When Older People Do Better Than Those of Working Age

In France and Spain, people 65 and older earn more on average than younger people, a trend economists flag as key piece of the income-inequality puzzle

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Updated March 20, 2016 2:23 p.m. ET

176 COMMENTS

In deciphering the many forces behind income inequality, economists are flagging a widening shift in the economic fortunes of the old and everyone else.

Older people typically have lower incomes than the general population because many of them have stopped working. But the gap between the incomes of those 65 and older and the rest of the population has narrowed significantly in Europe and the U.S. since the recession. The divergence is exacerbating generational imbalances in government pension systems while highlighting the wage struggles of younger workers.

Seniors in the U.S. have recently enjoyed healthier income gains—from government and private pensions, investments and, for those still working, salaries—than their younger counterparts, census data shows. In some countries, France and Spain among them, people 65 and older now earn more on average than younger people do.

The average person 65 and older in the U.S. earns 77% of the income of the average citizen, up from 69% in 2008, at the start of the recession. In the U.K. the figure is 89%, up from 78%. In Spain and France, seniors now earn about 103% and 102% of the average worker's income, respectively, according to an analysis of data from the European Union's official statistics agency. That's up from 86% in Spain and 96% in France in 2008.

This divergence between generations is in part a reflection of demographic shifts that have been brewing for years, as populations grow older and the wealthy postwar baby boomers in particular reach their golden years.

But it is also widening as a consequence of forces bearing down on the earnings of the young, creating a growing imbalance that threatens to undermine the promise that market economies will deliver rising living standards for successive generations. Younger workers are grappling with flat or falling pay, decreased job security and less-affordable housing, sapping the spending power that helps fuel the economy. As the elderly population increases, younger workers also face a rising bill for the extra tax dollars needed to fulfill past governments' promises to retirees.

In parts of Europe, especially, older generations' incomes are growing in excess of their children's, often as a direct result of postcrisis government policy, economists say.

Consider the U.K. Between 2008 and 2014, the average annual income of seniors in Britain rose 7.3%, or £1,400 ($2,010), according to the U.K.'s Office for National Statistics. Over the same period, the average annual income of working households fell by 5.5%, or £1,600 ($2,298).

The differing fortunes of the generations largely reflect changes to Britain's tax and benefit system that shielded older people from the ravages of the financial crisis. A "triple-lock" introduced in 2010 ensures state pension payments rise by at least 2.5% a year. People 65-plus were last year offered exclusive access to special government bonds that paid 4% a year, at a time when the government could borrow for a decade at less than half that rate. Meanwhile, state benefits for workers have shrunk and wage growth has slowed.

"The value of benefits for pensioners has clearly risen significantly compared with the wages earned by the working population," said David Willetts, executive chairman of the Resolution Foundation, a nonpartisan think tank focused on living standards in the U.K.

In Spain, the government exempted pensions from its hallmark austerity program in 2010, but has since overhauled the system to extend the working age of later generations. In a country where state pensions make up almost the whole of seniors' income, pensions by law grow by at least 0.25% a year, even as social-security expenses continue to outweigh revenues and consumer prices have been falling.

A similar pattern is playing out across Europe. The share of government spending devoted to pensions has risen consistently since the financial crisis, according to EU data.

Many seniors see higher incomes as a just reward for a lifetime of toil. They argue that government policies to top up their earnings are fair compensation for the ultralow interest rates that crushed savers' returns when the financial crisis hit.

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People wait to board a commuter train to New York City in Secaucus, N.J. Some economists say the working population is being hit as governments coddle retirees. PHOTO: SETH WENIG/ASSOCIATED PRESS

But for some economists, coddling pensioners has left the working population shouldering a disproportionately large burden of postcrisis belt-tightening.

"It's a perfect storm of sudden increases in longevity, combined with the global financial crisis, combined with the greater voting power of older generations," said Liz Emerson, co-founder of the Intergenerational Foundation, a London-based think tank that argues the political clout of seniors—an age group with high voting turnout—has damaged the interests of the young.

Anxiety about these generational imbalances is intensifying. In Spain last year, the governor of the central bank warned pensions for future Spanish seniors would need to be far less generous, but he was quickly rebuffed by the government.

In the U.K. on Friday, a senior government minister, Iain Duncan Smith, resigned in protest against continuing welfare cuts, citing among his concerns policies that have shielded perks for well-off pensioners while reducing payments for those of working age.

"We are redistributing income within the family," said Frank Field, who heads a British parliamentary panel that in January announced an inquiry into the issue of intergenerational fairness. "It isn't fair and it isn't sustainable."

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