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# The pay-as-you-go contract has been torn up

*From Prof Dennis Leech.*

Sir, Besides ignoring important evidence that tends to contradict some of his claims (for example that the baby boomers were born at a time when government debt was three times what it is now, and that they paid higher taxes), Janan Ganesh, in “Bad luck, not policy, is the scourge of the young” (January 7) invokes a false social ontology of intergenerational conflict. It cannot be simply a distributional question of young versus old, as he describes, because the young will also one day become old themselves. So the young have an interest in ensuring good pensions.

What we are in fact witnessing are the consequences of a unilateral rewriting of the intergenerational social contract. The society in which the baby boomer generation has lived is one with a strong element of social solidarity, whereby each generation in work guarantees the welfare of its predecessor in retirement – in the knowledge that they themselves will receive equivalent support in their turn. This “pay-as-you-go” social contract is being torn up by the neoliberals who believe in the universal superiority of individualistic markets (because “there is no such thing as society”) with the effect that the young generation will miss their turn. Instead, they are being told to face the reality that they are in the market place where every individual is required to pre-fund their own pensions from their own savings.

This has two unfortunate consequences for the young. First, it is much more costly to provide adequate pensions and other welfare benefits individually in the market than collectively. For example, it is known that money purchase defined contribution pension schemes cost at least 40 per cent more than equivalent collective schemes. Second, it means that many of the transition generation are having to pay twice – to build up their own “pots” as well as for the guarantees to the old.

The young were never consulted about this rewriting of the social contract. That is what they should be angry about. Don't blame the old: blame neoliberalism.

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