follow a life-cycle pattern in which workers enjoy a steady increase in earnings from when they first enter the workforce until they reach a peak at around the age of 40, which is followed by a steady decline thereafter (Fig.1).

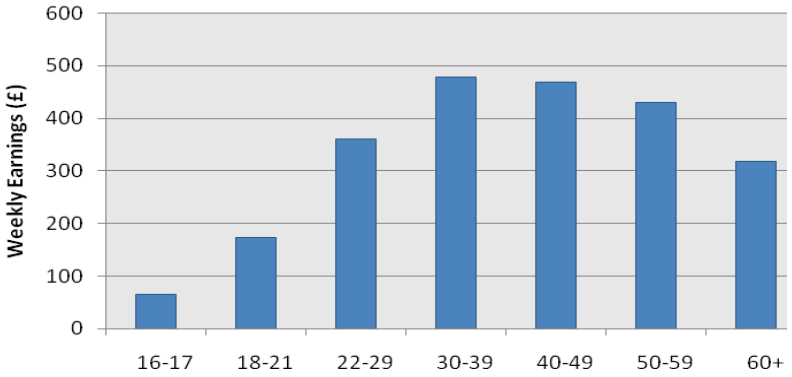

Fig.1 UK median gross weekly earnings by age group, 2012[2]

Thus it is not surprising in itself that older workers tend to be paid more than younger ones. Often it will reflect the fact that they are likely to be more experienced and to hold a higher proportion of senior positions. However, it is interesting to compare how the "intergenerational pay gap" has changed over time in order to see if certain age groups appear to be doing better than others.

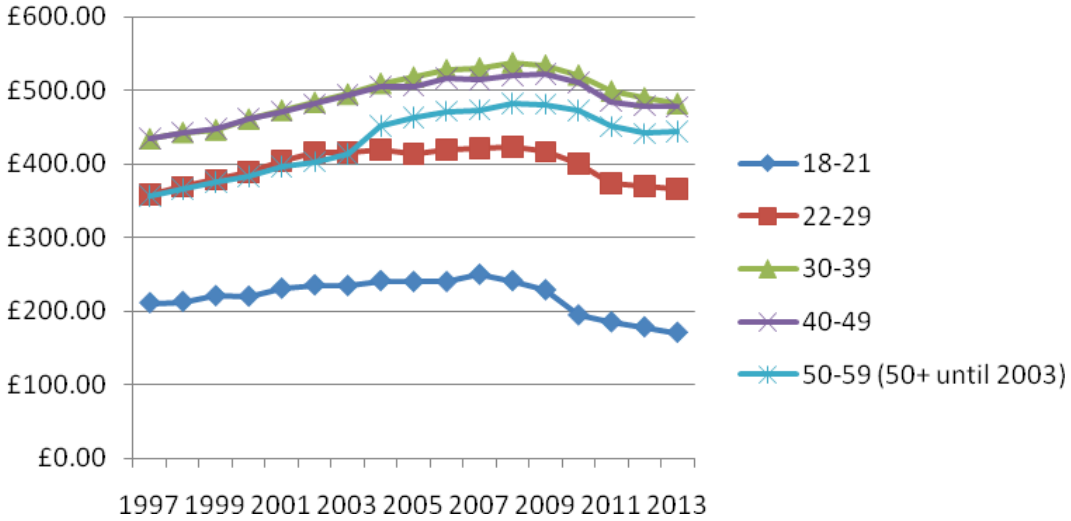

Fig.2 Comparison of median gross weekly pay by age group between 1997 and 2013, at April 2013 prices[3]

Fig.2 shows how median gross weekly earnings have changed for each age group within the workforce in real terms during the 16 years since the Annual Survey of Hours and Earnings

[2] ONS (2013) *Annual Survey of Hours and Earnings, 2012 Revised Results* Swansea: ONS

[3] ONS *Annual Survey of Hours and Earnings*, editions published in each year between 1997 and 2013

(ASHE) began. It shows real wages were generally improving for all age groups up until the beginning of the recession in 2007 – although the older age groups had seen their pay growing more rapidly – but after 2007 all age groups witnessed a fall in real wages which had a larger impact upon younger workers. Each of these age groups found themselves in a different position at the end of this period than they had been in the beginning. Table 1 expresses this in more detail:

Median gross weekly pay by age group, changes between 1997 and 2013 (real terms)				
Age Group	**1997**	**2013**	**Change (£)**	**Change (%)**
18-21	£211.24	£171.00	-£40.24	-19.05
22-29	£359.11	£366.50	£7.39	2.06
30-39	£435.16	£483.00	£47.84	10.99
40-49	£435.16	£478.30	£43.14	9.91
50-59 (50+ until 2003)	£356.86	£444.40	£87.54	24.53

Table 1. Median gross weekly pay by age group, changes between 1997 and 2013 (real terms)[4]

Table 1 shows that the two youngest age groups fared very poorly overall during this period. Workers aged 18–21 saw their hourly pay decline by almost a fifth in real terms, making them the only age group that was actually worse-off in 2013 than it had been 16 years earlier. Workers in their 20s enjoyed a nominal increase worth less than £8 a week in real terms, amounting to a paltry 2%, meaning average levels of this pay for this age group saw virtually no significant improvement. Workers in their 30s and 40s enjoyed a fairly reasonable real terms improvement of about 11% and 10% respectively, but the biggest winners overall were workers in their 50s, among whom average weekly wages rose by almost a quarter. This data clearly demonstrates that the intergenerational pay gap has widened, because more of the improvements in average income appear to be accruing to older age groups of workers rather than the young.

It also raises genuine concerns as to whether the current generation of workers in their 20s will be able to "catch up" with workers in their 30s, who have raced ahead of them, or whether the pattern of people enjoying the highest wages of their life during their 30s will be broken for this generation. There is a real danger that this could be a sign of a cohort effect which will have the result of condemning today's young workers to a lifetime of lower wages throughout their careers than previous generations have enjoyed.

[4] Ibid.

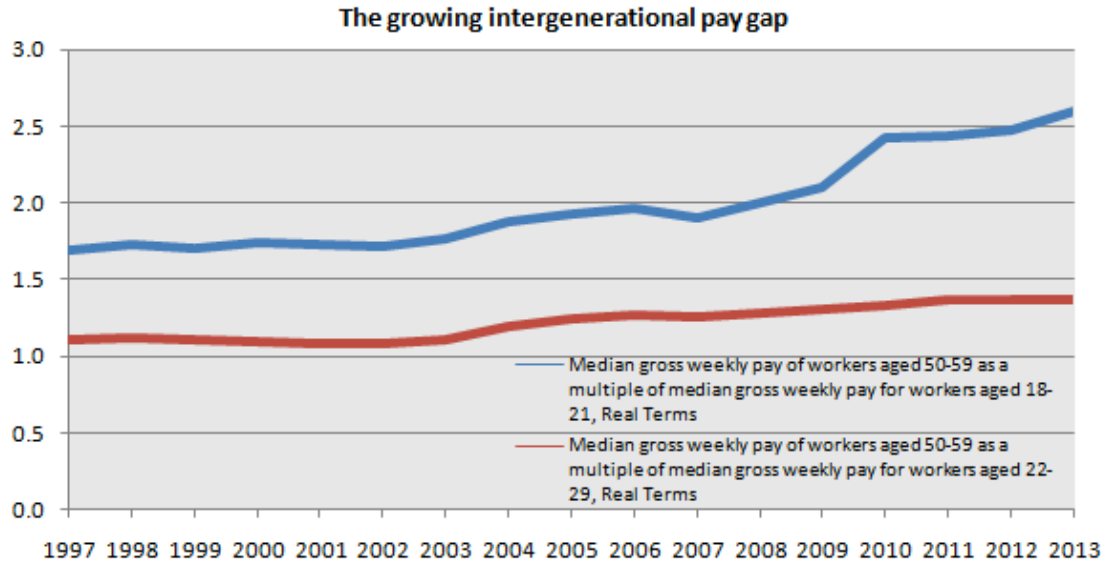

Fig.3 Median gross weekly pay of workers aged 50–59 as a multiple of the same for workers aged 18–21 and 22–29, Real Terms[5]

Fig.3 demonstrates how the balance of earning power between older and younger workers has shifted in the former's favour since 1997. At the beginning of this period median gross weekly earnings for workers in their 50s were 1.7 times higher than those of workers aged 18–21 and 1.1 times as great as those of a worker aged 22–29. However, the gap has continued to expand almost continuously in the period since then, so that by 2013 average pay for workers in their 50s was 2.6 times as great as for workers aged 18–21 and 1.4 times as great as for workers aged 22–29. As mentioned above, while there are legitimate reasons for paying an older worker more than a younger worker, but the fact that this gap has been growing does demonstrates how younger workers have been losing out compared to older workers over the long term.

There are two obvious conclusions. First, policy interventions which aim to boost real wage growth are likely to be more successful if they target workers who are in their 20s, because this age group has suffered disproportionately from falling wage levels. Second, recent months have witnessed a great deal of debate about the "cost of living crisis" which has come about because middle-earning families have struggled to keep pace with the rising cost of living. IF's study shows young workers have been some of the biggest victims of this trend (see Fig.4).

[5] Ibid.

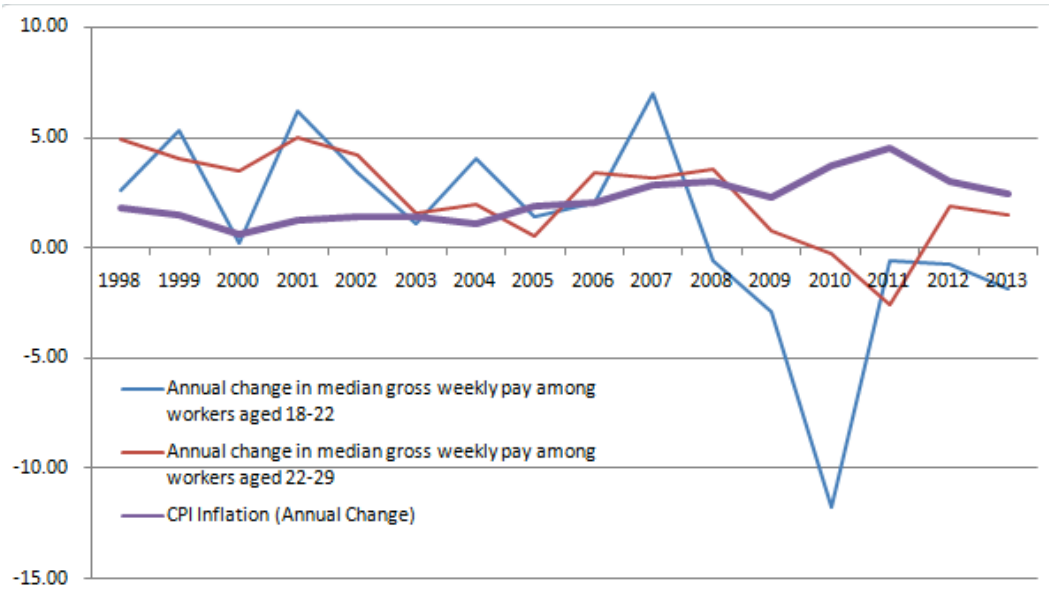

Fig.4 Annual changes in median gross weekly pay among workers aged 18–22 and 22–29 compared with CPI inflation[6]

Fig.4 shows how wage growth for young workers has failed to keep pace with inflation (measured using CPI) since the recession struck in 2008. Before then, the ASHE data show, annual growth in earnings was generally either above inflation or at least equal to it, although once inflation embarked upon an upward trend in 2005 average wage growth only succeeded in keeping pace with it for a short while before it fell away dramatically.

The chart shows that it has been workers aged 18–22 who have been hit especially hard, having suffered a huge fall in average wage growth since the beginning of the recession, while their slightly older counterparts do appear to have at least returned to positive wage growth, even though their purchasing power is still declining. The fact that inflation has now outstripped wage growth among young workers for more than five years shows that the young have suffered an especially brutal squeeze in their standard of living that has fed through into the data on spending patterns, which are analysed in the second half of this report.

[6] Ibid.

Spending Power – Young People Hit by Rising Cost of Living

Young workers have been the biggest victims of the rising cost of living, as evidenced by the fact that their wages have failed to keep pace with inflation. The ONS data show that younger households have had to devote an increasing share of their spending to the necessities of life, leaving them with less money for other goals such as saving for the future, purchasing a house or raising a family.

Fig.5 shows how spending on a key group of necessities – food, housing, fuel, power and transport – has changed as a share of total household consumption for different households, arranged by the age of the Household Reference Person (HRP)[7] during the ten-year period between 2001/02 and 2012 .

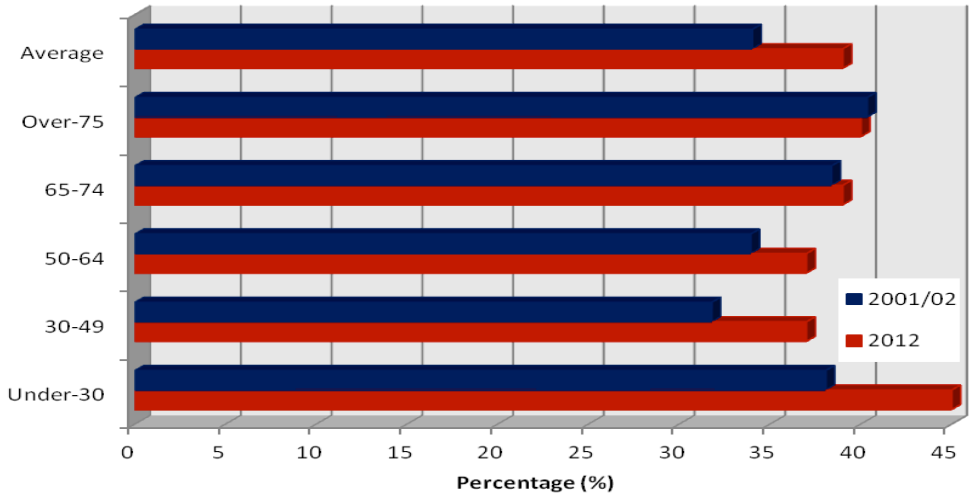

Fig.5 Changes in spending on food, net housing costs, fuel, power and transport as a proportion of total household consumption by age of HRP, 2001/02 and 2012[8]

The data from Fig.5 are presented in more detail in Table 2:

	Under-30		**30-49**		**50-64**		**64-75**		**Over-75**	
	2001/02	*2012*	*2001/02*	*2012*	*2001/02*	*2012*	*2001/02*	*2012*	*2001/02*	*2012*
Food & non-alcoholic drinks	8	9	10	11	11	12	14	14	16	15
Housing, fuel & power	15	24	8	13	8	11	11	12	15	16
Transport	15	12	15	13	16	14	13	13	9	9
Total	**38**	**45**	**32**	**37**	**34**	**37**	**38**	**39**	**40**	**40**

Table 2. Changes in percentage of total household consumption occupied by essentials by age of HRP, 2001/02 and 2012[9]

[7] For further explanation of this term, please see Appendix 1.
[8] ONS *Family Spending*, editions published in each year between 2001/02–2012

These data clearly show a sharp contrast in how the rising cost of essential goods has affected households of different ages. Rising costs and falling real wages have meant that younger households have had to absorb a dramatic increase in the proportion of their household consumption which goes on these necessitates compared to older households, who on this measure appear to have weathered the "cost of living crisis" somewhat better.

Households where the Household Reference Person is in their 20s are clearly feeling the effects of the fall in the value of their wages which was highlighted in the first section of this report, as basic necessities now account for almost half of total household consumption among this age group. This is a much larger proportion than for any other age group, although households in the 30–49 age category have also seen a sharp rise. Table 2 shows that the rising cost of housing, fuel and power accounts for nearly the whole of the increase among both of these age groups, with the proportion of household spending on food remaining essentially flat, and the proportion spent on travel down slightly. The data also show that households in the oldest age cohort, the over-75s, devote a relatively high proportion of their total household consumption towards these necessities (40%), but they were also the only age group for whom the total share didn't increase during the period under consideration.

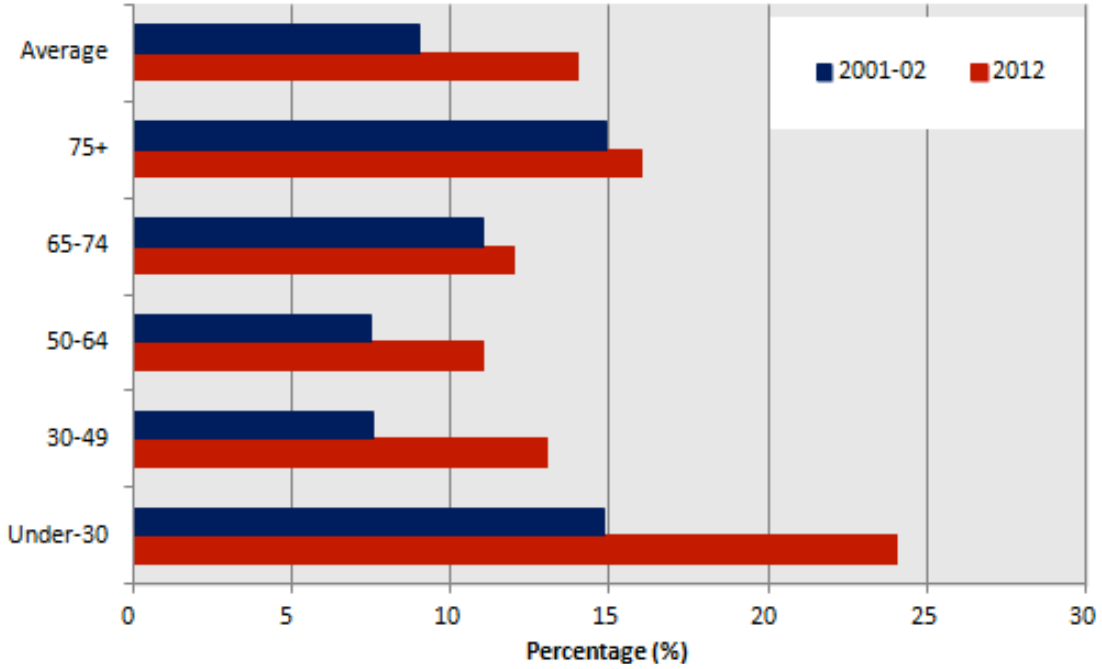

Fig.6 Changes in housing, fuel and power as a proportion of total household consumption by age of HRP between 2001/02 and 2012[10]

Fig.6 looks at how the proportion of household consumption which is devoted to housing, fuel and power changed over the decade to 2012 in greater detail. While this has risen for households in all age groups, those in their 20s have endured the most dramatic increase by far. For this group, the cost of renting and heating a home now accounts for almost a quarter of total household consumption, up from around one sixth a decade ago. This was the biggest increase

[9] Ibid.
[10] Ibid.

of any other age group, and it shows how increasing housing costs have fallen on "Generation Rent" much more heavily than any other age cohort.

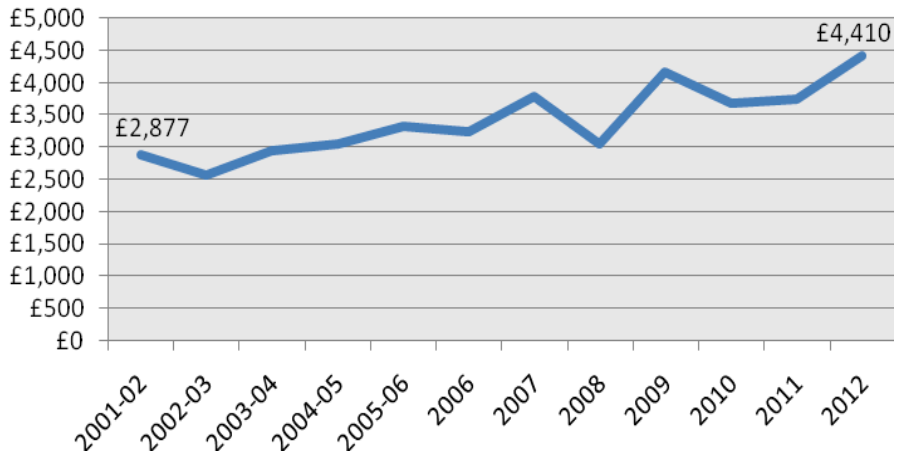

Fig.7 Changes in average annual expenditure on net rent by households where the HRP is under 30, 2001–02, Real Terms[11]

Fig.7 examines housing costs by looking specifically at spending on net rent (the cost of rent minus any housing benefit which they received). It reveals that the average annual net rent paid by households where the HRP is under 30 has risen by 35% in real terms during the last 10 years. Rising rents have been the most significant driving force behind the growing cost of housing, fuel and power, and it is largely because of this that the basic necessities of renting, heating and powering a place to live now account for almost half of total consumption by households among this age group.

Although spending on rent briefly declined at the beginning of the recession, it has continued to rise since then during a period when workers in their 20s have been experiencing an especially painful decline in the real value of their wages. These two forces placed an increasingly heavy burden upon Britain's young workers, as Fig.8 demonstrates starkly:

[11] Ibid.

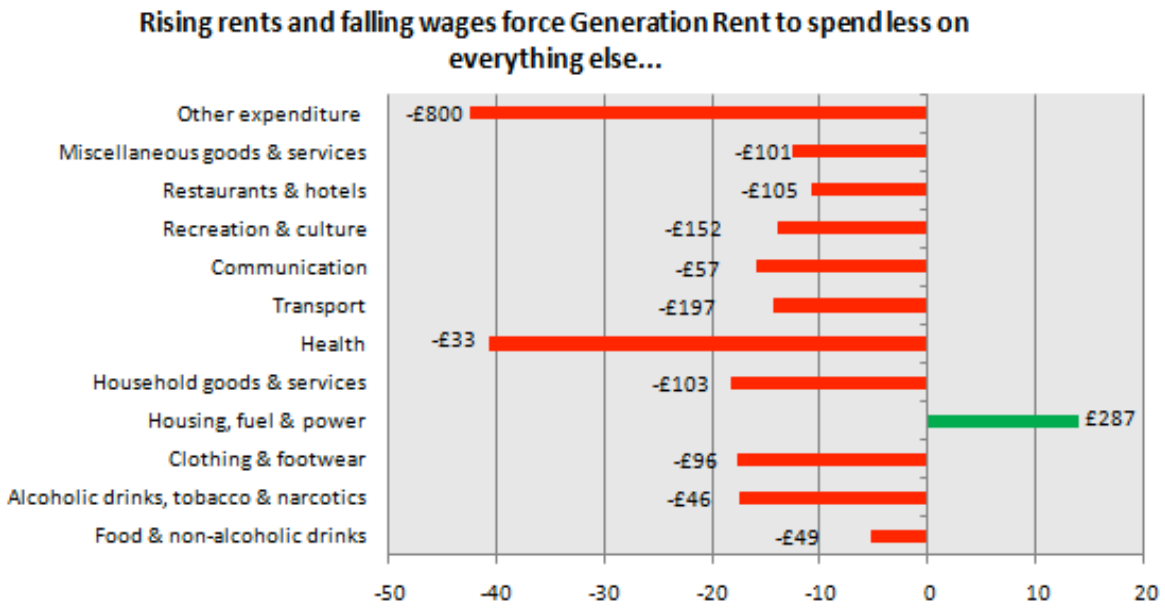

Fig.8 Average percentage change in annual expenditure per year for each household member within households where the HRP is under 30 between 2007 and 2012 (2012 prices)[12]

Fig.8 shows how much spending on different types of goods (defined by the ONS Family Spending survey) changed between 2007 and 2012 among households where the HRP was under 30. This was when prices for many goods were rising while real incomes were falling, and the data clearly show that the spending power of young people was particularly squeezed. Fig.9 displays the same data for households aged 65–74.

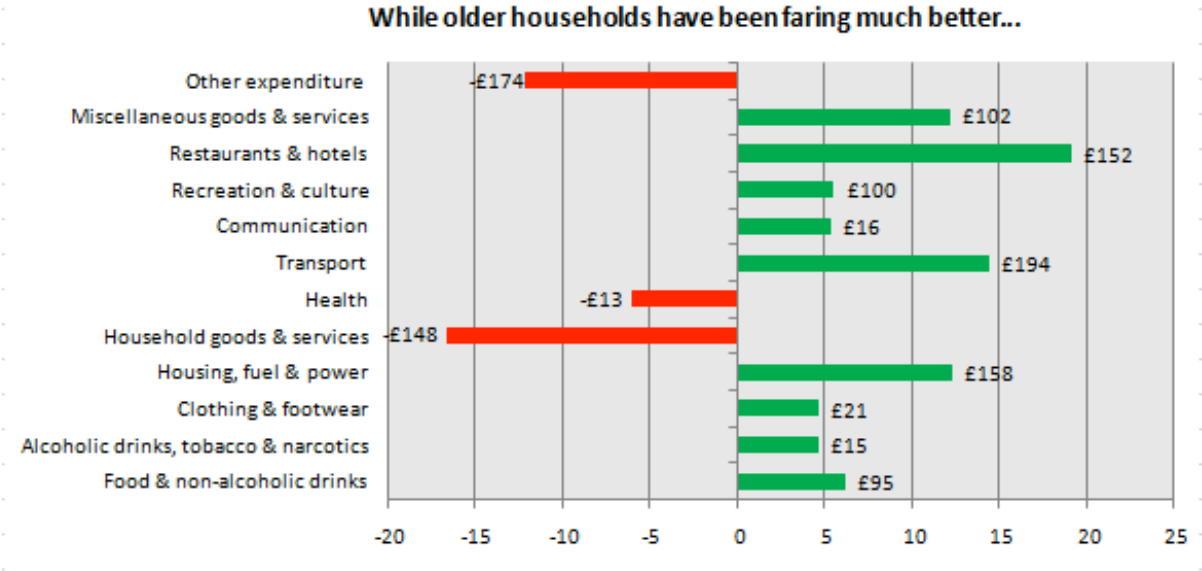

Fig.9 Average percentage change in annual expenditure per year for each household member within households where the HRP was aged 65–74 between 2007 and 2012, 2012 prices[13]

This suggests that although all both younger and older generations have taken a hit to their spending power since the beginning of the recession, older households have been able to

[12] Ibid.
[13] Ibid.

weather the storm somewhat better, as expenditure on items where increased spending wasn't essential, such as eating out, recreation and culture and clothes and footwear, have enjoyed a dramatic rise.

Although increased consumption among older households may provide a measure of stimulus to the UK economy, if young people lack the spare cash to finance saving and consumption beyond the bare necessitates of life then it will have major ramifications for British society as a whole in the longer term.

Conclusion

This report has demonstrated conclusively that workers who are in their 20s are bearing the brunt of Britain's "cost of living crisis", owing to a toxic combination of declining real wages and rising costs for the necessities of life, especially the cost of housing. This has forced younger households to direct a much greater proportion of their total household consumption towards spending on vital domestic goods than was the case ten years ago, a trend which potentially has serious knock-on implications for their ability to achieve long-term financial ambitions such as saving to buy a property or having children. This is also bad news for the wider British economy, as it means that aggregate spending on other categories of goods is likely to be suppressed.

The data also points towards a worrying trend, as real wages will have to grow very rapidly among workers who are currently in their 20s if they are to match the level enjoyed by the current generation of workers who are middle-aged. It seems inevitable that many of today's young workers will find that their lifetime earnings are "scarred" by the misfortune of being young during a severe recession, permanently affecting their ability to consume for decades hence.

There is clearly a desperate need for policy-makers to do more to address the cost of living crisis affecting young workers, especially the rising cost of housing and the declining value of wages. Hopefully, this report will prompt greater action on these issues, as the problems of today's younger generation are not going to go away by themselves.

Appendix 1 – Detailed Methodology

Earnings

- All data on median gross annual earnings were taken from the editions of the Annual Survey of Hours and Earnings published by the ONS between 1997 and 2013. These surveys are available from the following web link: http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/index.html
- Data was adjusted for inflation using an annual April to April CPI index covering the period between 1997 and 2013, based on the all-items annual CPI index produced by the ONS.

Consumption

- All data on household consumption were taken from the annual ONS *Family Spending* publication for the years 2000–2011. This is a survey that measures the weekly outgoings among a weighted sample of typical UK households on a wide range of different items of expenditure for various goods and services. The data are broken down by a number of variables, including the age of the Household Reference Person for each household within the sample, which acts a proxy measure for typical spending among each age group.
- "Household Reference Person" (HRP) is a term used by the ONS that refers to the individual within a household in whose name the property where they reside is owned or rented. If an address is registered jointly then the person who has the higher income is recognised as the HRP; if they both have the same income then the person who is older is recognised as the HRP.[14]
- Inflation adjustment of figures was carried out using the same index that was used to adjust earnings data.

[14] Office for National Statistics (2012) *Demographic Information, Household Composition and Relationships* Newport: ONS