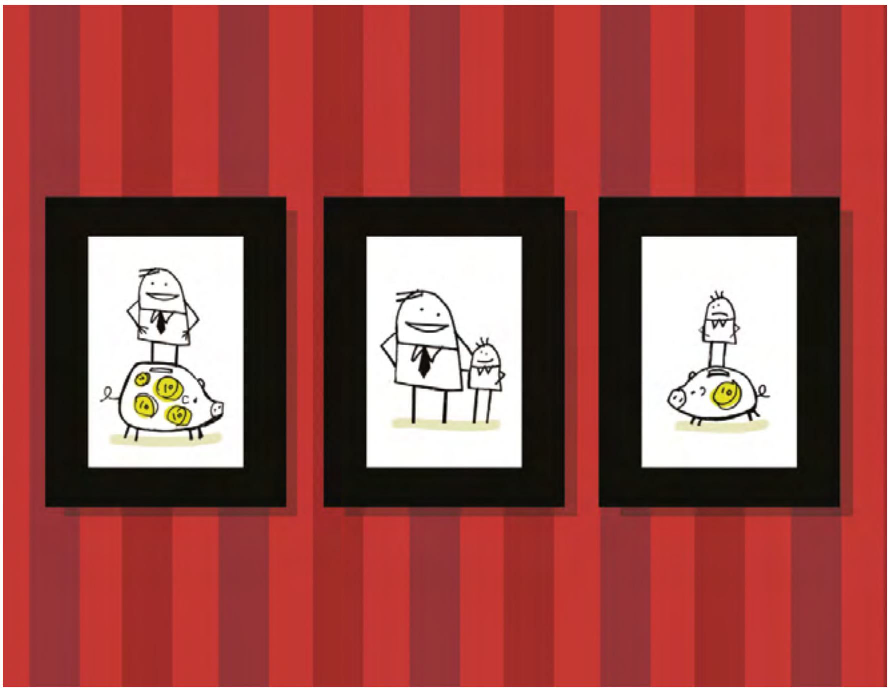
Generation gap: young Brits less likely to 'do better' than their parents

Doing better financially than your parents is an important marker of success, and for much of the last half century, real earnings growth in the UK was strong enough that most young people achieved this milestone. But research by **Jo Blanden**, **Stephen Machin** and **Sumaiya Rahman** shows that plummeting earnings since the Great Recession mean that fewer young adults now are earning more than their fathers.



Comparing the standard of living today with that of the past is crucial to understanding the UK's economic and social health. In fact, both in our everyday lives and in studies in social science, we often assess economic progress by comparing our standard of living with that of our parents.

A 2017 report by Ipsos MORI shows that only 36% of 'millennials' (the generation born between the early 1980s and the mid-1990s) believe that they will be financially better off than their parents. The figure among 'baby boomers' (those born between the end of the Second World War and the mid-1960s) is about 20 percentage points higher.

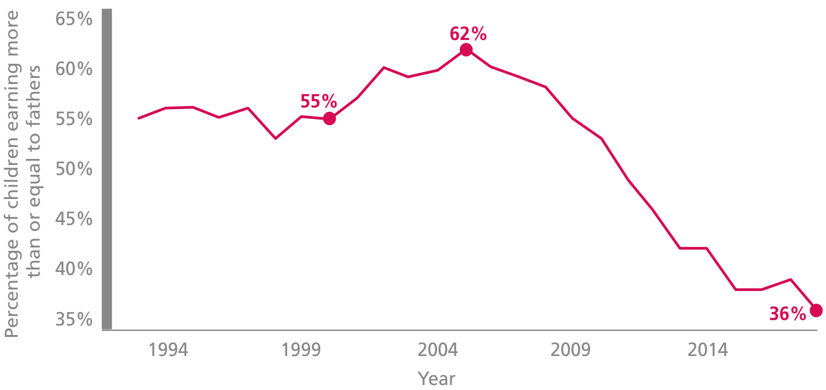
In our research, we show that this pessimistic outlook is reasonable given the recent economic experiences of today's younger generations. 'Absolute intergenerational mobility' – measured as the fraction of young individuals who earn, in real terms, as much or more than their fathers at the same age – has fallen by more than 20 percentage points in the decade since the Great Recession of 2008-2009.

In 2005, more than half the young adults aged around 30 earned as much or more than their fathers (see Figure 1). By 2018, there had been a dramatic fall, with only about one third achieving this. In other words, the majority of young adults face economic decline on this measure, rather than progress.

Is the fall in absolute mobility unique to those at the start of their careers? It does not seem so, as prospects are poor even for those at around the age of 40, who would be expected to be at a more stable stage in their careers.

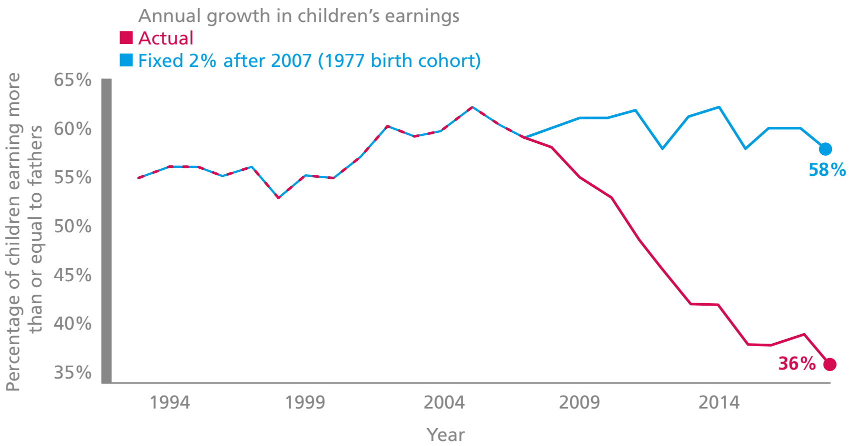
That said, the magnitude of the fall in

Figure 1:
Trend in absolute mobility in the UK, 1993-2018



Source: Authors' calculations. **Notes:** Sample includes 28-32 year old young adults and fathers who reported positive wages. Data are from the Quarterly Labour Force Survey (1993-2017), the Family Expenditure Survey (1968-2017) and the British Cohort Study (1970).

Figure 2:
The impact of wage growth on absolute mobility



Source: Authors' calculations.

Absolute mobility measures whether people enjoy a higher quality of life than their parents, regardless of their family background

absolute mobility is lower. In other words, although both millennials and 'Generation X' (their immediate predecessors, who were born between the mid-1960s and the early 1980s) are doing worse on average than previous generations, millennials have been worse hit since the Great Recession.

Falling real wages

There are three drivers of absolute mobility: economic growth, as measured by the growth of real weekly wages; wage inequality; and relative intergenerational mobility. We find that the fall in real weekly wage growth is central to the fall in absolute mobility.

Between the 1980s and the early 2000s, median real weekly wages grew at around 2% a year. Although the rate of growth slowed at times, it was almost guaranteed that real wages would be higher each subsequent year, even in recessions. Unfortunately, the Great Recession brought this experience to an end. Wage growth since 2009 has no longer kept pace with price inflation. Consequently, the UK has experienced an unprecedented fall in real weekly wages.

Falling real wage growth is central to the fall in absolute earnings mobility

Between 2008 and 2017, median real weekly wages fell by around 5% (Costa and Machin, 2017). Not only are the real weekly wages of young adults falling, the comparison group of parents for these young adults benefited from strong wage growth. As a result, these young adults face a double hurdle in catching up with the wages of their parents' generation.

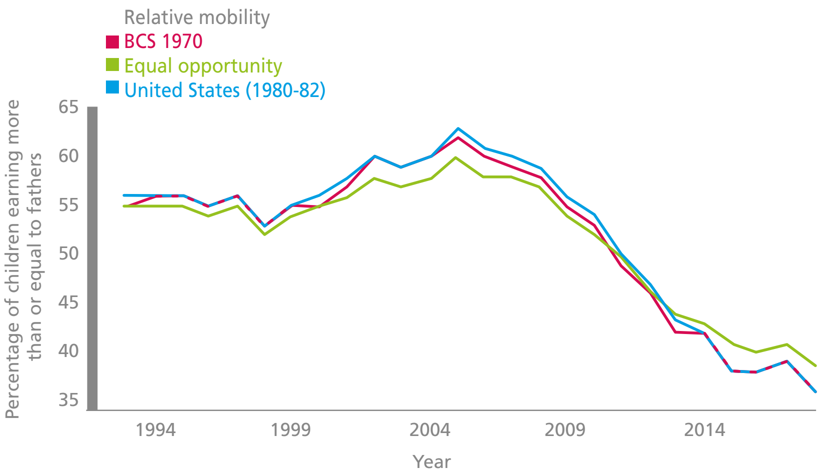
But what if wages had not fallen? How much would this change the picture? We can check this by calculating what wages could have been had they continued to grow at 2% annually (as in the pre-recession trend), and re-estimate absolute mobility (see Figure 2). In the real world, absolute mobility began to fall from 2007 and was only 36% in 2017. In the counterfactual scenario, on the other hand, absolute mobility remained broadly constant and was much higher at 58% in 2017.

Changes in relative mobility

Relative mobility, another factor that determines absolute mobility, is what the Social Mobility Commission defines as 'the link between a person's occupation or income and the occupation or income of their parents'. When this link is strong, children born to poorer households remain poorer in adulthood than children born to richer households, and vice versa.

If everyone made twice as much as their parents, they would experience upward absolute mobility, but there would be no relative mobility as their positions in the income distribution would depend on their parents' earnings. In other words, relative mobility measures where people end up on the economic and social ladder relative to their parents' ranking, while

Figure 3:
Absolute mobility under different levels of relative mobility



Source: Authors' calculations.

This article summarises 'Falling Absolute Intergenerational Mobility' by Jo Blanden, Stephen Machin and Sumaiya Rahman.

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absolute mobility highlights whether they enjoy a higher quality of life regardless of their family background.

Traditionally, economists have been mostly interested in relative income mobility. In the UK, relative income mobility worsened for children born in 1970 compared with those born in 1958 (Blanden et al, 2002). But it has probably been stable since then, although it has not been measured in exactly the same way (Blanden and Machin, 2008).

To get a better understanding of how changes in relative mobility might alter the experience of absolute mobility, we assume two alternative scenarios. We explore what would happen if there were no link between people's earnings and their parents' wages (what we call 'equality of opportunity'), as well as under lower relative mobility, at the level prevailing in the United States (Chetty et al, 2014). These can be compared with the baseline scenario where relative mobility is at the level found for the British Cohort Study (BCS) of people born in 1970.

The results show that the level of relative mobility has little impact on the trend in absolute mobility (see Figure 3). Both the level and trend in mobility are very similar under all three scenarios. The role of relative mobility in determining absolute mobility is limited, at least when real earnings are falling fast.

Conclusion

Absolute mobility is an important marker of economic progress, and essential for evaluating the UK's economic and social health. For much of history, economic growth ensured that each subsequent generation did better than the last, rendering true the saying that the rising tide will lift all boats.

But this is no longer true. Our research highlights the need for serious discussion of how real wages can be boosted and, if not, other policy options that could be implemented to reverse the trends of falling absolute mobility.

Earning more than your father is only one way of measuring economic success. We might also care about how family incomes compare. Absolute mobility measured by household income also reveals a declining trend for millennials, although not as steep as for earnings. International comparisons show that absolute income mobility started to decline earlier in the United States – in the early 2000s. But declining absolute mobility is not inevitable with Finland, Norway and Sweden managing to avoid this fate (Manduca et al, in progress).

Further reading

Jo Blanden, Alissa Goodman, Paul Gregg and Stephen Machin (2002) 'Changes in Intergenerational Mobility in Britain', CEE/Education and Skills Discussion Paper No. 26 (http://cep.lse.ac.uk/pubs/download/CEE/CEEDP26.pdf).

Jo Blanden and Stephen Machin (2008) 'Up and Down the Generational Income Ladder in Britain: Past Changes and Future Prospects', *National Institute Economic Review* 205(1): 101-16.

Raj Chetty, Nathaniel Hendren, Patrick Kline and Emmanuel Saez (2014) 'Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States', *Quarterly Journal of Economics* 129(4): 1553-1623.

Rui Costa and Stephen Machin (2017) 'Real Wages and Living Standards in the UK', CEP Election Analysis (http://cep.lse.ac.uk/pubs/download/EA036.pdf).

Ipsos MORI (2017) *Millennial Myths and Realities* (https://www.ipsos.com/sites/default/files/2017-05/ipsos-mori-millennial-myths-realities-full-report.pdf).

Robert Manduca et al (in progress) 'Trends in Absolute Mobility in North America and Europe'.