

# Bridging the generational divide in the UK

People of my generation grew up with a set of intuitive assumptions about human progress: hatred and prejudice would give way to reason, democracy would displace authoritarianism, and the economic good times would roll and roll.

Among those assumptions was the strong sense that we would live to enjoy a better quality of life than our parents. For much of the 20<sup>th</sup> century, the statistics bore that out. Average incomes rose with [each successive generation](#).

No more. For Generation Y—the so-called “millennials” born between 1980 and 2000—the new century has brought a historic reversal of fortunes and a growing sense of pessimism.

UK polling conducted in 2016 found that 54% of people think today’s 18-35 year olds will have a worse life than their parents’ generation, which is a dramatic collapse in confidence since 2003, when only 12% of the public held that view.

In large part, the differential impact of the financial crisis is to blame. While all ages have experienced wage stagnation since 2008, younger cohorts have been hit particularly hard. For many, the wage squeeze has come early in their careers when pay progression is normally at its most rapid. As a result, the oldest millennials (born 1981-85) are now earning some £40 (about US\$50) per week less around the age of 30 than those born 10 years earlier [earned at the same age](#).

At the same time, younger people are increasingly struggling to accumulate the two major assets that my generation always took for granted: a pension and a home.

Private pension schemes are now less generous on average, and the state pension will replace a smaller share of earnings.

But the real scandal is in housing. Here, the market is fundamentally broken, due to inadequate supply, and first time buyers are paying the price. The proportion of 25-34 year olds in the UK who own their own home was 67% in 1991, but had declined to 36% by 2013-14. The trend was even more striking for those aged 16-24, where home ownership has declined from [36% in 1991 to 9% in 2013-14](#). No wonder that the under-50s own only [18% of the UK's property wealth](#).

By contrast, older generations have been very effectively sheltered from the economic headwinds. The over-60s are the only age group [to have become better off](#) since 2007/08. From 2010 to 2015, the average British household saw its income fall by about £500 as a result of tax increases and spending cuts, yet the average two-pensioner household took [a hit of just £23](#).

Changes to welfare policy have exacerbated the divide. [The Resolution Foundation estimates that by 2020](#), compared with pre-crisis levels, working-age benefits will be 9% lower per person, child benefits 12% lower and pensioner benefits per pensioner 19% higher. Other perks which are specific to pensioners persist: winter fuel allowance, free bus travel, free TV licences.

Intergenerational inequality is aided and abetted by the fact that younger people are much less likely to vote than older people. 43% of 18-24 year olds voted in [the UK General Election in 2015](#), compared to 78% of over-65s. As populations age across the developed world, the “grey vote” can only become more significant.

I would like to offer some tentative first steps towards restoring balance to this desperately unbalanced state of affairs. Similar problems exist across the developed world, but the solutions offered here are specific to the UK.

First, we need to rebalance the welfare system. Further cuts cannot and should not come exclusively from working-age households. Universal, non means-tested pensioner benefits like universal TV licences and winter fuel payments are impossible to justify, while the “triple lock” (by which pensions are uprated annually by inflation, earnings, or 2.5%, whichever is greater) is prohibitively expensive in the long term. The task of finding a sustainable replacement—perhaps a “double lock” linking increases to prices and earnings, but not a guaranteed 2.5% in all circumstances—should fall to a cross-party commission.

Second, we must correct the chronic undersupply of housing through a massive, publicly-underwritten house-building programme. This will require not only money but innovative political solutions to prevent a stand-off between central government and local authorities opposed to new developments.

Finally, I believe it is time to consider giving young people the opportunity to shape the political future by considering compulsory voting (with an option to abstain on the ballot paper). The evidence from Australia suggests this can counter the “grey vote” bias and force politicians to appeal to the whole electorate.

As the Resolution Foundation has argued, renewing the intergenerational contract is a shared challenge for our times. It requires bold thinking and political courage from a generation of leaders who have enjoyed the good times, and must now act to prevent a worrying divide from becoming an unbridgeable gulf.



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[OECD Forum 2017 issues](#)

[OECD work on youth](#)

[OECD work on social and welfare issues](#)

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## [US manufacturing decline and the rise of new production innovation paradigms](#)

Between 2000 and 2010, US manufacturing experienced a nightmare. The number of manufacturing jobs in the United States, which had been relatively stable at 17 million since 1965, declined by one third in that decade, falling by 5.8 million to below 12 million in 2010 (returning to just 12.3 million in 2016). Certainly, the 2007–08 recession accelerated the disruption, but the causes were also structural, not simply financial. There was trouble with capital investment, output, productivity, and trade deficits. Contrary to what many believed, productivity gains due to robotics or automation have not been the cause of manufacturing employment’s decline; the sector has been hollowing out.

This economic disruption has resulted in growing social disruption. While most people in the US assumed the nation was becoming one big middle class, instead a working class facing declining incomes came into clear, angry view during the 2016 US presidential election. The median income of men without a secondary school diploma fell by 20% between 1990 and 2013; for men with secondary school diplomas or some college, median income fell by 13%. The decline of US manufacturing—traditionally a route to the middle class—hit these groups particularly hard. There is now a major income inequality problem.

The question is: can the US manufacturing sector spring back? A core idea now being explored in the US is that new production paradigms could transform the sector. We have seen these new paradigms before: application of steam power in the UK, development of interchangeable machine-made parts, then mass production in the US, and the creation of quality manufacturing in Japan. The United States is now competing with low-wage, low-cost producers, particularly in Asia. Could the economy use its still strong innovation system to develop new production paradigms to drive up production efficiency and drive down costs so it can better compete?

Innovation also carries its own rewards; production innovation can enable more innovative—and competitive—products. Scientists and engineers are now telling us that there may be breakthroughs—new paradigms—available in a series of fields that could significantly change the way we produce complex, high-value technologies and goods, enabling dramatic production efficiencies. Advanced materials, digital production, photonics, lightweight composites, 3D printing, assistive robotics, revolutionary fibres, nano and biofabrication, all offer breakthrough production paradigms. These new technological advances must, in turn, be accompanied by new processes and business models to implement them. While new jobs may not necessarily be created at the production moment, job growth upstream and downstream of production is likely, given manufacturing's role as the major job multiplier in the connected value chains of firms.

Developing such new paradigms is the core idea behind advanced manufacturing in the US. Advanced manufacturing institutes as a means to nurture such paradigms are now being explored in depth across 14 new institutes, each organised around a potential paradigm. Created through collaborations between industry, universities, and state and federal governments—and cost-shared by all—they are undertaking collaborative research on advanced technologies, shared test beds and demonstration facilities, and new approaches in workforce training. They are an attempt to apply Germany's Fraunhofer Institute model in a US setting, and borrow from the earlier US Sematech collaborative model that in the 1980s and 1990s applied advanced production processes to revive its semiconductor leadership.

This is a highly complex model: each institute typically joins over a hundred small and large firms, regional universities and community colleges, and state and regional agencies, with backing from federal R&D organisations. These R&D agencies are used for funding single scientist principal investigators, not a swarm of diverse collaborators. One federal official has compared creating a manufacturing institute to forming a new nation. The institutes must operate at a regional level because manufacturing firms are embedded in regional ecosystems, but must also bring their new production technologies into implementation at a national level, a complex regional-national balancing act.

The institutes have also become a new delivery mechanism for workforce education, a growing challenge for US manufacturers. If advanced manufacturing is to be implemented, it must have workforce and engineering communities trained for it. The United States has perhaps the most decentralised labour market of any developed economy, which makes such a major "up-skilling" project difficult. The institutes, with their ability to bring together manufacturers, community colleges, state programmes, university curricula, and online tools, with new technology development and testbed facilities, are now pursuing this task.

Perhaps the most interesting feature of the US advanced manufacturing effort is the wide range of diverse technologies aimed at by particular institutes. While some countries are working on single-shot efforts to bring the internet of things into a manufacturing setting, the United States has a shotgun approach, pursuing a wide range of technologies, from materials to digital,

to bio, to nano. A big issue in this diverse approach will be pulling the individual institute strands together into a new system. The future factory will not be organised around single technologies; it will merge and connect a series. The institutes are starting to come together to form a network, called ManufacturingUSA. A critical task for this new network will be to turn the institutes' advanced technology strands into an entirely new production system. Hopefully, the potential of this new innovation model will continue to be tested.

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**[The Bill Frenzel Champion of Free Trade Award – Economic Club of Minnesota](#)**

Remarks by Angel Gurría

Secretary-General, OECD

Minnesota, United States, 19 April 2017

(As prepared for delivery)

Dear Carla, Jim Jones, Mack McLarty, Congressmen Erik Paulsen and Tom Emmer, Ladies and Gentlemen, Friends:

It is a great honour to receive the 2017 [Bill Frenzel Champion of Free Trade Award](#). I want to thank the Economic Club of Minnesota for this distinction.

With Bill Frenzel, I share a strong belief in free trade. We both contributed to the shaping of the current international trade system, representing our countries in different trade organisations; we both helped promote the North American Free Trade Agreement (NAFTA); we shared a passion for public service and, most importantly, for international co-operation. So I feel I am in the right place.

The fact that I am sharing this award with my friend, Bob Zoellick, is a source of great pride and satisfaction. An economist, lawyer, diplomat, trade negotiator, world banker, trouble-shooter, and one of the reasons why I was elected to this job. A true giant! We are surrounded by people who are proud to be friends of trade, which is also encouraging. Especially today, when we are witnessing a fundamental re-examination not just of trade policy, but of the open, rules-based international system that we so far took for granted.

### **Globalisation is leaving many behind**

We have to begin by acknowledging that many people are unhappy. And rightly so. In the wake of the crisis, life has not been getting any better for a lot of them. They are worried that their children's lives will not be better than their own. They believe that the system is not working for them; they feel that it is unfair; and there is increasing evidence that many of them may actually be right.

We need to take these concerns seriously and make them our own.

The OECD has been trying to do just that.

We've been denouncing the low growth trap in which the world economy finds itself, which can put at risk the promises we have made to today's workers, tomorrow's retirees and the next generation. Not a simple task when everyone is so eager to be professionally optimistic.

We have been showing that while some are doing very well, many are being left behind.

We have warned about a rising productivity gap between frontier firms and the rest; which also means a gap in wages and opportunity for their workers.

We have documented how the world is mired into a sort of Bermuda Triangle of [inequality](#) (of income, wealth, and opportunity). In OECD countries, the

richest 10% of the population now earn, on average, around 10 times more than the poorest 10%. One generation ago, it was 7 times.

And we have demonstrated that quality of life isn't getting better for most. In fact, life is even getting shorter for some: in the US, life expectancy is actually falling. The American dream for many remains just that: a dream. It's getting harder to move up in the world financially, educationally, or otherwise – particularly if you are in the lower or even in the middle class.

Digitalisation, a sort of “globalisation on steroids”, is causing further anxiety: on average, across countries, 9% of jobs are at high risk of being automated, while for an additional 25% of the workforce, half of the tasks will change significantly because of automation. These are sources of growing concern, since many workers who have lost their jobs in manufacturing either remain unemployed, or are moving into jobs with lower pay and less security.

### **Trade should improve people's lives**

So why does the OECD back open markets? Because we can prove that when borders close and countries isolate themselves, societies become less secure, less prosperous, less fair, and less free. Open economies grow faster than closed economies. The more a country trades, the more technology and ideas spread; workers get more done, and higher productivity leads to better wages. Ultimately, more trade means more jobs!

The OECD does not champion [trade](#) for trade's sake, but as a way of improving people's lives. Trade has helped cut poverty, creating new markets and opportunities both in OECD and developing countries. This is crucial. More prosperity and opportunity abroad also means more security at home. Trade is opportunity! Trade will enhance stability!

Protectionism harms those it's supposed to protect. Trade delivers affordable products and services that underpin everyday wellbeing. It gives people the ultimate freedom of choice. When you tax imports, costs go up for everyone, but it hurts most those who can least afford it.

We're told that exports are good and imports are bad; that you win by having fewer imports. But trade is more like a relay race; North America is an eloquent example. US technology may start a product, Mexican workers may carry it forward, Canadian workers may add value, and the US may finish it and sell it. No matter who is holding the baton when that product crosses the finish line – all win together.

These [global value chains](#) mean that our economies are now more interconnected than ever before. Almost two thirds of global trade is in intermediate inputs that are imported and used to make other products, including for export. Raising tariffs is a shot in our own foot, because it will put small- and medium-sized businesses out of business, and encourage large businesses to send more jobs overseas; because even if you close off trade, technology will still define which jobs stay and which go, and how the jobs that remain get done.



## The way ahead

So what do we do? It is time to move from playing defence on trade to playing offense on a host of other policies that make the system work for all. We must move the ball forward on lifelong learning and skills. Move the ball forward on infrastructure. Move the ball forward on new opportunities for hard-hit regions. Move the ball forward on going digital, both for large firms and for SMEs, to increase productivity.

We all know the basics of trade competitiveness: domestic policies that encourage opportunity, innovation and competition.

We need to make it easier for small- and medium-sized businesses. Cut the tariffs, make trading cheaper. Remove the barriers to services that raise costs for all sectors. Regulate efficiently and fairly to promote competition. Keep credit flowing. And remember, nothing works without the rule of law.

But trade policy can't fix everything on its own – and we should stop pretending that it can.

Trade disrupts, that's one way it works. But we need to ensure that temporary setbacks that can raise unemployment in a single household to 50 percent, or 100 percent, do not turn into lifelong disadvantages for parents, for children.

This means having adequate programmes to support people in finding new jobs. It means social protection systems that get people back on their feet and prevent lasting hardship.

It also means thinking ahead. Work is changing, and so must labour markets and social protection systems. At the OECD, we're looking again at the toolkits to help governments be better prepared. In just two weeks, the OECD will release its [Skills Outlook](#) on how to equip everyone to get and keep good jobs in a world of global supply chains.

But inclusion is also empowerment and voice. We need to make trade policy-making more open.

Not everyone can be in the negotiating room, and we won't always agree, but dialogue can help identify new solutions. People must be able to debate and understand the trade-offs.

Context matters, geography matters. We need to go local, engage with people where they live. We need to reconnect trade with everyday experience.

But we also need to make the international system work better, using the full range of available tools. Sometimes this means rules, sometimes voluntary standards, other times dialogue and transparency. But from trade, to taxes to labour to the environment, we need international economic co-operation to make the system free, fair and open. We're talking about free and fair trade – this means saying no to protectionism, subsidies, and currency fiddling. But let's make sure that we get the diagnostic right, lest we mistake the

enemy and end up fighting the wrong battle while not addressing the true causes of the lack of productivity and competitiveness.

We need to fix the rules where we have gaps and unfinished business – as is the case in agriculture, in competition, in investment, and in services. We need to bolster the policies that make the system fairer, like those on [taxes](#) and [responsible business conduct](#).

Everyone must play by the rules. We have to be serious about implementing, monitoring and enforcing what we agree.

Dear Friends:

Soon, the Minnesota Vikings will select new players in the National Football League. In this American ritual, the lowest ranked team gets first pick, the top team last. This isn't altruism. Smart American football officials understand that if the bottom teams don't get a leg up, and the top teams remain unbeatable, fans will lose faith that their team can win, and will give up on the game. So the system rebalances towards fairness, every year.

We need to do the same. We must not back away from what we know is right – a free, fair, open, rules-based, inclusive trading system that works better for more people.

But only truly integrated domestic and international policies – focused on opportunity and well-being as the ultimate goal – can help trade achieve what our forefathers intended when they crafted the modern international trade and economic system after a bloody war: to bring about better lives for all.

Thank you very much.

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## **[Wales should continue reforms to boost quality and equity of school system](#)**

28/02/2017 – Wales should continue its efforts to reform the curriculum and raise the standards of teaching in order to improve the quality and equity of its school system, according to a new OECD report.

[The Welsh Education Reform Journey](#) analyses the reforms adopted since 2014 and notes a shift in the approach to school improvement away from a piecemeal and short-term policy orientation to one with a long-term vision involving key stakeholders.

The commitment to improving the teaching and learning in Wales's schools is visible at all levels of the education system, says the report.

“Sustaining this commitment, deepening investments in key policy areas and strengthening the implementation process will be central to realising the country’s ambitions for education and society over the long term,” said Andreas Schleicher, OECD Director for Education and Skills, launching the report in Cardiff with Kirsty Williams, Wales’ Cabinet Secretary for Education.

The focus of continuing reforms should be on developing a high-quality teaching profession, making leadership a key driver of education reform, ensuring equity in learning opportunities and student well-being, and moving towards a new system of assessment, evaluation and accountability that aligns with the new 21<sup>st</sup> century curriculum.

Among the report’s recommendations are that Wales should:

- Continue developing a national approach to professional learning and build capacity for implementation of the new curriculum.
- Move forward with the establishment of the National Academy of Educational Leadership and speed up development of leadership standards.
- Consider moving towards a national needs-based school-funding formula that ensures the effective allocation of funds to schools.
- Continue strengthening Wales’ school improvement infrastructure.
- Ensure coherence across the various reform initiatives to prevent fragmentation. The government should clarify how different reforms and policies relate to each other as well as the roles and responsibilities of teachers, school leaders, local authorities and regional consortia.

The report is available at

<http://www.oecd.org/edu/school/thewelshededucationreformjourneyarapidpolicyassessment.htm>

For more information, or to speak to the report’s author, journalists should contact [Spencer Wilson](#) of the [OECD’s Media Division](#) (tel. + 33 1 45 24 81 18).

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## **United States: Ambassador, Permanent Representative to the OECD**

### **Awaiting nomination**

As of 20 January 2017, and until the nomination of the new Permanent Representative, the Delegation is headed by Mr. Peter HAAS, *Chargé d’affaires a.i.*

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