

AEJ Meeting with Lord David Willetts, President of the Advisory Council and Intergenerational Centre of the Resolution Foundation, October 23rd 2019

By Peter Norman

For journalists exhausted by the daily dramas of the Brexit process in Westminster and Brussels, the AEJ's meeting with Lord David Willetts on October 23rd provided welcome relief. David Willetts, an eminent Tory Party thinker, former universities minister and leading figure in the Resolution Foundation, an independent think tank focused on improving the living standards for people on low to middle incomes, instead provided an in-depth analysis of the social causes of Brexit and its likely future impact on the UK's economy and society as well as on the Tory Party.

He began by asking whether the Brexit vote reflected social ills, was a solution for them or possibly a mixture of the two. His own fear is that Brexit could exacerbate deep seated economic and social problems in Britain. For the Tory party, as it "becomes a Brexit party", the paradox is that the preoccupations of Brexit voting areas will come to matter more vis a vis those of its traditional support base.

Lord Willetts made clear that he had voted to remain in the European Union and favoured a confirmatory referendum on any Brexit deal. The 52% of voters who opted in 2016 to leave the EU were a coalition of the excluded and the insulated, he said. Those who felt excluded by economic and social developments in the UK were in themselves insufficient to secure a Brexit majority. Brexit also needed the backing of older voters for whom the performance of the economy didn't greatly matter and who were often motivated by cultural or attitudinal factors.

He singled out three social and economic issues that drove the Brexit vote.

i) A decline in real hourly wages since 2009. In that year of global economic and financial crisis, average hourly wages in the UK peaked at £14.30 for men and £11.20 for women. They troughed in 2014 at £13 and £10.60 respectively and are still below their peaks at around £13.40 for men and £11 for women.

Ironically, falling real wages were the result of a textbook economic policy success, Lord Willetts said. Britain's flexible labour market has absorbed the post-2009 crash economic strains by maintaining high employment at the cost of falling wages for many. In the 1980s, when David Willetts began his political career working for Prime Minister Margaret Thatcher, wages stayed high at the cost of high unemployment that impacted on 10% of the labour force.

But the drop in wages, linked to the fall in UK productivity growth from an annual 2.3% before the crash to 0.3% in the decade since, understandably made people "feel grumpy and fed up" -- a feeling worsened by a freeze in state benefits for people in work. Significantly, living standards were still depressed when Prime Minister David Cameron launched the Brexit referendum in 2016.

ii) Britain's "massive geographical disparities" underlined by London's dominance. Britain, unlike similarly sized countries in Europe, had no big cities that compared with the capital in wealth, pay and productivity growth. Away from London and its commuter towns, life was much tougher. This was particularly the case in small towns.

iii) Age differences and their impact on party politics. Britain has a society where the old are generally doing well and the young badly and this is highlighted in a "massive age divide" in terms of wealth. In the UK, the value of assets has grown to seven times gross domestic product as measured by incomes compared with just three times in the 1960s, 1970s and early 1980s. This greatly benefits the baby boomer generation born after the Second World War. "The point where this gets real", according to Lord Willetts, is when a person tries to buy a house on the basis of earnings.

One result, explored in the Q&A session that followed, is that home ownership among 25 to 34 year olds is currently at 26%, up slightly from a low of 25% in 2015 but far below the peak of for that age group of 50% in 1989. Taking all families into account, home ownership currently stands at 51%, down from the peak of 58% in 2003. Among baby boomers the home ownership ratio is 75%.

The UK's uneven wealth distribution is more important than income inequality, which according to Lord Willetts has not really worsened in recent years. Wealth inequality has pernicious effects, even though the median age for inheriting wealth is a relatively late 61. It makes inheritance more important than work for some. It strengthens the notion that society is unfair.

Given the increase in wealth, he suggested that capital taxes should be raised if more resources are needed to pay for social care and the National Health Service. He singled out council tax, the levy which finances local authorities and is based on housing, as ripe for reform. It is, he said, badly designed and "very regressive" because it fails to impose appropriate taxation on expensive homes.

The wealth divide between young and old impacts party politics: 70 year olds are three times more likely to vote Conservative than Labour, while 30 year olds are twice as likely to vote Labour than Conservative. As the Tory Party drifts towards being a Brexit Party, it will have to modify its electoral offering to attract those who struggle on low incomes and those, mainly elderly voters, who are not socially liberal. Lord Willetts said its prospects were quite finely balanced, with the possibility of it losing seats in London, the South East and Scotland against gains from Labour in Brexit voting areas.

Could things have been handled differently in the run up to the Brexit vote? In the Q&A session, Lord Willetts identified the income tax policy of David Cameron's coalition government as a "missed opportunity". The coalition raised the tax-free allowance -- the amount people can earn before having to pay income tax -- year after year. This was a very expensive policy. By boosting public spending instead, the government could have ended austerity sooner, in 2015.

Treasury spending rules were another problem that restricted the flow of infrastructure investments in deprived areas. On the other hand, the renewable energy agenda was proving a "surprisingly successful regional policy" in some areas which had been "left behind". Hull and Grimsby, northern cities badly hit by the end of deep-sea fishing during the 1970s, were now centres for the offshore wind industry.

Lord Willetts was asked about the impact of high immigration in fostering Brexit support. Resolution Foundation research found migration had only a very modest impact on the economy. But the issue influenced the average voter who was presented with propositions that muddled up economic and nativist factors. He suggested the heat was going out of migration as an issue, partly because the fall in the pound exchange rate against the euro made work in the UK less attractive to EU migrants and immigrants were now feeling less welcome than they did some years ago.

A good deal of discussion focused on the impact of demographic change on the Tory party and the country. In Lord Willett's view the Tory party could win another election by appealing largely to older voters over 50. But it would be at risk if reliance on baby boomers evolved into a "cohort strategy" that failed to attract succeeding generations of people as they aged.

That said, Britain's demographics showed that no surge of young people is in prospect. This was significant, Lord Willetts argued, because his analysis showed that years with an unusually high number of births were followed some 20 years later by social disruption -- which could bring benefits such as innovation and creativity but also social unrest. This pattern applied to the post Second World War bulge years, when births peaked at around 1 million in 1947 and which were followed by the swinging sixties, and the most recent "mini peak" years for births of 1991-92 which were followed by riots in London a couple of decades later.

In consequence, the Conservative Party's policies would be tilted towards keeping its older voters happy with an emphasis on social policy and upholding the NHS. This was the case with Boris Johnson's government. "The paradox of Boris", he declared, was that -- Brexit aside -- Prime Minister Johnson was not pursuing "nasty party" policies. Instead, David Willetts expected him to follow the sort of liberal policies he had pursued as Mayor of London, by changing the tax system to make it fairer and protecting workers' rights.

That meant Britain would not evolve into "a great big off shore enterprise zone" on the Singapore model. Ironically, post-Brexit Britain would end up looking more like a continental European economy.