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2013 Intergenerational Fairness Index: Young People's Prospects Worsened in Past Year

The second annual index on intergenerational unfairness, produced by the Intergenerational Foundation (www.if.org.uk), reveals that young people's prospects have worsened in the past year relative to older generations.

Key indicators responsible for the decline include unemployment levels (increasing from 19.6% to 21.1% for under-25 year olds), an increase in the proportion of household income spent on housing costs and a decline in the affordability of house purchases for the under-30s. This is in addition to the increase in the government debt with public sector net debt rising from £910 billion in 2011/12 to almost £1,025 billion in 2012/13, pushing up the national debt from the equivalent of £31,500 per person in the workforce to £35,250. Furthermore state pension expenditure rose from £76 billion in 2011/12 to almost £80 billion in 2012/13, meaning that the cost, per person in the workforce, currently stands at £2,700 each year.

Some improvements have been made in terms of a slight increase in new house building, a modest house price decline outside the South East, a reduction in greenhouse gas emissions, and an increase in the number of students achieving 5 or more A* to C grades at GCSE.

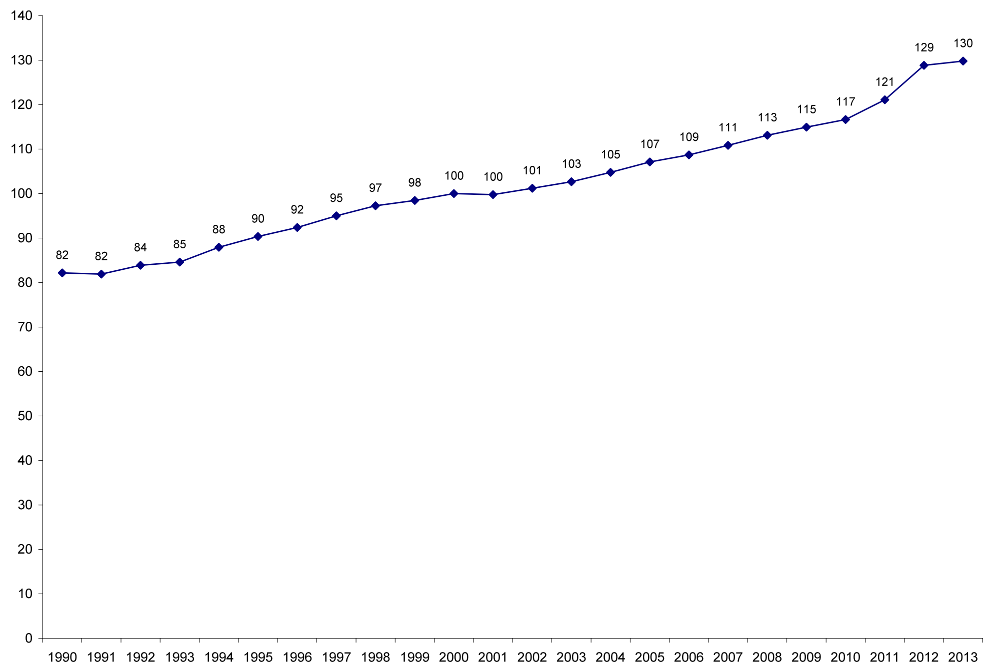
At first glance, unfunded public sector occupational pension liabilities appear to be falling, with a reduction to £893.3 billion from £1,015.6 billion. However, this is unlikely to be repeated due to four one-off factors: the move to career average pensions, the move to pensions linked to CPI rather than RPI, the increase in actual and projected retirement ages, and 1% state sector salary increases.

Angus Hanton, Co-founder of IF and joint creator of the Index, comments, "Rising intergenerational unfairness should matter to everyone. The usual focus on inequality between rich and poor misses the important inequalities between generations. Poorer young people are increasingly and systematically financing richer, older people. Urgent action must be taken as the Baby Boom cohort starts to retire."

The Intergenerational Fairness Index takes nine indicators that most affect young people's lives and outlook – unemployment, housing, pensions, government debt, participation in democracy, health, income, the environment and education – and puts them together to create an aggregate of how things have changed over the past 20 years.

With the Index set at 100 in the year 2000, it has risen in its measure of unfairness from 82 in 1990 to 130 in 2013, based on the latest available data. The sharp decrease in younger generations' prospects after 2008 can be seen in the graph overleaf. IF intends the Index to be extended internationally, in order to chart UK intergenerational fairness over time and against other countries.

IF Index – 1990 to 2013 (with a base level of 100 in the year 2000)



Jeremy Leach, joint creator of the Index adds, "The significant factors influencing the Index are clearly signposted: public sector pension liability increases between 1990 and 1995; government debt, public sector pensions and house prices rising sharply between 2000 and 2005; tuition fees, government debt and state and public sector pensions from 2005 to 2011. We have used GDP deflators, accounted for inflation and avoided double counting to give what we believe is the most thorough quantitative assessment of intergenerational fairness to date."

Laurence Kotlikoff, Professor of Economics at Boston MIT, and the father of intergenerational accounting for the World Bank in the 1990s, comments, "Intergenerational inequity continues to be the moral issue of our day and, like an adult report card, the Intergenerational Foundation's vitally important Intergenerational Index makes it clear that the UK is failing its young. The UK, like other developed economies, has engaged in fiscal, educational, health and environmental child abuse."

IF calls on the Government to embark on a programme of "intergenerational re-balancing". This could be achieved by encouraging a nationwide house building programme to reduce house prices, reducing student tuition fees and student loan interest rates, better targeting or abolishing universal benefits for older generations, increasing public sector pension contributions, scraping the exemption from national insurance payments for those working post-retirement and shifting taxation towards property wealth rather than earned income. **-**
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Note to Editors:

1. All data series go back as far as 1990.
2. Where appropriate, GDP deflators have been used to exclude the effects of inflation.
3. The effects of population growth have been avoided by using numbers on a per head basis.
4. Britain's net debt passed the £1 trillion mark in March 2012 (66% of GDP).
5. 3.8 trillion state pension obligation was announced by ONS in May 2012.
6. Public sector pension obligation has been estimated at over £1.2 trillion, ibid.
7. The average age of a first-time buyer purchasing without assistance with a deposit is 33 years of age.
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The Intergenerational Foundation (www.if.org.uk) is a vehemently independent, non-party-political think tank that researches intergenerational fairness on behalf of younger and future generations.

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