Call for Evidence:

Comprehensive Spending Review

**To:** HM Treasury

**By:** The Intergenerational Foundation

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The Intergenerational Foundation ([www.if.org.uk](http://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 that reducing intergenerational inequalities and getting a fairer deal for younger and future generations should be one of the main aims of the UK’s post-COVID recovery.

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.

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. So 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.

# COVID-19 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, and 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.

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 that 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% since the early 2000s. By contrast, the proportion of their total household budget that is spent on essentials has fallen for the average household where the Household Reference Person is over 65.[[1]](#footnote-1)

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 they face a higher risk of unemployment going forwards. 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 school and university leavers experiencing unemployment at the beginning of their working lives.[[2]](#footnote-2)

Secondly, younger workers are conversely more likely to have been furloughed than older workers, which means that many of them will have suffered a fall in their incomes.[[3]](#footnote-3) 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 because they are less likely to have enough savings to be able to maintain their previous standard of living.[[4]](#footnote-4)

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. Although the government has placed a ban on evictions in England, this is currently due to expire on 20 September, 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 have been 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[[5]](#footnote-5) 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 16–29 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).

# Seven Proposals for the COVID Generation

IF would like to present seven policy proposals to support a fairer post-COVID settlement for young people.

1. **Invest in young people’s mental health services**

According to ONS figures,[[6]](#footnote-6) the percentage of adults with some form of depression has risen from 9.7% to 19.2% during the pandemic. Unsurprisingly, given the disparate impact of the virus and lockdown, young people have been particularly badly affected, with rates almost trebling from 10.9% to 31% among 16–39 year-olds. Young people were also more likely to develop severe depression during the pandemic than any other age-group. ONS researchers also found that adults who experienced depressive symptoms during the COVID-19 pandemic were also more likely than other adults to say they were experiencing high levels of anxiety and loneliness. Much of this anxiety is linked to the precarious financial position of young people and worries about whether they will keep their job, how they will find a new one, what welfare programmes they are eligible for and when they will receive their payments, and if they have sufficient savings to cover necessities.

Significant resources are required to tackle these underlying causes of depression, but in the short term, more funding is needed to address the growing mental health crisis. Aside from considerations about young adults’ wellbeing, there is also a large economic cost associated with mental health problems, that IF has recently investigated.

Our findings[[7]](#footnote-7) show that a depressed person is expected to cost the government an additional £37,770 as a result of lost tax revenues, increased health service use, social security payments and excess mortality between the ages of 16 and 40. Applying our estimate to an annual birth cohort translates to a total fiscal cost of £2.9 billion between the ages of 16 and 40 for each birth cohort. These figures suggest that there is a strong economic case for increased spending on depression that will enable those with depression to achieve a normal life trajectory. What the government loses in net tax contributions from each depressed person could pay for 35 courses of CBT treatment consisting of 10 sessions of each. If we consider the fiscal loss from the entire cohort, this would be equivalent to paying for 27 million courses of CBT treatment.

Our results also demonstrate that mitigating the impact of depression on employment outcomes can lead to large reductions in fiscal losses. Depression can lead to behavioural and cognitive changes such as low motivation, stress and low mood, which hinder progressions in employment searches. Most recent estimates suggest that having depression as an adult means you are four times more likely to not be in employment, education or training (NEET), so tackling mental health problems would help the government meet its objective of strengthening the UK’s economic recovery from COVID-19 by prioritising skills. Reducing this impact by half can produce an extra £1.74 billion in net tax contributions, or in other words, retrieve 60% of the total fiscal cost. Conversely, allowing the impact to worsen can potentially inflate the cost up to a value of £5.2 billion.

Therefore, the fiscal costs of inaction are massive. Addressing the mental health crisis is the only way for the government to deliver on its pledge to initiate an economically sustainable, skill-based recovery.

1. **Expand social housing to deliver affordable homes**

Housing is one of the key areas of intergenerational inequality in the UK today. Most parts of the UK, but especially London and the South East, have seen dramatic rises in house prices over the past 25 years which has inevitably benefited property-owners at the expense of people who do not own their own homes.

This has huge implications for intergenerational equity because property owners are disproportionately likely to be older people who got on the housing ladder when it was still relatively affordable in the 1970s and 1980s, whereas because today’s young adults did not have that opportunity, they must either buy or rent their housing in an over-inflated housing market or live with their parents for much longer than was considered usual by previous generations.

IF research[[8]](#footnote-8) shows that mean equivalised expenditure on housing and domestic utilities rose by 17% in real terms between 2001-02 and 2016-17 among households where the HRP was under 35, compared with an increase of only 5% among all households overall. This was largely explained by the increasing tendency for young adults to live in the private rented sector over this period, which has meant that many of them have not been able to benefit from the reduced cost of servicing a mortgage during an era when interest rates have been extremely low by historical standards. As a result, young people in the under-35 age category now devote an average of 63% of their equivalised weekly income on essential goods and services, among which the cost of housing is the single largest item.[[9]](#footnote-9)

In our research paper ‘Unlocking England’s Hidden Homes’,[[10]](#footnote-10) IF called for the creation of a new householder permitted development right which would enable people living in large homes to subdivide them into multiple smaller properties with only prior approval rather than full planning permission. The report estimated that there could be as many as 4.4 million homes in the country which would be suitable for subdivision, and it would be particularly useful as a means of enabling older people who want a smaller home to “downsize-in-situ” without having to leave their existing communities.

But this alone will not create enough homes to reach the 300,000 target, or put sufficient downward pressure on the private rental market. The last time a government reached anywhere near 300,000 homes a year, 40% were built by councils. The government must stop its reliance on large private sector developers who have so far failed to build the affordable homes young people need: according to government figures,[[11]](#footnote-11) only 57,825 of the newly built houses in 2019 were affordable for young people. Greater funds should be allocated to councils for housebuilding, potentially sourced from a new local authority housing tax levied on home-owners to replace the intergenerationally unfair council tax regime.

1. **Make the £20/week Universal Credit increase permanent**

According to DWP figures,[[12]](#footnote-12) 34% of new Universal Credit claimants are adults aged under 30. As mentioned above, this age-group already spends more on essentials than any other, and they are unlikely to have sufficient savings to support themselves during periods of unemployment. The extra £20 has been a vital lifeline for this age-group to buy food and keep up with rent and utility payments. Removing this lifeline would see thousands of young people fall into poverty and face evictions.

We also know that financial anxiety is a key determinant of mental health issues such as depression. Withdrawing support at a time when people’s money worries are at an all-time high[[13]](#footnote-13) would put the NHS under huge strain and eat into much of the fiscal benefit of the cut.

Allowing huge increases in poverty is also unfair on the next generation. Growing up in poverty has devastating effects on a child’s educational achievements, and employment prospects, so a large increase in poverty would provide a significant obstacle to the government’s levelling-up agenda.

1. **End the Triple Lock**

The main criticism of the UK’s current welfare state from an intergenerational perspective is that it redistributes too many resources purely on the basis of age, when there is clear evidence on the changing demographics of poverty in the UK which demonstrates that this is an increasingly inaccurate proxy measure for economic need. Since 1990, pensioner households have gone from being the group with the highest levels of poverty compared to children and working-age households to that with the lowest levels. IF strongly believes that redistributing according to economic need ought to be the guiding principle of any equitable welfare system, so remedying this flaw should be the main focus of future reforms. By contrast, the general direction of welfare reforms over the past decade has substantially increased the real value of pensioner benefits (primarily the state pension through the “Triple Lock”) while benefits for people of working-age have borne the brunt of government austerity measures.

IF takes the view that the state pension “Triple Lock” guarantee is unfair on younger generations who have to pay for it, while it is not a particularly effective means of addressing pensioner poverty because of broader flaws with the UK’s state pension system. Research by the Institute for Fiscal Studies indicates that pensioner incomes are likely to continue rising throughout the next decade, as retiring Baby Boomers consume their housing and pension wealth. Therefore, given this long-term shift in the distribution of wealth and income in the UK, IF does not consider it equitable to uprate the Basic State Pension (BSP) more generously than other benefits which go to working-age claimants. The value of the BSP has increased by almost 32% in nominal terms since 2011, whereas CPI growth has been only 24% and average wages increased by just 23% over the same period.[[14]](#footnote-14) From an equity standpoint, it makes sense to uprate the BSP in line with either inflation (to maintain its purchasing power) or earnings (so that it increases at the same rate as the working population’s capacity to pay for it), but increasing it by more than either of these measures is unfair, especially at a time when many working-age benefits have been either frozen or indexed by less than the value of inflation. If the goal of the Triple Lock policy was specifically to ameliorate pensioner poverty, then there are better-targeted methods of doing this.

1. **A Green Recovery**

IF also believes it is important that the UK government emphasises 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[[15]](#footnote-15)). 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.

The UK net zero target is commendable, but it has not been matched by concrete policy proposals to meet it. Too often, lack of resources and government capacity have been cited as reasons for not taking the bold steps needed to prevent catastrophe. But the pandemic has revealed these excuses to be illusory; the government needs to finally show a level of ambition that reflects the urgency of the climate crisis.

1. **Take action to meet the 2.4% R&D spending target**

A crucial part of the green recovery is to increase spending on R&D. Currently the UK lags behind the Czech Repbulic, Iceland and Slovenia in R&D spending as a proportion of GDP, and stands at only 17th in the world.[[16]](#footnote-16) At 1.7% of GDP, UK R&D lags almost a third below the 2.4% target, and shows no signs of rising.

IF created an EU Index of intergenerational unfairness[[17]](#footnote-17) in 2016 which included an EU-wide comparison of the amount that different member states spend on investment in R&D as a proportion of GDP. This showed that the UK currently spends less on R&D than most EU members, and that the UK’s spend had actually fallen slightly between 2000 and 2013. IF’s EU index drew upon research which showed that the European countries that have the highest levels of R&D investment – led by Finland and Sweden, where it is above 3.3% – tend to have strong private sector R&D investment in addition to generous state funding; this strongly suggests that the UK will need to galvanise the private sector to invest far more in R&D than it is currently doing.

1. **Increase the funding of Kickstart placements to 35 hours**

The government’s Kickstart scheme shows a commendable ambition to bring the COVID generation into the workforce and tackle long-term youth unemployment. To fulfil the ambition of delivering a skills-based recovery and extending opportunity all over the UK, it is essential that good jobs are available for young people.

However, the current proposal to fund only 25 hours a week placements is concerning. It encourages businesses to view the scheme participants as work experience trainees and not as full employees, reducing the chance that they will hire them once the scheme ends. Furthermore, due to the requirement that Universal Credit claimants must demonstrate that they are working or looking for work for 35 hours’ work each week, participants in the scheme will have to make up the shortfall of 10 hours in other ways. This means that participants will still have to have constant check-ins with work coaches to prove that they are fulfilling these requirements, further ensnaring them in a system that drives a third of UC claimants into clinical depression.[[18]](#footnote-18) 35-hour placements would reduce stress on applicants, and allow them to put all their energies towards making the most of the opportunity, and coming off JSA for good.

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

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