Written evidence submitted by the Intergenerational Foundation

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:

The Intergenerational Foundation (IF) is glad to have the opportunity to respond to an inquiry into how the HM Treasury can mitigate inequalities that have been exacerbated during the coronavirus pandemic. As an organisation set up to protect the rights of younger and future generations, our work focuses on understanding inequalities between the generations and how they have changed over time. Our research demonstrates that the coronavirus pandemic has had a disproportionate impact on the livelihoods of young people and, as a consequence, the intergenerational inequalities that already existed prior to the crisis have widened.

Government policy plays a key role in reducing these imbalances. In this response, we give an overview of the trends in inequalities between the generations, the key drivers behind them and recommendations on how the HM Treasury could reduce these disparities as part of our recovery from the crisis. A separate section has also been dedicated specifically to examining the causes of intergenerational inequalities in housing and how we can address them.

1. The crisis has exacerbated income inequalities between the generations

Before the pandemic, younger generations were already facing harsher socio-economic pressures than previous generations and had not fully recovered from the 2008 crisis. Our research has shown that in 2017-18, the average income of a worker aged between 18 to 26 was 11% less than what previous generations were earning at the same age before the 2008 crisis.[1] The pandemic crisis has scaled back this progress even further, with younger workers more likely to experience a reduction in their pay in 2020 (whilst older workers were more likely to have their pay topped up)[2] and experiencing the largest drop in the number of employees on the payroll.[3] Although unemployment levels amongst young people aged 16 to 24 have returned close to pre-pandemic levels in 2021, employment rates amongst this age group are still 8% lower than what they were in the quarter preceding the start of the first lockdown,[4] suggesting that inequalities still remain.

The labour market position of young people prior to the pandemic has played a key role in reducing their resilience to the crisis. Young workers under 25 are two and a half times more likely to be working in sectors that were shut down[5] and also more

[1] Kingman, D. (2020) *Young Adults 2020: IF Index of young adults' wellbeing* London: IF

[2] Low Pay Commission (2020) *Low Pay Commission 2020 Report launch event* London: LPC

[3] ONS (2021) *Earnings and employment from Pay As You Earn Real Time Information, UK: June 2021* London: ONS

[4] House of Commons Library (2021) *Youth unemployment statistics* London: UK Parliament

likely to be working zero-hour contracts, which, according to the ONS, could place them at a greater risk of not receiving proper furlough payment due to employers failing to claim.[6] Furthermore, combined with reductions in pay, rising housing costs have meant that young people are spending a larger share of their expenditure on essential costs. Previous IF research has found that under-35s spent 63% of their weekly expenditure on essentials in 2016–17, an increase of 8% since 2001–02.[7] It is likely that this share will have increased since the pandemic crisis began.

It should be emphasised that government policy has also played a *direct* role in exacerbating income inequalities between the generations. IF has previously published a study into the age distribution of government spending, which demonstrates that public spending has become increasingly skewed against younger generations. In 2018–19, the government was spending £6,000 more on each pensioner than they were on each child, a gap that is double what it was approximately two decades prior in 1999–00.[8] Government spending on social protection in particular is a key driver behind this inequality. For instance, spending on benefits for children have stayed relatively flat in real terms over the past two decades, whilst spending on benefits for each pensioner has increased steadily as government promises for older generations have expanded. One notable policy change was the introduction of the triple lock in 2010, which coincided with an increase in the cost of the state pension by £975 per pensioner. Furthermore, where pensioners more often benefited from the universal provision of services or benefits, such as Winter Fuel Payments, free travel on buses and medical prescriptions, benefits for children were more likely to be provided on a means-tested basis. This tipped the balance against younger generations even further.

These factors, which help to determine how much income pensioners receive as well as the proportion of their spending that is needed to pay for essentials, are likely to have contributed to the very welcome decline in pensioner poverty rates over the past two decades. Unfortunately, the same cannot be said for children, whose relative poverty rates are not dramatically different to what they were two decades ago.

2. Intergenerational inequality in housing

Home ownership has also become increasingly unattainable for younger generations. As a consequence of the steep rise in house prices, a large proportion of housing wealth is now claimed by older generations, with the over–65 age group owning 46 per cent of all housing wealth in 2019.[9] It has also contributed to the reality that one in five over-65s were found to be millionaires in 2019, up from 7% in 2006.[10]

Our research into housing inequalities has highlighted two overarching drivers behind

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[5] Joyce, R. and Xu, X. (2020) *Sector shutdowns during the coronavirus crisis: which workers are most exposed?* London: IFS

[6] ONS (2021) *Painting the full picture: what our statistics tell us about the labour market* London: ONS

[7] Kingman, D. (2019) *All Consuming Pressure: The cost-of-living crisis facing younger generations* London: IF

[8] Bui, M. (2021) *Age Bias: How government spending is skewed against the young* London: IF

[9] Savills (2020) *UK housing stock now worth a record £7.39 trillion after decade of gaining £750 million a day* London: Savills

[10] Asgari, N. (2019) *One in five UK baby boomers are millionaires* London: FT

these alarming inequalities in housing and wealth. The first and most apparent problem is increasing house price unaffordability. In the early 1990s, the average full-time worker would pay around 3.5 times their annual earnings to buy a home and that figure rose to 7.8 by 2019.[11] Rising house prices have been driven by the issue that housing supply has not been able to keep up with the increase in demand, which is partly the result of low house building rates. Official figures show that the government has been consistently missing their own target of building 300,000 new homes per year.[12]

Although the rate of increase in house prices has declined over the last four years, there has been a marked increase in prices throughout the pandemic year. Despite well-meaning intentions, government interventions such as the Help to Buy scheme and the Stamp Duty holiday have, and will, continue to contribute to rising house prices. This is because, again, both of these policies increase demand for housing during a time when we are not making enough progress with increasing housing supply. In the case of the Stamp Duty holiday, which charges a zero rate on property purchases valued £500,000 and under, the increase in demand has arisen as a result of buyers using their savings from the Stamp Duty Holiday to opt for larger properties. It is also questionable to what degree the Help to Buy scheme has been effective for lower earning young workers, given that the earning threshold remains unchanged despite the offer of a 95% mortgage.

On the other side of the coin, an issue that is also contributing to limited supply which is often overlooked is the inefficient usage of our current housing stock. In 2020, 52% of homeowners in the UK were under-occupying their homes, which refers to the proportion of homeowners who have two spare bedrooms or more. This is being primarily driven by the slowdown in the rates at which owner-occupiers are moving house, the increase in the number of second homes as well as the lack of incentives to downsize. In 2020, there were 5.5 second homes in England, which represents an increase of 50% since 2011. It is primarily older generations who are driving this increase, as it has coincided with an increase in the share of homeowners who are over the age of 65 and the shrinkage of the share of younger owners. Figures from housing advertisement platform Zoopla also demonstrate that homeowners are moving house much less often than they have in the past. In 2020, the average homeowner moved house every 22 years on average, which is a drastic increase from the 8.6 average observed in 1988. These findings offer an additional perspective to what is causing the housing crisis, highlighting the inefficient usage of our current housing stock as another key driver behind rising house prices.

3. Young people should be at the heart of the recovery from COVID–19

Due to the disproportionate economic impact that the pandemic crisis has had on younger generations, IF urges the HM Treasury to put children and young people's needs at the heart of the government's recovery policies. We recommend the following changes to be able to mitigate the intergenerational inequalities that have widened during the crisis:

a) Commit to intergenerational fairness into all spending and tax decisions

[11] Wiles, C. (2021) *Stockpiling Space: How the pandemic has increased housing inequalities between older and younger generations* London: IF

[12] Ministry of Housing, Communities & Local Government (2021) *Housing supply: indicators of new supply statistics* London: GOV.UK

IF urges the HM Treasury to reset the imbalance in government spending that existed prior to the pandemic crisis by allocating resources towards meeting the needs of children and young people.

This involves treating the needs of children the same as pensioners, which can be achieved in part by not providing benefits and services to pensioners on a universal basis when the equivalent benefits for younger generations have been restricted to the poorest children. It is also important to identify whether government spending during the pandemic crisis has indeed produced "value for money", or whether there are any inefficient payments which have placed a larger burden on current and future generations than necessary. Impact assessments already exist to protect groups with "protected characteristics, and we urge HM Treasury to consider introducing "intergenerational fairness impact assessments" in order to better protect younger and future generations from bearing too much of spending decisions made today.

Our comparison of spending on different age groups in our *Age Bias* report offers some perspective on what might constitute a "fair" allocation of taxpayers money. For instance, it does not seem justifiable that, over the past four years, the government has been spending 45% more on interest payments attached to this debt than child benefits overall. It also does not seem fair that we are spending more on season-specific benefits for pensions through Winter Fuel payments than Sure Start Centres, which provide year-round services for children.

b) **Reform the triple lock**

Not only has the triple lock led to a large increase in the cost of the state pension over the past decade, there is a real risk that it will cost the government billions more in public funds in the years to come as a result of the recent superficial increase in average wages. According to official figures, average wages have increased by 8% over the past year, however, this has been driven partly by millions of workers leaving the furlough scheme, thus returning to 100% pay, as well as job losses in primarily low-paid sectors such as hospitality.

Under the Triple Lock Scheme, the state pension will need to match this increase. However this is estimated to cost the government an additional £4 billion a year.[13] We recommend that the government returns to a double lock system, which will release funds that can be used for younger and future generations.

c) Tax unearned wealth

Government policies such as not having to pay national insurance contributions (NIC) on rental income, and Capital Gains Tax (CGT) exemptions and allowances have enhanced the growth in the unearned income of homeowners, who were already profiting from the rise in house prices.

IF has previously estimated that the government could raise up to £50 billion a year by raising taxes on unearned income and wealth, a figure that is large enough to award free university education to all on an annual basis and is equivalent to 33% of spending on the NHS.[14] Approximately £24 billion in extra tax revenue can be generated by charging national insurance contributions on rental income for

[13] Financial Times (2021) *Sunak faces £4bn bill to keep 'triple lock' pension pledge London:* FT

[14] Intergenerational Foundation (2020) *London Travelwatch Consultation: Intergenerational Foundation response* London: IF

landlords and shareholder dividends, while up to £28 billion could be raised from the removal of CGT exemptions and allowances.

Taxing unearned wealth in this way can therefore generate billions in extra revenue that can be used to help fund the recovery.

d) Reform National Insurance Contribution exemptions

In addition to exemptions on rental income, IF also argues that it is intergenerationally unfair to exempt over-65s who are still working from paying NIC. The proportion of over-65s who continue to work past the State Pension Age has increased and in 2018 we found that 1.2 million people in this age group were still in employment or self-employed. The result of their exemption from paying NIC is that these pensioners are benefitting from an unearned pay rise, a burden that falls largely on younger generations. We estimated that removing this exemption for over-65s in employment could raise at least £1.5 billion a year.[15]

Aligning NIC rates for over-65s with other generations would ensure intergenerational solidarity with their generation by helping to contribute more towards repaying the country and the NHS for protecting their generation during the pandemic. It would also help to contribute more towards pensioners' own old-age social care and reduce the burden on younger generations at a time when they are struggling most economically.

e) Incentivise downsizing

Lastly, Stamp Duty Land Tax can be reformed in order to work in favour of younger generations if it is designed to incentivise downsizing and thereby releasing more housing stock. This can be achieved by exempting stamp duty from purchases where the buyer is moving from a larger, more high value property to a smaller, cheaper property. This reform has the potential to lower the cost of downsizing for older owner-occupiers by thousands of pounds. For instance, under the scheme which will return after the stamp duty holiday ends, an older owner-occupier wishing to downsize is obliged to pay 2% stamp duty on any purchase above £125,000 up to £675,000. For a property priced at £400,000 this would amount to a tax of £8,000 We recommend that the HM Treasury uses bedroom size as a metric for identifying downsizing transactions.

Conclusion:

The crisis has brought forward a key opportunity to rebalance inequalities in socio-economic outcomes between children, working-age adults and pensioners that have worsened since the first lockdown began. This consultation response outlines several key policy recommendations which, if implemented, will improve the socio-economic circumstances of younger generations, who have borne the brunt of the economic cost of the crisis, and reduce intergenerational inequalities in housing, income and wealth as we recover from the crisis.

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[15] Intergenerational Foundation (2018) *An Extraordinary Anomaly: Why workers over state pension age should pay National Insurance* London: IF