Will Young People Be Poorer Than Their Parents

50 economics experts give their views

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The Intergenerational Foundation (www.if.org.uk) is an independent, non-party-political charity that researches the rights of younger and future generations in British policy-making.

Whilst increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. The social contract between generations is under immense strain in housing, health, education, employment, taxation, pensions and the environment. Young people who are worse-off appear to be giving more than their fair share to fund a system that benefits the older, wealthier, section of society.

IF questions this status quo; calling instead for sustainable long-term policies that ensure younger and future generations are better protected by policy makers.

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Summary

A national debate has recently erupted in the UK over whether the current generation of young people will grow up to be poorer than their parents. Fears have become widespread that a generation of young people will never recover from the lingering impacts of the recession, which has compounded the myriad problems already facing British youngsters, including high youth unemployment, tuition fee rises, the housing crisis, supporting the burden of the ageing population, and more.

There are particular concerns that Britain's economy may never fully recover from the recession, and a future of permanent slow growth and being overtaken by more dynamic former developing countries is in prospect.

To see what the experts think is in store for Britain's younger generation, the Intergenerational Foundation has conducted a survey involving 50 of the UK's leading economics thinkers.

Everyone who agreed to participate in the survey was asked the following three questions about Britain's economic future:

1. Do you think people who are currently in their 20s are likely on average to be financially worse-off than their parents over the course of their lives?
2. According to the International Monetary Fund, Britain is currently the 6th largest economy in the world (using nominal GDP) out of 182 countries. What position would you guess Britain will be in by 2040?
3. What do you think the average annual rate of GDP growth will be for the UK between now and 2040 (in real terms)?

The 50 thinkers who provided replies to these questions came from all areas of economic thought – including the private sector, academics and actuaries (economists who manage pension funds). Their well-considered responses and insights into these questions provided telling evidence of the challenges which younger Britons will face over the coming years.

Given below is a summary of how they answered each question:

Question 1

- 33 (66%) of the respondents said they thought that those who are currently in their 20s are likely to be significantly worse off than their parents over the course of their lives.

Question 2

- From the various estimates given of where Britain's economy would be ranked by 2040 the average worked out at 15th in the global rankings.

Question 3

- The average of the most optimistic scenarios given in response to this question worked out at 1.8% economic growth per year.
- The most pessimistic scenarios averaged of 1.4% economic growth per year.

Everyone who participated was invited to set out their thoughts in as many words as they wanted to. The following sections of this report highlighted selected quotes given in response to each question.

IF has respected the wish of some participants that their quotes should only be used anonymously. IF also extends its thanks to the small minority of the participants who submitted their responses without giving their names.

Participation in this survey was entirely voluntary, and those who participated received no reward for taking part.

The views expressed by the participants were purely their own, and may not represent those of the organisations who employ them, or the Intergenerational Foundation itself.

Who responded to this survey?

IF would like to thank the following for agreeing to participate in this research:

Carl Emmerson	Deputy Director, Institute for Fiscal Studies
Jim O'Neill	Chairman, Goldman Sachs Asset Management
Lord Layard	Emeritus Professor of Economics, LSE
George Buckley	Chief UK Economist, Deutsche Bank
George Magnus	Author of *The Age of Ageing: How Demographics are Changing the Global Economy and our World*
David Smith	Founder, Beacon Economic Forecasting
Dan Atkinson	Co-author of *Going South: Why Britain will have a Third World Economy by 2014*
Peter Warburton	Chief Economist, Economic Perspectives
Peter Spencer	Chief Economic Advisor, ITEM club
Philip Rush	UK Economist, Nomura
Sarah Hewin	Head of Regional Research, Europe, Standard Chartered Bank
Andrew Lilico	Director and Principle, Europe Economics
Nick Carn	Founder, Carn Macro Advisors
Anastasia Nesvetailova	Reader in International Politics, City University, London
Andrew Mearman	Associate Professor in Economics, Bristol Business School
Lord Turnbull	House of Lords
Andrew Tylecote	Professor of the Economics and Management of Technological Change, University of Sheffield
Avner Offer	Chichele Professor of Economic History, All Souls College, Oxford
Baroness Lister of Burtersett	Emeritus Professor of Social Policy, Loughborough University
Charles Goodhart	Director of the Financial Regulation Research Programme, LSE
Christopher Pissarides	Norman Sosnow Chair in Economics, LSE
Dave Byrne	School of Applied Social Sciences, Durham University
David Newbery	Emeritus Professor of Economics, Churchill College, Cambridge

Ian Gough	Professorial Research Fellow, Centre for the Analysis of Social Exclusion, LSE
Jan Toporowski	Professor of Economics and Finance, SOAS
Jan-Emmanuel De Neve	Lecturer in Political Economy and Behavioural Science, UCL
Jonathan Perraton	Senior Lecturer in Economics, University of Sheffield
Peter Sinclair	Emeritus Professor, Department of Economics, University of Birmingham
Robert Gardner	Founder and Co-Chief Executive, Redington
Bobby Riddaway	Senior Investment Consultant, Buck Consultants
Steve Harrison	Dana Spicer Europe
Chetan Ghosh	Chief Investment Officer, Centrica
Huw Evans	Board Member, Institute of Actuaries
Derek Benstead	Senior Consultant, First Acturial
Con Keating	Head of Research, Brighton Rock Group
Pauline Armitage	First Acturial
Steven Catchpole	Senior Client Manager, Cardano
Daryl Boxall	Senior Risk Analyst, AXA
Chris Wagstaff	Visiting Fellow, Cass Business School
Charles Amos	Former CEO, ICI Pension Fund
Martin Coombes	Consulting Actuary, Innovation
Dennis Leech	Professor of Economics, Warwick University
Les Komaromy	Independent pension consultant
Keith Nunn	Employer Nominated Director, The Pensions Trust
Fraser Smart	Managing Director, Europe, Buck Consultants
D. Pearce	DP Pensions
Robert Branagh	Managing Director of Administration, RPMI

Question 1

Do you think people who are currently in their 20s are likely on average to be financially worse-off than their parents over the course of their lives?

What the experts had to say:

"As things stand, there is little question that our 20-somethings will be worse-off during their lives, compared to their baby boomer parents... the two [main] underlying reasons are a) the rise in old-age dependency, that is, of those aged over 65, on the slower-growing working-age population; and b) the limited extent to which the government has legislated changes to the pension, healthcare and long-term care systems, or, put another way, the limited extent to which the need for tax increases has been averted. To alleviate financial stress on the young, we will need new productivity growth and innovative old-age financing programmes."

George Magnus, Author of *The Age of Ageing: How Demographics are Changing the Global Economy and our World*

"... This will depend on the extent to which rising medium-term inflation erodes both the private debts (student loans, credit card debt and mortgages) of the rising generation and the public debt. Slow growth of mature economies will limit potential for real income growth, however, and the challenge from Asia could help redistribute earned income away from the USA and Europe."

Peter Warburton, Economic Perspectives

"Yes – due to demographics (higher dependency ratio), the fallout from the credit crisis (a move away from the NICE decade (Non-Inflationary Continuous Expansion) and much slower productivity growth), paying down the national debt, smaller DC pensions, paying off student debt, still too high house prices etc."

Anon.

"Yes. But that is due to structural changes in the physical environment, economy and labour market, not a decline in general economic prospects."

Peter Spencer, Item Club

"Yes, that sounds likely. Britain has run a current account deficit since 1984, which means those now in middle age have benefitted from a decades-long spree of asset sales to and borrowing from abroad."

Anon.

"I think they are likely to be worse off than their parents, especially in the affluent West. The reason for that is two crises, the over-lending (debt) crisis which is still unfolding, and the ecological crisis which is just beginning."

Avner Offer, All Souls College Oxford

"Yes, primarily because of our insane planning system that restricts the supply of and raises the price of building land so they will be forced to rent and/or live in poky little properties, but in addition taxes are likely to rise and benefits fall given future claims on the state of an ageing population."

Anon.

"I would tend, marginally, to say yes. Much depends on technological innovation in relation to the relative price of important consumer goods although that may be offset by high rises in the relative prices of food (almost certain) and fuel (quite likely). Another key factor will be the character of adjustment in the UK housing markets (plural is important)..."

David Byrne, Durham University

"Yes. The Bank of England's and other major central banks' quantitative easing policies have such distributional outcomes that the younger generation is very likely to have less pension income and to pay high levels for accommodation..."

Ismail Erturk, University of Manchester

Question 2

According to the International Monetary Fund, Britain is currently the 6th largest economy in the world (using nominal GDP) out of 182 countries. What position would you guess Britain will be in by 2040?

"I would guess Britain would be around the fifty point by then. Compound growth rates are very powerful things over such a long period and the world will be barely recognisable by 2040." **David Smith, Beacon Economic Forecasting**

"... I would expect slippage to a rank between 11th and 15th by 2040."

Peter Warburton, Economic Perspectives

"I'd say the slide will be limited, perhaps to no worse than 9th or 10th. These projections, of course, assume that the UK (and other Western nations) are incapable of economic renewal, and that the world's biggest emerging countries will continue to grow at breakneck speed in perpetuity. Neither of these assumptions should be taken at more than face value, though it is as well to be conscious of the economic – and social – implications of inertia."

George Magnus, Author of *The Age of Ageing: How Demographics are Changing the Global Economy and our World*

"About 20th, if we're lucky. Out of the top 20 if we're not."

Anon.

"On the positive side, Britain has large stocks of human and physical capital, and is likely to suffer less from climate change. On the negative, it is exposed to energy depletion and depends on imported natural resources, especially energy and food, and also imported manufactures. Bad policies (such as those that gave rise to the debt crisis) are a wildcard. If you weigh all economies equally, I expect Britain to decline somewhat in relative terms, but not a great deal."

Avner Offer, All Souls College Oxford

"I would guess about 10th, passed by very large population countries with strong economies, such as the BRIC nations (although I have real doubts about Russia), and perhaps moving places around against South Korea and France with Canada and Australia also in the frame."

Dave Byrne, Durham University

"I would guess about 11th or 13th on an aggregate GDP, current exchange rates basis. More interesting is the issue of GDP per head, where we are already much lower, and may well fall faster and further."

Anon.

"About 42 if Scotland devolves. But our per capita GDP will still be better than today. The question is based on outmoded nationalism which has no useful meaning when measuring well-being."

M. Coombes, Innovation

"Looking at the rapid advancement of Brazil, Russia and India and possibly some other emerging markets it's probably pretty certain that we won't be in the top ten."

Les Komaromy, independent pensions consultant

"I would imagine that it will slip further down the ranks at the expense of a few emerging economies. The decline of the manufacturing industry in the UK leads me to think that I would be very surprised if the UK were still in the top 10 economies by GDP in 2040."

Anon.

"Around 20th. While the fundamentals of many emerging economies are clearly strong, so also are the deep roots of value-destroying corruption, which will take several percentage points off Emerging GDP until it matures and slows."

Anon.

"It risks falling outside the top 10."

Robert Gardner, Redington

"I assume the UK will slip several places on nominal GDP measure. Fall would be less marked in GDP per capita terms, though..."

Philip Rush, Nomura

"... Probably around 6th–10th, since UK population is growing faster than its main European rivals and climate change is likely to clobber most tropical countries."

Andrew Tylecote, University of Sheffield

Question 3:

What do you think the average annual rate of GDP growth will be for the UK between now and 2040 (in real terms)?

"The long-term growth rate in the UK from 1945 to the financial crisis was about 2.5% per annum. Productivity growth averaged about 2% per year from 1973 to the crisis, effectively doubling hourly income over 3–4 decades. What our 20-somethings face is a long period of weak growth, perhaps not even 1% per year, mostly from weaker productivity growth. At, say, 0.7% per annum, it would take more than 50 years simply for hourly income to grow by 50%. So, in their working lifetime, they can expect to be financially worse off than the boomers, even without restrictions on credit availability, and future tax and financing obligations. This may be unduly pessimistic. By the 2020s, UK growth could be back to 2% a year, but this would need a big re-think about current government policies, investment in the 20-somethings, and a strategy to strengthen UK innovation."

George Magnus, Author of *The Age of Ageing: How Demographics are Changing the Global Economy and our World*

"2% – estimated from Japan. Highly dependent on assumptions about immigration."

Nick Carn, Carn Macro Advisors

"About 2% mostly associated with productivity gains."

Philip Rush, Nomura

"Between 0.5% and 1.5% per annum."

Peter Warburton, Economic Perspectives

"2%. Over the past 200 years this has been the average rate of growth – and while that includes a great depression and two world wars, it also includes the industrial revolution. I think we have lived in a remarkably lucky period when it comes to productivity and technological revolution, which may well not be repeated to the same degree over the next 40 years as the last 40 years."

Anon.

"... My forecast is for a future of no significant growth in the next few decades."

Avner Offer, All Souls College Oxford

"In the range of –3 to +3 – the minus would reflect the impact of a combination of long depression as per that in the C19 and ecological change which really is the dangerous new kid on the block."

Dave Byrne, Durham University

"Around 0.5% p.a. I cannot see a promising future given the present structure of the UK economy, the continuing legacy of the crash of 2008 and the growing impact of both climate change and climate change mitigation policies."

Anon.

"Depending on policy, around 2%."

Jan Toporowski, SOAS

"1.5%."

Jan-Emmanuel De Neve, UCL

"1.3% – it rather depends on immigration."

Steve Harrison, Dana Spicer Europe

"Minus 2% (yes, minus); this can be achievable without economic pain. Most countries are trying to do this by de-valuing their currencies. Now is the time for Honesty."

D. Pearce, DP

"I would expect the real GDP growth to be bogged down by low growth over the next 3–5 years, so maybe around 1–1.5% p.a. over the period."

Anon.

"Hopefully 2.0%–3.0%. This is a multi-path scenario dependent on the philosophy and approach of our politicians and policy makers combined with the aggregate UK mindset."

Robert Gardner, Redington

Appendix 1: Tally of survey responses

Although 50 responses were received in total for this survey, not all the respondents provided an answer for every single question, which is why the number of responses varies. Please note that this was not intended to be a "tick-box" survey – everyone who received a copy of the survey was invited to write a statement expressing their views in answer to each of the questions; which category each response fell into (e.g. "Yes", "No" etc.) was then interpreted at the researcher's personal discretion during the data analysis stage of this study.

1. Do you think people who are currently in their 20s are likely on average to be financially worse-off than their parents over the course of their lives?

	Total responses: 50	
Yes: 33	No: 15	Not Sure: 2

2. According to the International Monetary Fund, Britain is currently the 6th largest economy in the world (using nominal GDP) out of 182 countries. What position would you guess Britain will be in by 2040?

Total responses: 48	Average answer: 15th

3. What do you think the average annual rate of GDP growth will be for the UK between now and 2040 (in real terms)?

   A large number of the replies to this question gave a range of possible answers; the "optimistic scenario" is the average of all the answers including the most optimistic ends of these ranges, and vice versa for the "pessimistic scenario".

Total responses: 49	
Average answer (optimistic scenario): 1.8%	Average answer (pessimistic scenario): 1.4%