

Ridley is an English aristocrat, a group he tells us that is even today two inches taller on average than the mean of the population. He trained as a zoologist, though strangely he cares little for animals (he is a fly-fisherman). Moreover, he was Chairman of Northern Rock, the bank whose failure led into the credit crunch, and admits that he accepted terms of employment that forbid him to write of the affair—part of the Great British Cover-up. Ordinary citizens must view these credentials with grave suspicion. It is therefore testimony to the quality of the book that I found his account of the evolution of market forces largely persuasive and genuinely enjoyed reading his exuberant prose. As Samuel Johnson said of an earlier author, he writes well for a gentleman.

Reviewed by Eric Jones

The Pinch: How the Baby Boomers Took Their Children's Future—and Why They Should Give it Back

By David Willetts

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There are two staple 'hard luck' stories that the tabloid media trot out every so often. One is of the retiree who, living in penury on the miserable aged pension, is obliged to dine on pet food. The other (brought to my attention by this magazine's editor) is of the student—usually female—who, living in penury on the miserable Youth Allowance, is obliged to prostitute herself for cash.

The two groups would appear to be victims of miserly government.

But might there be another cause common to both effects? Might it be that one social group had been able, through both happenstance and deliberate action, to accumulate a disproportionate chunk of society's resources to the detriment of other, more vulnerable groups?

This is one of the conclusions of *The Pinch*, an outstanding book about the socio-economics of contemporary Britain written by David Willetts, who since the recent election has become Minister for Universities and Science. The author contends that, first, chance developments caused the generation born between 1945 and 1965 (the 'Baby Boomers,' or BBs) to be so large as to shape political, cultural and economic institutions from the late 1960s until today. Secondly, the BBs have used their dominance to enhance their own comforts at the expense of other generations—and particularly of those coming after them. And third, unless the BBs agree to share their wealth more generously, an already bleak outlook for Britain could turn quite nasty.

Willetts opens with the context for his story, explaining that Britain has long been a country of small independent families, strong but limited government, market transactions and contracts, and voluntary institutions. He then covers the chance genesis of the BBs, who owe their numbers to war-time pro-natalist policies, more secure employment for men and women, the strength of marriage as an institution, and older women having children.

By demographic bulk, this generation's choices—as it has

matured through adolescence, early and middle adulthood, and now late adulthood—have influenced how the whole society sees itself and reacts to its circumstances.

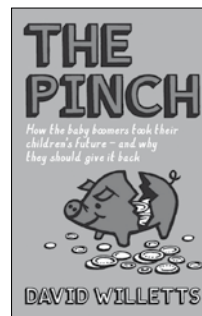
Willetts then shows how the BBs' working lives and acquisition of assets have been assisted by economic circumstances: high wages, low immigration and inflation at first, followed by strong wage competition among the young, disinflation, and booming asset prices. This sequence first aided the BBs' asset accumulation and then redistributed net financial wealth away from the young to the old.

The BBs have responded to this good luck by increasing their spending disproportionately to

their output and voting for more government spending. Willetts decries this behaviour as 'spending the kids' inheritance.' He foresees younger generations paying the price for BBs' borrowing for consumption against a temporary increase in property values.

There is then a marvellous discussion of how societies develop norms and institutions governing personal interaction and intra- and intergenerational cooperation. Willetts concludes that institutions that are consistent across time and which encourage good behaviour, competition, and healthy self-regard create the reciprocal altruism needed for the inter-generational support that characterises healthy societies.

Unfortunately, the demographic disruption of the BBs, as well as their recent behaviour, is eroding the intergenerational exchange that supports the social contract. The



key to cooperative production and shared consumption is that the sharing must be fair across time. If it appears unfair and that an implicit agreement has been betrayed, people's inherent sense of justice will encourage them to withdraw from the bargain.

This is dangerous. A breach of trust between generations contributes significantly to social breakdown. The failure of the Keynesian welfare state in the 1970s was accompanied by widespread frustration, boiling over into anger and violence, as the credibility of institutions collapsed. Willetts' fear is that the BB indulgence will bring yet more difficult economic circumstances and disrupt younger generations' movement through the cycle of life—independence from parents, marriage, children—with adverse consequences for intergenerational trust and higher costs for society.

What, then, should concerned and responsible people do, especially as much of the medium-term demographic and financial path is already 'baked in the cake'?

Willetts' answer is to encourage BBs' to understand their dependence on others. Once retired, and no matter their accumulated wealth, BBs will only be able to eat the bread that the younger generation bake for them. But a loss of trust in social institutions by the young and the transfer of heavy liabilities onto their already burdened shoulders will have real adverse consequences for their ability and inclination to bake the bread that all will expect to eat. BBs using their demographic heft to vote for higher retirement incomes and health spending won't help.

More moderate consumption and financial expectations on the part of BBs—with the aim of supporting younger generations as they work to accumulate assets, maintain institutions, and raise the next generation—are thus in the BBs' best interests.

Although the book focuses on the United Kingdom, there are clear parallels to and lessons for Australia. Our recent demographic and financial development has been similar to Britain's, and the pressures on our younger generations' resources over the medium term will likewise be heavy. Mercifully, our public finances are stronger than Britain's. But the themes of interdependence, the beneficial power of reciprocity, and consideration of younger generations resonate here. As far back as late 2003, then Reserve Bank governor Ian Macfarlane warned of generational conflict and the need for prioritising the needs of tomorrow's workers.

Willetts' argument is both powerful and eloquent. His discussion of the latest findings from game theory, history, anthropology, economics, political science, and psychology, sometimes via conjectural history, is balanced by examples drawn liberally from literature. Charles Dickens, T.S. Eliot, Jane Austen and Marcel Pagnol all get a guernsey. The use of Austen's *Pride and Prejudice* to illustrate the enforcement of social norms is magnificent. Never again will I dismiss *P&P* as a dangerous fairytale for naïve bourgeois schoolgirls.

Importantly, the author's science-based arguments allow him to explain BB dominance of the media and popular culture as one

aspect of their influence across society. An explanation arises for the phenomena of 'classic rock' radio stations, 'sixties revival' telly programs, and reproductions of the original Volkswagens and Mini Minors. I found this anthropological argument for BBs' continuing cultural influence much more persuasive than the 'blame game' that characterises the discussion in Australia.

The book raises an important question for classical liberals. We support freedom and the right of people to create institutions for solving common problems. But what happens when our institutions cannot solve a problem? Willetts is essentially saying that Britain's parliamentary democracy has failed to prevent a nation-wide moral hazard from emerging and may fail to provide a solution. How can we create institutions for preventing and solving these problems? And in their absence, can we really rely on people more clearly perceiving their interests to solve the problem, as Willetts proposes?

One thing is certain. Without a solution, younger generations are more and more likely to become disillusioned with the deal being offered them and react accordingly, with unpleasant consequences for all. Unless our society can ensure that all generations receive, and feel that they are receiving, a fair go, the BBs risk spending their retirement reading and watching unedifying stories about young people in the tabloid media, as they tuck into yet another unappetising meal.

Reviewed by Jeremy Bray