

Select Committee Inquiry:

Post-pandemic economic growth

To: Post-pandemic Economic Growth Public Inquiry

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction

As IF is the UK's leading think tank which exists to promote the rights of younger and future generations, we think the voice of young people needs to be heard during the UK's recovery from the Covid-19 crisis.

This is particularly important because there is now clear evidence which suggests that this crisis has affected different generations in the UK in distinct ways: whereas older people have been far more vulnerable to becoming seriously ill from, and dying with, Covid-19, younger adults have so far borne the brunt of the economic hardship which the crisis has caused. The distinct ways in which the Covid-19 crisis has affected different age groups means that government support measures which are intended to help the UK recover from the crisis will need to be targeted at different groups in a nuanced way in order to have their desired effect.

As we already knew that young adults were still feeling the impacts of the 2008 financial crisis on their living standards, particularly with regard to stagnating real incomes and lower wealth accumulation compared to when previous generations were at the same stage in life, we think it's important that the UK economy doesn't simply return to "business as usual" in the aftermath of the Covid-19 crisis.

In the rest of our response, we will present evidence to demonstrate that young adults have been disproportionately affected by the economic impacts of the Covid-19 crisis and then propose some policy ideas which we think the UK government should adopt in the post-Covid world.

1. The Covid-19 crisis has harmed the living standard of young adults disproportionately

Prior to the beginning of the Covid-19 crisis, young adults in the UK were already lagging behind where previous generations were at the same stage in life on a number of measures.

As the final report by the House of Lords Intergenerational Fairness and Provision Select Committee argued in 2019, members of the Millennial generation (those born between 1980 and 2000) were not earning any more in real terms than the previous generation were at the same stage in life, despite a much higher proportion of them holding a university degree; they were also more likely to be working in temporary or insecure forms of employment, much less likely to have got on the property ladder, less likely to be saving towards their retirement via a defined benefit pension scheme, and the members of this generation who have been to university are burdened by high levels of student debt.¹

IF published research last year in collaboration with Yorkshire Building Society which highlighted how young adults' living standards today have declined in comparison to those of the previous generation when they were at the same stage in life; by analysing the household expenditure of different age groups, we found that almost two-thirds of all the money which is spent by households in which the Household Reference Person is under 35 goes on "essential" goods and services such as housing, transport, clothing and food; this figure is higher than for any other age group and has increased by nearly 10% between since the early 2000s. By contrast, the proportion of their total household budget which is spent on essentials has fallen for the average household where the Household Reference Person is over 65.²

Since the Covid-19 crisis began, a number of pieces of evidence have emerged which suggest that young adults have also taken an especially large hit to their living standards from the pandemic. Firstly, we know that younger adults disproportionately work in sectors of the economy which have seen reduced activity since social distancing measures began, such as retail, hospitality and tourism, which means more of them have been unable to work and face a higher risk of unemployment going forwards.³ These industries also tend to disproportionately provide employment for young adults who have recently left education, which means there is a significant risk of this year's generation of

¹ House of Lords Intergenerational Fairness and Provision Select Committee (2019) *Tackling Intergenerational Unfairness* London: House of Lords

² Kingman, D. (2019) *All-consuming pressure: the cost-of-living-crisis facing younger generations* London: IF

³ Joyce and Xu (2020) *Sector shutdowns during the coronavirus crisis: which workers are most exposed?* London: IFS

school and university leavers experiencing unemployment at the beginning of their working lives.

Secondly, younger workers are conversely more likely to have been furloughed than older workers are, which means that many of them will have suffered a fall in their incomes.⁴ Thirdly, we know that this age group is less likely to be able to cope with suffering a sudden decline in their incomes than people in older age groups are because they are less likely to have enough savings to be able to maintain their previous standard of living.⁵

Finally, we also know that this crisis is likely to have a severe impact upon the housing situation on this age group, as they are more likely to be living in the private rented sector than older households are. Although the government has so far placed a ban on evictions throughout the period when social-distancing measures have been in effect in the UK, this is currently due to expire on 23 August, and there could be a wave of evictions at that point if large numbers of private renters still cannot afford to pay their rent. Additionally, there is the problem that tenants who've been granted rent holidays are accumulating debts throughout this crisis that they have an obligation to pay back to their landlords in future, which is likely to have a further negative impact on their living standards.

We also know from our own original research that the Covid-19 crisis has also exposed pre-existing inequalities in the amount of living space which different generations have access to, which is significant given that many households have been spending most of their time at home since the lockdown began. Using data from the English Housing Survey, we found that half of all households in England where the Household Reference Person is aged 16 to 29 have less than 29.9 square metres of living space per person, whereas households where the HRP is aged 65 or over have almost twice as much (57.3 square metres per person).⁶

2. Principles which should guide the post-Covid recovery

IF would like to propose the following set of principles which we think should guide the government's thinking as it formulates its approach to the economic recovery from the Covid-19 crisis:

⁴ HM Revenue and Customs (2020) *Coronavirus Job Retention Scheme statistics: July 2020* London: HMRC

⁵ ONS (2020) *Financial resilience of households; the extent to which financial assets can cover an income shock* Newport: ONS

⁶ Kingman, D. (2020) [Room to breathe? How the COVID-19 lockdown highlights age inequalities in living space](#)

Wealth Taxation

IF believes that the Covid-19 crisis would be a good moment for the government to think about the overall design of the UK's tax system, given that significantly higher tax revenues are going to have to be generated in its aftermath to help pay for the cost of mitigating it.

One of the most obvious ways of making the design of the UK's tax system more intergenerationally fair would be to shift some of the burden of taxation from earned income on to wealth, as taxes on earned income fall more heavily on younger people whereas the fact that much of the UK's private wealth is owned by older households would result in them contributing more towards the recovery.

Although a full analysis of the potential benefits and drawbacks of different models of taxing wealth is beyond the scope of this consultation response, the two most obvious channels through which it could be taxed would be through either reforming council tax to make it fairer and more progressive, or reforming the design of inheritance tax.

Green Recovery

IF also believes it is important that the UK government emphasizes the idea of ensuring that the UK has a "green recovery" when it comes to thinking about what the future should look like. This would mean that the ambition of achieving net zero greenhouse gas emissions by 2050 should be one of the key targets for the UK's recovery, which will require targeted investments in key areas such as renewable energy, home insulation, and electric vehicles.

A key aspect of this strategy would be resisting calls to return to the UK's pre-covid economy, for example by giving government bailouts to companies in heavily polluting sectors such as air travel (which, as previous IF research has shown, is already heavily subsidised by the taxpayer).⁷ Given that the heavily polluting sectors will no longer be viable in a future where the UK achieves its net zero target, bailing out these industries now will only postpone the pain which they are likely to suffer at a later date.

Long-term thinking

Finally, IF also believes that this crisis represents an important opportunity to embed long-term thinking at the heart of government decision-making. Even once the current crisis has subsided, it is clear that future pandemics will remain an ever-present risk to the UK which we need to be better-prepared to face in the future. Also, this crisis has highlighted

⁷ Lockley and Dresner (2012) *Flying in the face of fairness: intergenerational inequalities in the taxation of air travel* London: IF

deep inequalities in UK society, especially between different age groups, which it will require long-term planning to try and address.

One way in which a number of other countries have inculcated a culture of long-term thinking into their political decision-making is by passing legislation which recognises the rights of future generations in law. The Well-being of Future Generations (Wales) Act 2015 is one of the world's best examples of legislation which grants legal protections to future generations, so this would be an opportune moment for the UK government to learn from the example of the Welsh assembly. IF is also supportive of the Well-being of Future Generations Bill [HL] 2019 which was originally introduced in the House of Lords at the end of the last parliament, as if it became law this would extend most of the legal protections which future generations now enjoy in Wales to cover the whole of the UK.⁸

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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⁸ Thomas, G. (2020) *Back to the Wellbeing of Future Generations Bill* UK Constitutional Law Blog: <https://ukconstitutionallaw.org/2020/04/07/gethin-thomas-back-to-the-wellbeing-of-future-generations-bill/>