ECCR and Intergenerational Justice
- is the system fair to all?

Stewardship is about ensuring a responsible use of resources for the present and future generations. If one generation exploits a resource and leaves nothing for the next, that is clearly unacceptable. So what obligations do the present generations have to their successors? Responsible stewardship of the economy and resources extends from Government to businesses and from society to individuals. The interplay between all four has propelled forward civilisation. This capacity to adapt and change means we should be hugely optimistic about the challenges we face. We believe Governments need to set ambitious targets backed up through regulation. In essence they need to support markets not businesses, they need to enable innovation and ensure services are properly provided to citizens without excessive exploitation of monopoly positions.

Most of us have a stake in our community and should feel proud in the country we live in with the services and opportunities on offer. Those who feel excluded, like asylum seekers or refugees denied the opportunity to work in their host countries, or people feeling marginalised in societies with increasing income inequality may feel the issues of current justice more pressing than issues of intergenerational justice. Looking across generations is not to deny fundamental injustices existing today.

Intergenerational justice demands that one generation must not benefit or suffer unfairly at the cost of another, an uncomfortable thought for the baby boomer generation. From the Old Testament prophets to Christ there is a line of Hebraic thinking that emphasises our duty as stewards of God's creation, and our duty to deal fairly with our fellow men and women, to husband and increase the goods that God has entrusted to us. Christ's teaching in the parable of the talents (Matthew 25) is that when entrusted with a resource we are expected to develop it and use it wisely so that we can return it, and what has been produced from it, when our term as steward is ended. The parable of the prodigal son (Luke 15) infers that Christ expected, as was the expectation of his day, that what a man had entrusted to him, he would pass on. You cannot love your neighbours and your heirs if you have robbed them of the resources that have made your lifestyle possible.

William Penn, in the 1680s, required new settlers in America to preserve one acre for every five cleared. The US Declaration of Independence, drafted by protestant Christians, says: "*We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness."* Thomas Jefferson composed the original draft of the Declaration of Independence and later entered into a long correspondence with James Madison. Madison is referred to as the 'Father of the Constitution', the key author of the Federalist Papers and 'Father of the Bills of Rights'. Jefferson was writing to Madison in the run up to the drafting of the Bill of Rights and he extrapolated on the theme of intergenerational justice. **'***The question whether one generation of men has a right to bind another… is a question of such consequences as not only to merit decision, but place also among the fundamental principles of every government… I set out on this ground, which I suppose to be self-evident, that the earth belongs in usufruct to the living*'.

The legal definition of usufruct hasn't changed since ancient Roman law, it is "*the right to make all the use and profit of a thing that can be made without injuring the substance of the thing itself*". In common law usufruct is more explicit in prohibiting the spoiling or destruction of property. Taken together, the Roman and Common law definition of usufruct provides that a tenant, or other interested party, is entitled to the beneficial use of the land and its fruits, but is prohibited from prejudicing future owners, or interest bearers, by using the land in a way that destroys or impairs its essential character or long term productivity. In other words we are the tenants and custodians, just stewards of God's creation. Without usufruct "*the pursuit of happiness"* and for many people even *"life"* would not be possible over generations.

These ideas were forward thinking but looking to the past and the biblical notion that God granted the world to Adam and Eve and their descendants. The Bible's mandate to "do justice" clearly demands that we steward the resources with which God has blessed us more appropriately.

The Bible is clear that the people of God must be people of justice and protect the poor. It is a commitment to care for those who are powerless, to speak for those who lack a voice. Doing justice means both caring for those who need us now and speaking for those who are yet to come. Climate change and growing national indebtedness risk placing an unjust burden on future generations; this is irresponsible and immoral. Climate change may be the ultimate game changer and most church bodies have now adopted resolutions committing them to low carbon sustainable futures, often involving commitments to renewable energy and disinvestment from some or all fossil fuels. But there are many other issues that also need addressing reflecting the current cavalier attitude to inter-generational justice: eg growing global indebtedness exacerbated by the growing liabilities of pension provisions which combine risk, potentially making whole countries insolvent and creating a reservoir of unfair obligations on future generations.

For Governments around the world, the last decade has been one of impossible choices. Automatic stabilisers in the financial system work by increasing debt in tough economic times. But debt can't be left to future generations to deal with and nor can those on low incomes more reliant on Government take more of the brunt of austerity in the UK, USA or Europe.

The recent accumulation of national debt isn't historically high. For half the previous 100 years our national debt has been higher than it is today, relative to national income. Fortunately rising inflation and growth rates combined with devaluation and productivity improvements along with the youthful baby boomer generation and unsustainable use of fossil fuels and North Sea oil tax receipts - came together in a moment of history that bought huge debts created by two world wars down to sustainable levels in the 1990s.

It is unlikely that these factors will come together again but there are some reasons for optimism. Rising levels of migration (if they continue!) will assist with demographics of an ageing population and, languishing productivity should rise with artificial intelligence and robots. But uncertainty over Brexit, attempts to curb immigration for social reasons, stagnating growth and wages, and rising costs of electricity production mean we shouldn't bank on growth and inflation bailing us out this time.

The steady increase in national debt as a percentage of GDP is a nation borrowing from the future. For as long as the economic cycle's budget balances, borrowing is simply good economics. When successive cycles increase indebtedness, we are maintaining a standard of living at the expense of generations to come.

Debt currently stands at 86.6% of GDP, an increase from 35.5% in 2007-08. In 1990-91 it was at 21.9% its lowest level in recent history. From 1982-83 to the financial crisis in 2008 debt has been below 40% as a percentage of GDP. There is no magic "right" level of debt. So long as markets and societies are comfortable with a level and its financing is sustainable, there is no crisis. Problems arise if interest rates rise alongside rising debt and affordability is called in to question. The political judgement is about what is affordable. Once a level of debt becomes on the high side the fiscal tightening required to reduce it is very painful – as we are currently witnessing. The risk is that for short-term electoral advantage politicians will promise the earth and postpone the short-term pain for electoral advantage – Corbyn did it blatantly in the election and May/Hammond are manoeuvring to appease now. The Utopian hope would be for cross-party consensus to reduce debt. The intergenerational justice issue is that an increase in debt creates a burden for the future, whatever the economics or affordability issues. Morally each generation has a responsibility to not increase the level of debt it leaves its successors.

Public Pension Liabilities

The pension came about when Otto von Bismark in 1881 united modern day Germany. He wanted a policy that would prevent separatist instincts. It was popular and successful. The pension though was for people over 70 years old in a time when life expectancy was under 50. In other words it wasn't a costly policy. The expectation was to work until you dropped dead.

David Willetts set out in 2010 in his book "The Pinch" how baby boomers – those born between 1945 and 1965 – have "stolen their children's future" through their cultural, demographic and political dominance. Willetts claims boomers have done well out of the welfare state taking out approximately 118% of what they'll put in. Moreover they own more than half of the £6.7tn national wealth: £1tn in liquid assets, £1tn in housing, £0.75tn in other physical assets and £0.75tn in pensions. He says the over-65s own £2.3tn and the under-45s own £0.9tn. Baby Boomers – Willetts believes – should share more with the young. The point is amplified by a recent report from The Resolution Foundation (The Generation of Wealth) which finds that increases in house prices have meant that those born 1946-65 own more than half Britain's £11trillion of wealth with those born between 1946 and 1950 having a fifth more wealth at age 65 than some born only 5 years before. Those born in the late 50s had 7% less at 55 than those born five years earlier. Those born in the 1980s had half the wealth at age 30 as those born 5 years earlier. 82% of housing wealth increases between 1993 and 2012-14 were due to property inflation rather than any active behaviour.

What all these statistics gloss over is that within the pensioner generation there are still wide disparities. Age UK estimates that 1.6m pensioners in the UK live below the poverty line and that a quarter of pensioners do not own their own house. Many pensioners are also involved in voluntary work, and care of grandchildren (not an "economic" activity in national statistics). However, pensioners on average are now better off than they were and have improved their lot at a time when many other groups in society have been squeezed.

The largest single item of welfare spending is the £89bn spent on the state pension – which under the coalition Government's triple lock increased by 18.7 per cent, considerably more than earnings growth or CPI inflation. So not only do pensioners get more out than they put in but their pension has risen dramatically with the triple lock. This rise is unsustainable. The triple lock is an increase in pensions by inflation, earnings or 2.5% - whichever is highest. In the 2017 election, Labour sought to maintain this policy and the Conservatives wanted to downgrade it to a double lock of just earnings and inflation (still likely to make the boomers becoming relatively better off). The inequity of this dramatic rise of pensions whilst the main state benefits for most working age people will be frozen for four years at April 2016 levels is horrific. The planned cut in working age benefits – especially if inflation rises – is an unprecedented cut in benefits which will cause some real hardship and which not even the Labour Party manifesto committed to reversing.

There have been some encouraging reforms – some of them brave – to future pension liabilities.

The move away from the triple lock which the IFS has branded as "not a sensible way to index over the longer-term" to a double lock would have been a sensible precaution against future spells of low earnings and inflation. Although the IFS cautioned that the policy would only save £5bn by 2065 due to earnings and inflation rarely being lower than 2.5%. At present both government (abandoning the election pledge to move to double lock) and opposition are committed to maintaining the triple lock, terrified of losing grey votes. The burden to the working generation and the young rises daily.

The rising of the women's state pension age to 65 at a faster rate than the timetable set out in 1995 saved £6.3bn. Another major reform of the state pensions system was the creation of the single-tier pension which by 2063-64 would deliver savings of 0.4 per cent of GDP. The single tier pension and a flat rate accrual, of £4.44 per week, is a genuine simplification. The Pensions Act 2008 requires all employers to contribute to the pensions of their eligible employees unless the employees opt-out of the scheme – this is known as 'auto enrolment'. From October 2018 onwards, the minimum amount employers must contribute to these pensions will be 3 per cent of an individual's earnings. This is a seismic shift in saving. Auto Enrolment has led to a 10% increase of the population having a private pension to the highest number of employees in a scheme for 15 years.

There is more good news for pension affordability: the rising pension age combines with a slowing increase in life expectancy. From 1981 to 2011 with a male retirement age of 65 life expectancy increased from 14 years to 20.7 years, a 50% jump in thirty years. But it is levelling off as retirement ages are increased and life-expectancy rates are plateauing; so from 2041 with retirement age increased to 68 rising to 70 in 2061 the OBR expectation is that retired life expectancy will be of a further 21.5 and 21.7 years respectively – only a marginal increase in state liabilities compared with what has happened in the last thirty years. (NB this assumes that there will be no major advances in medical science in the next forty years that has the effect of extending the life expectancy of those already over 40. Not all medical researchers are this gloomy as they look at advances in immunotherapy, gut linings to deal with diabetes and obesity, advances in cancer treatments, etc)

The unpopularity of a rising pension age especially for those in manual jobs is very real but the need to limit future liabilities for future generations will mean constantly raising the retirement age as life expectancy increases.

There have been many warnings about the affordability of the pension sector but grappling with them systematically has proved difficult. The projected rise in male life expectancy over the 60 years from 1981 to 2041 is an increase of 73%. It is fantastic news that we are living longer than ever but we will have to adapt to working more varied careers for longer and pare back pension expectations considerably.

In 1981 the life expectancy was 84.6, in 2011 it was 89.9 and is projected to increase in 2041 to 94.2, and by 2061 to 97. So whilst in 1981 you would only live another 14 years after you've reached 65 in 2011 it has increased to 20.7 years and in 2041 it will have increased to 24.2 years.

Raising the state pension age can mitigate some of the costs but the shifting demographics paint a bleaker picture. In 2006 there were 11.3m pensioners rising by 2016 to 12.5m representing 31% of the working age population. By 2030 there will be 13.9m pensioners rising by 2050 to 16.8m representing 36% of the working age population.

What do these numbers mean in terms of pensions affordability? At the end of 2010, the total accrued-to-date pension obligations of all UK pension providers were estimated at £7.1 trillion, nearly five times the UK's Gross Domestic Product (GDP). The total comprised £5 trillion of government obligations and £2.1 trillion of private sector obligations.

Of the £5 trillion pension obligations for which the UK government was responsible at end-2010, £3.8 trillion were in respect of state pensions (263% of GDP). The problem is not confined to the UK: comparable EU-level estimate for their pension obligations was 278% of GDP.

Obligations relating to unfunded pensions for public sector employees in the UK at end-2010 were estimated at £0.9 trillion (58 per cent of GDP). The UK government's obligations in respect of funded and unfunded workplace pension schemes at end-2010 were estimated at £1.2 trillion (80 per cent of GDP). UK private sector obligations in respect of workplace pensions – all of which were funded (in varying degrees)– were estimated at £1.7 trillion at end-2010 (118 per cent of GDP).

The sad truth of the huge unfunded state pensions liability is that it is a giant Ponzi scheme. Cheques are written today that hopefully can be cashed by an economy that continues to grow strongly either through productivity leaps or continued mass immigration.

Simply put, pension entitlements, such as the triple lock, cannot be maintained without large increases of migration or big increases in productivity through automation. Either you delay in perpetuity dealing with pensions by opening up the borders at a successively faster and faster rate or you reduce the cost of pensions and leave open the question of managed migration or you substantially increase productivity per worker (with possible unemployment implications).

It isn't just pensions

There are many threads that can be pulled when it comes to intergenerational justice.

PFI.

Governments moving debt off the balance sheet by using expensive private sector borrowing through Public Finance Initiatives (PFI's) are one particular example. These annual payments to the private owners of the PFI schemes are due to peak at £10bn in 2017, but it is estimated that central and local government are committed to paying a further £209 billion over the next 35 years. This is not just one generation enjoying the results of expenditure but leaving payment to a future generation to pay, albeit, hopefully, the projects will also be being used by the future generations. This is also the failure of successive Governments to explain to voters today that – 'there is no magic money tree'. Governments have to make choices of finite resources – PFI is but an accounting trick, smoke and mirrors. Governments need to explain the tough choices, debate the role of the Government and the size of the state.

NHS

The NHS is taking up an increasing percentage of the Government's revenues. The three big D's are hoovering up money – dementia, diabetes and depression. Theresa May lost many potential MPs not just from her wooden performance but also through her honesty over her social care dementia policy. Finding sources of revenue to pay for social care is a bullet that has been dodged for too long.

The smoking ban was a necessary precaution for passive smokers; seatbelts and cycle helmets are a necessary precaution not just for the safety of drivers and passengers but also for the costs of looking after those tragically involved in accidents. This is often called the nanny state and is hugely unpopular. However, the very future of the NHS is in the balance, and bringing down demand for its services is key. This generation has a choice if it wants to preserve the NHS for future generations, and that choice goes hand in hand with businesses: cutting out unhealthy processed foods and excess salt and sugar from our diets; no junk food advertising; affordable gym memberships and encouragement of walking, running and cycling, as well as greater use of playing fields. Stronger targeted public health campaigns must be delivered by the companies that have systematically turned us into overweight couch potatoes. Intergenerational justice includes protecting our children and grand-children from becoming obese as a result of the profit making activities of today's companies.

In 1997 Government spending on health and the NHS was £35bn which is the equivalent of £60bn in 2016 prices – today the budget is £116bn. Despite the NHS budget doubling over the course of twenty years in real terms, demand for its service has increased and health care costs have increased so that it feels the NHS is lurching from crisis to crisis.

Total (public and private) current healthcare expenditure in 2015 was £185.0 billion. Total (public and private) spending per person on healthcare was £2,350 in 2013, more than two and a half times the level in 1997, when £941 was spent for each UK resident.

What this means for ECCR

On the face of it the injustices of one generation having a disproportionate share of the wealth of the nation have little to do with most companies' corporate responsibility so why should ECCR be advocating unpopular social change to reduce inter-generational injustice?

The primary agency to generate wealth and relieve poverty in a free market economy is business. The changes needed to make stewardship, or usufruct, a reality have to result in corporate policies with the same basis. The state cannot adopt policies based on the concepts of stewardship or usufruct and leave companies free to exploit resources without regard to the same principles.

Companies should be concerned about human rights and about the sustainability of their operations. Policies which further the interests of certain groups at the expense of others can be inherently harmful to some groups' human rights, and are likely to be unsustainable in the long term. Companies have a vested interest in the stability, security and continuity of their environment.

a) present trends are unsustainable so companies should be including in their planning the implications of trends changing
b) present trends are morally indefensible so companies should be seeking to reduce a source of future society tension
c) so far as climate is concerned, there is a legal obligation on the country and a moral obligation on every company and citizen, to seek to reduce climate damage
d) market reputations, on which sales and profits hang, are dependent on consumer goodwill. Hence policies to source fish sustainably; reduce sugar and salt in foodstuffs; buy coffee, chocolate and other products from fairly traded sources.

Too many companies prioritise short term returns to shareholders at the expense of their workers and their other stakeholders – for example the lobbying by food and drink companies to stop the reduction of sugar in products shown to be causing obesity with all its consequential problems for people and costs to the state. The "gig" economy has caused a big increase in the number of working people with uncertain and possibly unsustainable livelihoods. ECCR has to encourage companies to act in the long-term interests of their stakeholders.

Society today is rich enough to look to the sustainable nurturing of resources in a way that our predecessors potentially weren't with the long hard struggle of survival, the agricultural revolution, the industrial revolution and the turmoil of the 20th Century.

Christians will disagree, in good faith, about budget priorities but the management of resources — particularly with regard to the most needy and the unborn — is central to how the Christian life is lived; we are mere stewards of that which God allows to pass through our hands. Will God find us faithful and our children and grandchildren feel that we have collectively tried our best to be good stewards?

- **What do you think should be campaign priorities for ECCR in 2018?**
- **Will reducing climate change be more important than reducing public debt?**
- **Should the triple lock on state pensions be cut?**
- **Should tax relief on pension contributions be cut?**
- **How far should the NHS go to reduce demand? Cut health services for smokers and obese? Charge a minimum fee to see a doctor?**
- **Is a tax on sugar and fat the best way of changing behaviour? Can companies be relied on to reduce sugar and fat contents voluntarily?**
- **If intergenerational justice is important, what changes in corporate conduct should ECCR and ethical investment managers be seeking?**