

The inter-generational contract that's being undermined...

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A reader of this blog, Dave Rotheram, picked up a quote from me [and used it on Facebook](#) the other day, noting I said:

We can't have a successful transition between generations in this country and meet the baby boomers' desire for a comfortable retirement when the upcoming generation has debts and tax rates that make it almost impossible for that younger generation to buy the assets the older generations have to sell to fund those retirements, whether they be shares, bonds or houses. That's just not possible.

Dave added:

Many people of my generation bitch at my children's generation and put the blame for their difficulties on silly things like eating avocado but this quote from [Richard Murphy](#) picks up on something that gets overlooked - the millennials' problem is also the boomers' problem, if only they realised: the boomers haven't won a battle between generations, just made a potential win-win into a lose-lose.

I thought that a twist that I appreciated. Dave gets that there is what I call a fundamental pension contract. This comes [from something I wrote in 2010](#):

[There is a] fundamental pension contract that should exist within any society. This is that one generation, the older one, will through its own efforts create capital assets and infrastructure in both the state and private sectors which the following younger generation can use in the course of their work. In exchange for their subsequent use of these assets for their own benefit that succeeding younger generation will, in effect, meet the income needs of the older generation when they are in retirement. Unless this fundamental compact that underpins all pensions is honoured any pension system will fail.

As I also argued then:

This compact is ignored in the existing pension system that does not even recognise that it exists. Our state subsidised saving for pensions makes no link between that

activity and the necessary investment in new capital goods, infrastructure, job creation and skills that we need as a country. As a result state subsidy is being given with no return to the state appearing to arise as a consequence, precisely because this is a subsidy for saving which does not generate any new wealth. This is the fundamental economic problem and malaise in our current pension arrangement.

I did a video on this here:

<https://youtu.be/KlkSat2ue-M>