THE FACTS
ECONOMICS, WEALTH AND DEBT

Are young people being fleeced?

Economic analysis is usually concerned with how wealth is generated and shared, often focusing on the gap between rich and poor. However, these issues can also be looked at across time – in other words how they affect

This approach is at the heart of "intergenerational accounting", a novel way of understanding economics which changes how we might think about the UK economy and the economic policies that have been pursued by recent UK governments.

The UK economy is still one of the largest in the world, with total economic output (Gross Domestic Product, GDP) of about £2 trillion, which is equivalent to about £30,000 for each UK citizen.

Of this the government takes about £620 billion in taxes (roughly 30%), which are used to finance its spending. However, it currently spends more money than it gets in by a margin of about £25 billion each year, and this gap between income and expenditure represents the annual "deficit". This gap has to be plugged using additional borrowing, further increasing the official national debt which is now over £1.8 trillion, or about £66,000 for each UK household.

Such borrowings have to be paid by future taxpayers, and so in intergenerational terms they are a burden which we are passing on to them, even though most of this government spending will only directly benefit those who are around today. This approach is often branded "short-termism".

Among those who are around today, age has a very big impact on their personal economic circumstances. For instance, the over-45s own 87% of all the UK's asset wealth, which includes property, pensions and investments.

DIFFERENT IMPACTS

The majority of younger people are borrowers (to pay for university education, for instance, or to buy a flat), whilst older people are more likely to be savers. This means that the same economic policies are likely to have a different impact depending on how old you are.

intergenerational foundation
Fairness for Future Generations

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A PLACE TO LIVE

Part of the reason why young borrowers are so indebted is that over the last 30 years house prices have grown on an unprecedented scale, especially in London and the South East of England. Rents have also increased steeply because of the rising value of property, and more young people have to rent for longer as they cannot afford to buy property at today's prices.

House-price increases and higher rents have generally been beneficial to older people, who own most of the UK's property. Current property owners form a powerful lobby group, making it less likely that the government would implement policies which act against their interests.

PENSIONS CRISIS

A clear example of short-termism has been the very large pension promises made by the government which are "unfunded" – that is to say, no actual money has been put aside to pay for them. Instead, these have to be paid out of general taxation, meaning they represent a transfer of wealth largely from young workers to older retirees.

This was less of a problem in the past when people lived shorter lives, but the longevity of the current older generation means this will become an increasingly significant burden for younger taxpayers over the coming years. These pension promises already amount to some £7.6 trillion if you include the liabilities for both the state pension – which nearly everyone gets when they reach a certain age – and pensions for former employees of the public sector and private sector companies. Altogether, these liabilities amount to more than £280,000 for each UK household.

Older generations' free university education stands out as a prime example of intergenerational unfairness.

STUDENT DEBT

Following changes to the student loan system in 2012, UK students now have to pay £9,250 a year in fees for most higher education courses, as well as take out further loans to cover their living costs. From 2019, these loans have to appear in the government's accounts, bringing into sharp focus the £121 billion hole – around 5% of GDP – represented by total student debt, most of which will never be paid back. By 2050, according to Department for Education forecasts, it will have grown to £450 billion, or 12% of GDP.

Where does that leave students? Anyone earning over the 2019 threshold of £25,000 a year faces a 41% marginal tax rate for the next 30 years, while being charged interest rates that are triple the government's low-interest borrowing. Given that older generations received university education for free, this stands out as a prime example of intergenerational unfairness.

HANDING THE BILL TO FUTURE GENERATIONS

For a long time there has been an assumption that the liabilities which we are building up for future taxpayers to pay – including pensions and the national debt – would be manageable because long-term economic growth would mean that future people will be wealthier. However, lower-than-expected economic growth has brought this assumption into question.

The result is that these financial commitments are in danger of burdening future generations unsustainably, and may have to be renegotiated if they turn out to be unaffordable.

Online Sources

- Gov.UK: National Statistics: HMRC tax receipts and National Insurance contributions for the UK
- Office for National Statistics (ONS) (2019): UK government debt and deficit: December 2018
- Nationwide Building Society: UK House Prices Adjusted for Inflation (online)
- House of Commons Library: Student loan statistics (16 December 2019) (online)

Recommended Reading

- Willetts, D. (2010): The Pinch: How the baby boomers took their children's future – and why they should give it back. London: Atlantic Books
- Howker, E. and Malik, S. (2010): Jilted Generation: How Britain has Bankrupted its Youth. London: Icon Books