



The Spending Review 2010:

Intergenerational perceptions of
fairness, cuts and economic recovery

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Introduction

The financial crisis of recent years needs little introduction. Initially caused by the collapse of the US sub-prime housing market, the subsequent fiscal effects in the UK from the banking bailouts and economic slowdown, not to mention the long-term pressure of population ageing, have resulted in a substantial shortfall between government spending and revenue. This shortfall was estimated to have reached £155 billion in 2009/10. This budget deficit has now embedded itself in the public consciousness as the nation awaits the full scale of the cuts to be announced on 20th October 2010. The major political parties agree that cuts need to be made, although opinion on the timing, level and targets of cuts differs by political party. The ruling coalition government has presented the argument that immediate spending cuts are necessary to reduce the deficit, but that these will be implemented fairly across society. This fairness and spirit of 'togetherness' in the face of financial adversity has been a key cornerstone of several of the measures already announced. A recent International Longevity Centre-UK (ILC-UK) paper explored the anticipated effects of the cuts, particularly on older people, and the ideological positioning of the Spending Review (Berry & Sinclair, 2010). The earlier report by Craig Berry and David Sinclair also introduced some of the findings presented in this report, as well as exploring how in policy terms the spending cuts could be introduced in a fair way. Here in this report, we explore public perceptions of the prospective spending cuts in depth, and attempt to explore the fairness of the cuts, mainly from an intergenerational perspective, among a representative sample of the public.

Between 1st and 3rd October 2010, GfK NOP undertook a telephone survey, on behalf of ILC-UK, of 1000 nationally representative adults aged 16 or over, to gather their views on the potential impact of the spending cuts. Here, we present the results of exploratory descriptive analyses of these data¹. While our main focus in this report is on trends by age, we have additionally explored patterns by age, social class, employment status, region, gender and marital status and discuss these where appropriate.

The survey finds that different age groups would prioritise similar areas of government spending against cuts. Similarly, different age groups would consider cutting the same areas of household expenditure in the event of decreases in household income. In this sense, a spirit of 'we're all in this together' does indeed exist across the generations. However, an image of intergenerational estrangement materialises when respondents are asked directly about the impact of cuts across the generations. Furthermore, most people reject the Government's claim that the Spending Review should be fair to future generations; they would prefer to see jobs created for today's younger people.

We find that most of us, regardless of age, think that the spending review is likely to hit us more than other generations, with the exception of those in the middle age group (45-54 years). At the same time, six in ten of the population as a whole think the spending cuts

¹ The results are weighted to reflect the sampling strategy used. All results discussed reflect statistically significant differences ($p < 0.05$) unless otherwise stated. These results represent descriptive analyses only; the effect that confounding factors may have on these relationships can only be ascertained through employing more in-depth modelling techniques which are beyond the scope of this report.

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will hit older people more than others. Interestingly the survey also reveals that older people are more likely to want to defend pension spending than other age groups, and somewhat counter-intuitively, those aged 16-24 are more likely than the older people to want to target education for cuts. Overall, all age groups agreed that Transport, Out of Work Benefits and Defence should be the focus for cuts. All age groups reported that they were likely to cut their own expenditure on clothing, entertaining, and transport if faced with reduced income.

There has been much talk in the media about the generational attitudes to spending cuts. Whilst it is not helpful to pitch one generation against another, it is clear that attitudes do vary by age. ILC-UK believes that if the Government is to sell the merits of the spending review to all generations, it is essential that no generation thinks they will be worse off than others.

The Spending Review and intergenerational fairness

The survey reveals that most people believe that their generation will be more affected by spending cuts than others. Almost seven in ten aged over 65 felt they would be most affected as did the same proportion of 25-34 year olds. Middle aged respondent (those aged 45-54 years and 55-64 years) were less likely than other age groups to think they would be hit hardest (44% and 53% respectively) (see figure 1). Those in lower two social classes (partly and unskilled occupations) were significantly more likely than others to think their generation would be more affected by the spending cuts than other generations compared to those in the higher two (Professional and Managerial), that is, 65% compared to 47%. This result may be an artefact of the perceived impact of spending cuts as a whole, and not intergenerational differences specifically. Similarly, significant differences existed by working status so that those in full-time work were less likely to think that their generation would be more affected than others compared to respondents not in employment (56% versus 65%). Further analysis may reveal the true nature of these patterns although the evidence presented here suggests that those who are the most vulnerable to cuts are also most likely to see these as intergenerationally unfair. While we do not measure the perception of the 'fairness' of government cuts overall in this survey, it could be speculated based on the responses across the survey that those beginning their working lives as well as those over the age of 65 are most likely to view the prospective cuts as unfair. This is a likely reflection of the higher levels of dependency on state services among these age groups.

Consequently, the survey also revealed that the oldest and youngest in society were most likely to think that the amount the Government spends on people of their age should be protected (see figure 2). Four in five over 65s thought that spending on their age group should be protected as did over seven in ten 16-24 year olds. Less than half of those aged 45-64 years thought that spending on their age group should be protected. However whilst on the one hand, the majority of individuals across all ages as a whole felt that their

generation would be hardest hit by spending cuts (60%), a similar proportion (59%) also thought that spending cuts would hit older people more than other generations. This increased in a linear fashion from 51% among the youngest age group (16-24 years) to 69% among the oldest age group (65 years and over). There were only slight differences in the perception of the impact of cuts on older people by social class and working status - the majority agreed that spending cuts would affect older people more than other generations regardless of socioeconomic status.

People of my generation will be more affected by spending cuts than those in other generations...

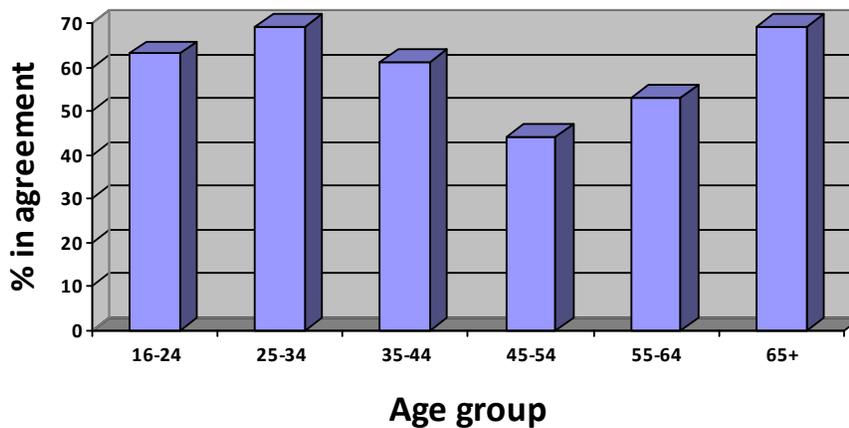


Fig 1: Different age groups' opinions on likely cross-generational impact of cuts (Source: GfK NOP polling)

The amount the government spends on people in my age group should be protected when it reviews public spending...

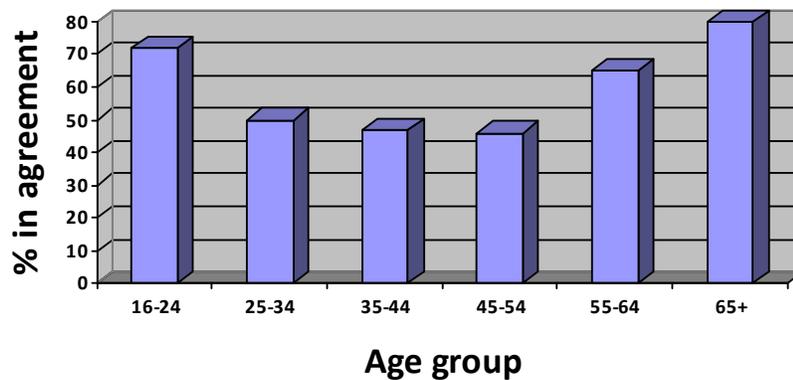


Fig 2: Different age groups' opinions on the level of protection from cuts they deserve (Source: GfK NOP polling)

Intergenerational perspectives on spending cuts

Each respondent was asked which three areas that they would like the government to target in order to reduce costs and cut the budget deficit. They were given the options to cut spending on Out of work benefits, Health, Defence, Policing, Education, Pensions, Transport, or another unspecified area. For the sample as a whole, the three sectors of government spending which the public state they would prioritise for cuts were: Transport (63%); Out of work benefits (54%); and Defence (44%).

Across all age groups, the top three areas consistently preferred for cuts were identical (see Figure 3). Nevertheless, important differences by age remained. Whilst a quarter of 16-24 year olds would target pensions for cuts, just 15% of over 65s would do so. This may be an expected trend given that young people may not have considered their own pensions in the future, and young people's own parents may not have yet reached pensionable age. Yet interestingly, younger people were also more likely to want to target education for cuts. Almost a third of 16 to 24 year olds said they would target education compared to just over one in five aged over 65 years. This is despite earlier responses from young people who wanted spending on their age group to be protected. It should be noted that these data were collected before the Browne review on higher education was published that recommended an increase in university tuition fees (Browne, 2010). Similarly, respondents choosing out of work benefits as a target for cuts may be more reticent once the impact of the spending review and the anticipated large scale job losses in the public sector become a reality.

There were also subtle differences in the choice of Health as a focus for cuts with 26% of those aged 16-24 years choosing Health as a focus compared to 18% aged 65 and above. This may again reflect the low levels of interaction with the Health service of young people compared to older people. Despite some evidence to support an association between older people and higher rates of fear of crime (Waters & Neale, 2010), and other evidence to support the converse argument that younger people experience higher rates of fear of crime (Jackson 2009), age was not a significant factor in patterning the choice of Policing as a focus for targeting government cuts. Finally, those in the oldest age group (65 years) were most likely to be unable to provide a response (19%) compared to those in the youngest age group (9%, 16-24 years).

Which 3 of the following departments and services would you most like the Government to target in order to reduce costs and cut the budget deficit?

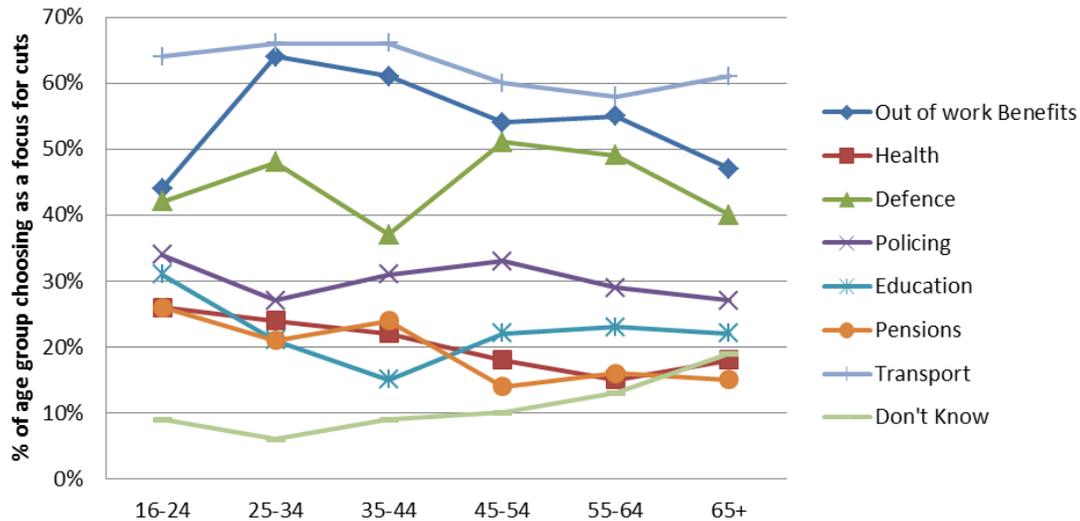


Fig 3: Different age groups' choice on focus of cuts (excluding 'other' option) (Source: GfK NOP polling)

Overall, only two-fifths (39%) of respondents agreed that the proposed cuts reflected a fair balance between cuts in services and tax rises, with roughly equal numbers either supporting more cuts and lower tax rises (29%), or supporting less cuts and higher tax rises (27%); the remaining five percent being unsure. Younger people were most likely to agree that the cuts represented a fair balance between cuts in services and rises in taxes (49% of 16-24 year olds) although this dropped to three in ten of those aged 45-54 years. There was also a clear trend that those in the younger age groups were more likely to support cuts in services compared to rises in taxes (see figure 4).

Coupled with the earlier evidence presented in figure 2, the results from the survey suggest that younger people (16-24 year olds and to a lesser extent 25-34 year olds) are more likely to think that the balance between cuts and taxes has been reached or that the proposed cuts in services could even go further, although are also highly likely to state that services and spending for younger people should be protected. Additionally, they are the age group least likely to consider that the effect of spending cuts will disproportionately affect older people. On the other hand, our oldest age group (65 years and over) are most likely to perceive the impacts of cuts as disproportionately affecting their age group and those from middle age and older (45+ years) are most likely to support tax rises as opposed to spending cuts. While these analyses do not, at this point, illuminate the correlation between the responses to these questions, the results are highly suggestive of the intergenerational conflict that cuts and tax rises may expose.

The Government hopes to achieve 80% of the amount needed to reduce the budget deficit through spending cuts and 20% through tax rises.

Which of these options do you most agree with?

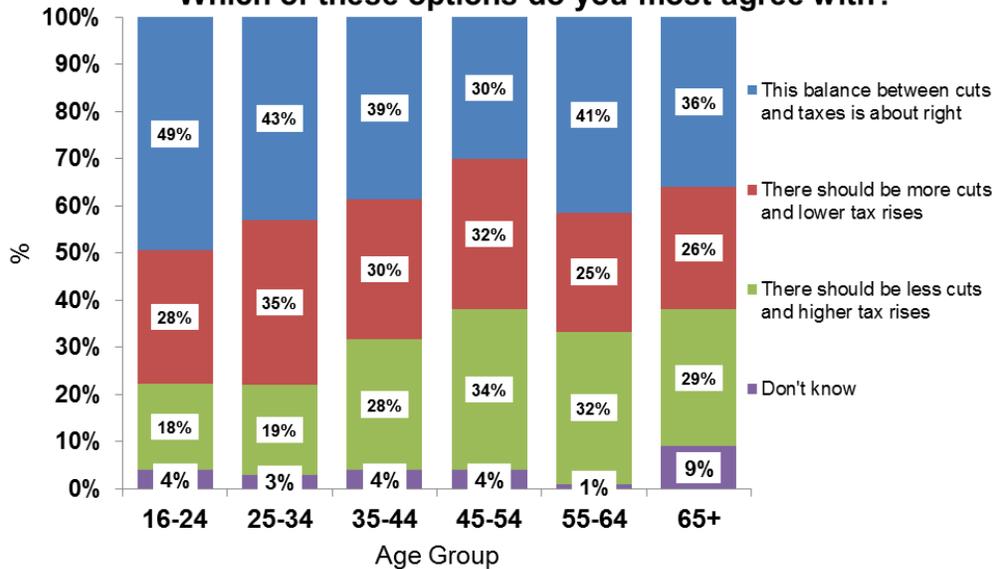


Fig 4: Different age groups' perception of the balance between cuts and tax rises (Source: GfK NOP polling)

There were other distinctions in the level and focus of cuts by demographic and socioeconomic characteristics. Married or cohabiting respondents were more likely to choose Pensions as focus for cuts (21%) compared to those who were previously married (13%), although this may reflect a differential age profile between groups and was not a statistically significant difference. The proportions choosing pensions as a focus for cuts did not vary significantly by social class or work status, remaining around a fifth or lower for each group. Those in full-time employment were significantly more likely to select out of work benefits as a focus for cuts compared to respondents who were out of work (63%). Nevertheless, forty-six percent of those not working also selected out of work benefits as a focus for cuts (although in addition to those who are unemployed, this group will include those in education, who are retired or who are looking after family). Those in higher social classes or who were in full-time employment were also less likely to support cuts to education (16% among both groups) than those in lower social classes or who were not in employment (27% and 25% respectively). However, significant differences in terms of the balance between cuts and tax rises existed only in terms of social class and not by work status, where those in the lowest social class were least likely to agree that a balance had been struck in terms of cuts and tax rises (Partly and Unskilled: 29%), while those in the highest social class were more likely to agree (Professional and Managerial: 41%).

One notable significant regional/country difference existed in the choice of Transport as a focus for targeting cuts. Less than half of respondents from London chose Transport as a

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focus for cuts (48%) compared to almost three quarters of those from Wales (72%). This may be a direct reflection of the higher dependency on public transport in London. Despite (or because of) devolved regional policies on education and health, there were no significant differences by region/country in prioritising these areas for cuts.

Cutting spending within the household

Respondents were asked that should their individual household income drop as a result of government cuts, on which three areas that they would prioritise cutting spending through either purchasing/using less or finding a cheaper alternative from the following: food, entertainment, heating, health, clothing, transport, and were also able to answer 'don't know' or 'none of these'. Overall, most people would seek to reduce spending on clothing (73%), entertainment (62%) and transport (58%). Very few people would opt to make no savings whatsoever (1%).

While the rankings of areas for efficiency within households remained similar regardless of age group, some significant differences remained (see figure 5). Older people were less likely to want to cut back on food than younger people, although this was not a consistent linear trend as it was those in the middle age group (35-44 year olds) who were most likely to consider cutting spending on food (47%). Nevertheless, almost a third of older people (31%) would consider cutting food expenditure which may have adverse effects on the nutrition of the older population. Age was also significantly associated with prioritising cutting spending on clothing, with older people more likely to consider this an option (age groups including 45 years and above: 77-78%) than younger people (16-24 years: 56%). However, both the youngest and oldest groups had the lowest proportions that would cut back on spending on 'visiting/entertaining your friends or family less' (55% in both the youngest and oldest age groups). For older people in particular, maintaining contact with family and friends is an important way to ensure maintenance of their mental health (for example Victor et al, 2005). Older people were not significantly more likely than younger people to consider cutting back on keeping warm; this may be a partial reflection of the success of the Winter Fuel Payment. However, despite this allowance, over a third of the oldest age group (over 65 years) would consider trying to save money through cutting back on their heating use. Given that cold weather is associated with over an increase in the likelihood of mortality among older people (for example Analitis et al, 2008), as well as morbidity, the impact of spending cuts may have adverse effects on the health of older people in their efforts to keep warm.

If the Government spending cuts meant your household income, which (three) areas would you choose to cut back on first?

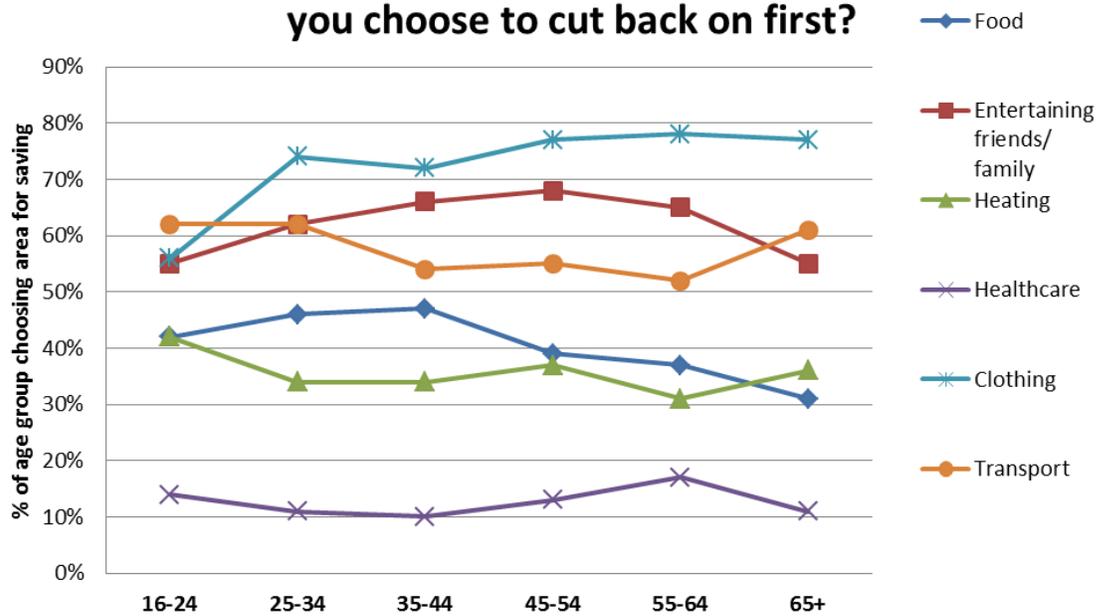


Fig 5: Different age groups' priorities in cutting spending within the household (Source: GfK NOP polling)

Some counter-intuitive results were observed when examining reductions in household expenditure by social class. Those in the highest social classes were the most likely to consider cutting expenditure on entertaining family and friends (71%) while those in the bottom two social class groups the least (58% and 59% for social classes Skilled Manual, and Partly Skilled and Unskilled respectively). Similar results were observed by work status. Overall however, it should be noted that among all groups delineated by either social class or work status, most people would prioritise cutting spending on clothing, entertainment and transport.

These results indicate that people of all ages would make similar choices in terms of reducing expenditure if faced with a reduction in household spending. Most people would prioritise spending on food, healthcare and heating when given a limited range of options. However, non-trivial proportions of people would choose to make savings on some more essential expenditure streams such as heating, food and healthcare. It remains unclear from these analyses whether these are areas within households where savings can reasonably be made, or represent the only areas of current expenditure. In other words, there may be little room for cutting household spending in lower income households on, for example entertainment, when this currently accounts for a negligible portion of household expenditure. Additionally, these analyses do not reveal to what extent reducing expenditure on these areas would push the poorest households into substandard living conditions.

Job creation and economic prosperity

Respondents were asked whether they thought Government should prioritise debt reduction or job creation. Unsurprisingly, young people trying to establish themselves in the labour market were those most likely to support job creation over debt reduction (over seven in ten among those aged 16-34). This reduced among those in the middle age groups and older, and those aged 45-54 were particularly likely to favour debt reduction over job creation (38%) compared to the youngest age groups (16-34 year olds: 27%). There were no significant differences as to whether respondents felt the government should prioritise job creation over debt reduction by social class or employment status. Interestingly, a small but significant gender difference was observed so that more women (69%) than men (61%) favoured job creation over debt reduction, although we are unable to ascertain at this point whether this is an artefact of the sample composition.

Looking to the future economic prospects of the UK where respondents were asked about their opinion on the future economic prospects of the UK in the next decade, similar patterns to those presented above for job creation were apparent by age. Those in the middle age groups were the most pessimistic as to future prospects, while those in the younger age groups and to a lesser extent the oldest age group were the most optimistic. Just under a fifth of the youngest age group (16-24 year olds) were very or somewhat pessimistic as to the future prospects, while this rose to almost two fifths in the middle age group (38%: 45-54 year olds) and decreased to less than a third in the oldest age (29%: 65 years and over). Some of the starkest differences in opinion were observed by social class, so that the proportion of those who were very pessimistic about the future prospects in the lowest social class (Partly Skilled and Unskilled: 21%) was over double that of any other social class group; although the proportion of those in the lowest social class who were very optimistic about the future was also over double that of any other social class group (13%); we show the results for the highest and lowest social classes alongside the results by age in Figure 6.

How Optimistic are you about the UK's economic prospects in the next decade?

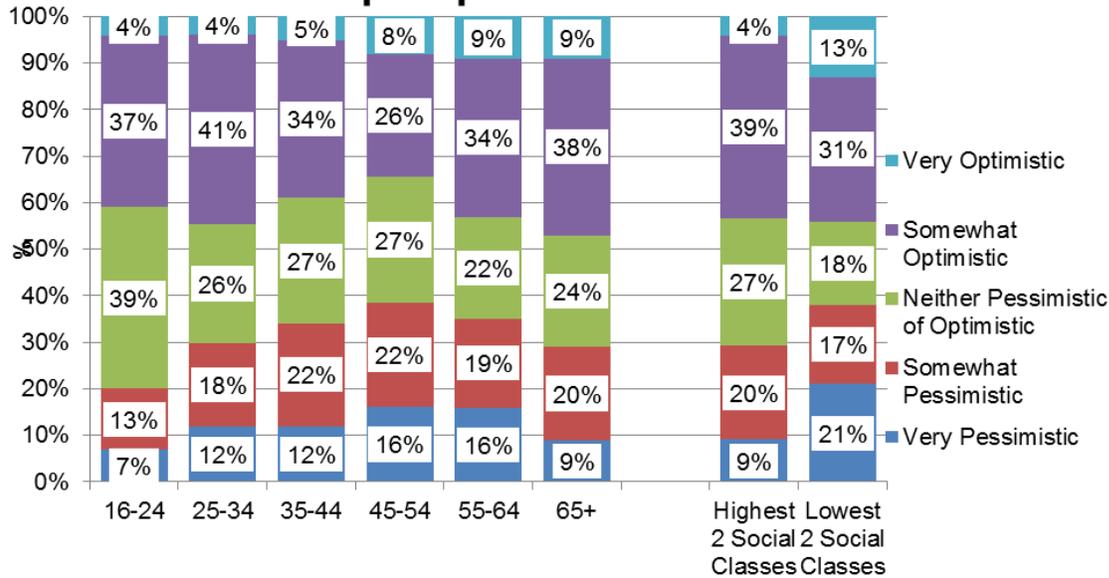


Fig 6: Different age groups' assessment of the UK's economic prospects over the next decade (Source: GfK NOP polling)

In terms job creation and future prosperity, there exists a certain degree of intergenerational solidarity between the youngest and oldest age groups. Despite earlier evidence presented that showed some differences of opinion in both the focus of prospective Government cuts in terms age groups and sector, these latter analyses show that older and younger people hold similar views that are more likely to favour job creation over debt reduction and are more optimistic for a brighter economic future in the UK in the years to come. Middle aged respondents are the most pessimistic about the UK's future economic prospects, and are also more likely than other age groups to favour cuts in deficit reduction over job creation.

Conclusions

Overall, we can conclude that the Government's argument on intergenerational fairness does not enjoy wide acceptance. People of all age groups are worried about how the cuts will affect them, and most believe their generation will be hardest hit. In particular, the majority across all of our age groups rejects the Chancellor's proposition that debt must be cut for the sake of future generations; they prefer, instead, to see the economic prospects of their own generations to be protected. This is particularly true of the youngest and oldest adults. However, the picture is not altogether clear. Younger people were more likely than other groups to support Government cuts in education even though young younger people are much more likely than others to be current users of educational services. The likely implementation of the recommendations of the Browne Review into

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higher education funding may change this pattern; further research would illuminate possible confounding effects that may explain this finding. In addition, with increased job losses, protecting education budgets may become more important across all ages as people return to education with the hope of retraining - this effect has already be witnessed to a certain extent in recent years.

Overall however, people of all ages were broadly consistent in how they would prioritise the targeting of government cuts - Transport, out of work benefits and defence were selected as being preferred areas for cutting expenditure. Certainly in terms of out of work benefits, this may change after the anticipated public sector job losses and resulting losses in the private sector recommended within the Spending Review. This caveat is also true of all the results presented here. Most people currently feel that the proposed cuts will unduly target their age group; once respondents start to feel the pinch of the cuts this discord can only increase.

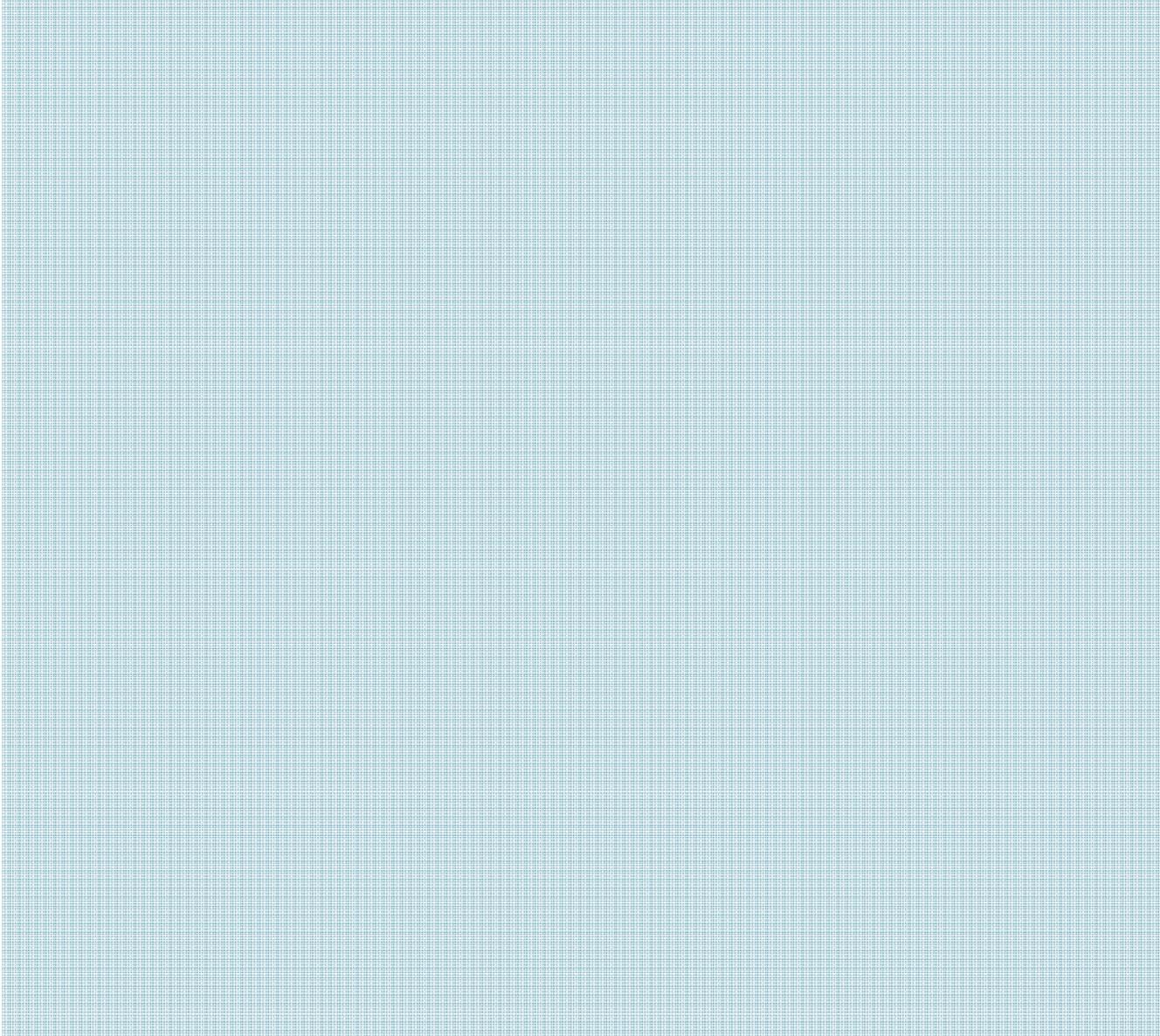
In terms of the new localism agenda which proposes to introduce greater degrees of financial autonomy and devolved decision making processes, we find little evidence of any country/regional effects in terms of how spending cuts should be targeted, with the exception of decisions about transport. While the localism agenda is to be implemented at a lower level of geography than the regional level examined here, our evidence is suggestive of broad consistency in the way that the public would like the government to prioritise spending across the country.

In looking to the future it was the youngest and oldest age groups who were most optimistic about the UK's future economic prospects, even though these were also the groups who were most likely to perceive the proposed cuts as having the biggest impact on their generation. While we are yet to understand this effect in detail, this may offer the one glimmer of hope to policy-makers introducing spending cuts in that those who are most vulnerable to cuts may also see these cuts as a forerunner to economic recovery. Further research is needed to understand this effect in detail. However, policy-makers risk voter alienation across all age groups should the economic gamble of introducing spending cuts fail.

Finally, the evidence presented here showing that the youngest and oldest groups perceive the proposed cuts as being intergenerationally unfair counteracts government assurances as to the 'fairness' of the cuts across society. The Government may have to rethink many elements of its strategy in order to convince younger and older voters of its commitment to fairness.

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