



Number 95

19 June 2017

Economic Bulletin

OFFERING THE YOUNG A GOOD DEAL



- **Softening overall fiscal plans would be ill-advised. Yet there is scope to re-gear the Government's priorities towards more intergenerational fairness.**
- **Labour would have added at least an extra £150bn to UK debt over 5 years. Younger people would be burdened yet this was not given adequate attention.**
- **Conservatives should highlight their achievements on social issues, such as the Modern Slavery Bill and reforms to stop and search.**
- **Labour's pledge on tuition fees was elitist, asking non-graduates to subsidise graduates who on average earn £9.5k more per year. The policy's cost would be equivalent to 2.8 percentage points on the basic rate of income tax.**
- **The Conservatives need credible alternatives to Labour's spending commitments.**



- **The Government's Housing White Paper was a step in the right direction, but it doesn't go far enough for young families waiting to get on the housing ladder.**
- **There is now a pressing need for the creation of an Office of Intergenerational Responsibility to assess the impact of legislation across the generations.**
- **The Conservative Party needs to spell out the consumer benefits arising from leaving the EU.**

INTRODUCTION

The general election result has highlighted the huge intergenerational divide that has emerged among Britain's electorate. Jeremy Corbyn's Labour Party was more popular than the Conservatives in every age group up to 49, according to [YouGov's poll](#) of over 50,000 people.

How should the Conservative Party respond to this somewhat troubling development? Many have argued an end to austerity is the way forward. Indeed, many of the pledges that advocated restraining public spending within the Conservative manifesto proved incredibly unpopular.

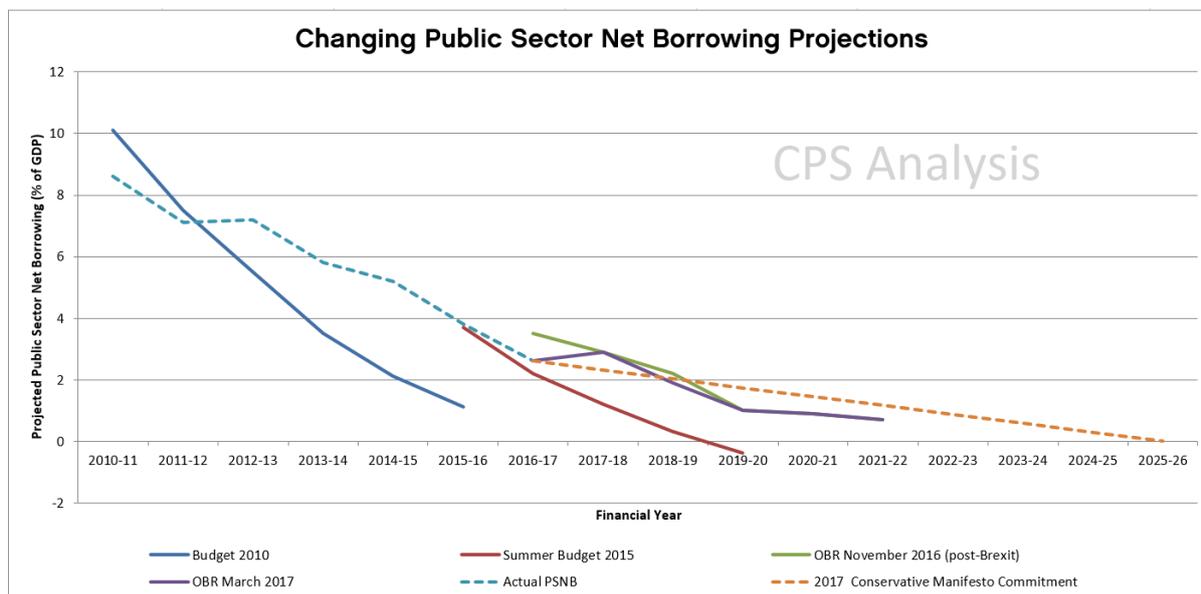
However, matching Labour commitments on public spending – or even loosening the purse strings compared to previous plans – would be irresponsible. The Conservative Party's manifesto commitments were already very modest in respect to austerity, with the plans seeking to achieve a budget surplus only by 2025-26 (see Figure 1). This would, in itself, have meant that the UK Government had been running a budget deficit for 25 years, which is the [longest period](#) that the UK has run a deficit since the second world war.

Yet it cannot be business as usual. While the Conservative Party should not soften its overall fiscal position, there is certainly scope to reconsider its priorities and to adopt its language so that more of the younger generation can be persuaded that voting Conservative is socially fair and in their interest. Without that it will struggle to survive.

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Figure 1: Conservative Party Commitment on Deficit Reduction



Sources: Red Books, OBR, Conservative Party Manifesto

1. PILING UP GREATER DEBTS IS UNFAIR ON THE YOUNGER GENERATION

Analysis by the Institute for Fiscal Studies suggested that, based on the plans set out in the major Party manifestos, the Labour Party was planning to borrow over £150bn more than the Conservatives over the course of the Parliament (see Figure 2 and Table 1). The impact of Labour's spending plans would be more severe than this, of course. For example, this gap in deficits between Labour and Conservative Party plans would like to extend into the future, adding hundreds of £billions more in extra debt.

This incurred debt is, effectively, a way of passing on the overspending of today's generation onto future generations. Indeed, this a point that was effectively made by Theresa May in her first Prime Minister's Questions, where she said: "He [Jeremy Corbyn] uses the language of austerity; I call it living with our means. He talks about austerity, but actually it is about not saddling our children and grandchildren with significant debts to come".

The Conservatives did argue that Corbyn's plans would destroy job creation in the UK, but the intergenerational unfairness of greater debts did not get an adequate airing in the Conservative Party campaign – perhaps to Theresa May's detriment.

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Figure 2: Deficit plans of Labour and Conservatives

Deficit falls further under Conservatives than Labour, but still some way off being eliminated

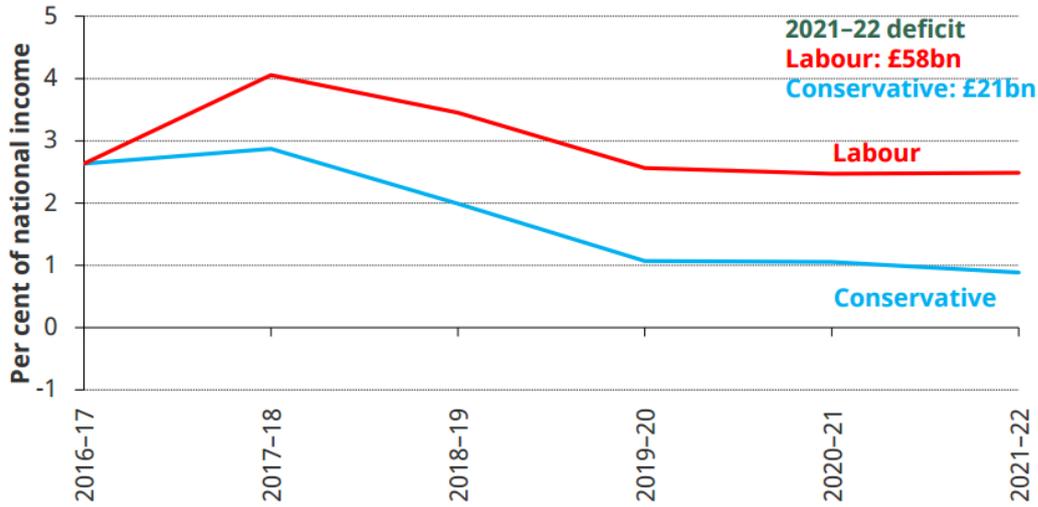


Table 1: Gap between Labour and Tory deficit plans

	<i>Gap between Labour and Tory deficit plans (% of GDP)</i>	<i>OBR Projected GDP (£bn)</i>	<i>Extra borrowing by Labour (£bn)</i>
2017-18	1.1	2,017	22.187
2018-19	1.4	2,092	29.288
2019-20	1.5	2,175	32.625
2020-21	1.5	2,265	33.975
2021-22	1.6	2,355	37.680
			<i>£155.755bn</i>

Source: Institute for Fiscal Studies

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2. CONSERVATIVE REFORMS ON SOCIAL ISSUES HAVE BEEN INCLUSIVE

In Government, the Conservative Party has pushed through many social reforms which show the Party to be inclusive. For example, under David Cameron the Coalition Government implemented the Equal Marriage Act, which offers the extension of marriage to same sex couples.

Moreover, Theresa May's record on social issues as Home Secretary was very strong. She passed the Modern Slavery Act in 2015 – which boosted measures to tackle human trafficking and slavery – and also reformed stop and search laws in an attempt to boost public confidence in policing.

An emphasis on these achievements would be an important way of showing that the Conservatives seek to govern in the interest of all citizens, including minority groups and those that are most vulnerable in society. Yet, there was little emphasis placed on this during the campaign.

3. LABOUR'S PLEDGE ON TUITION FEES WAS ELITIST AND UNFAIR

According to the Labour Party manifesto document "Funding Britain's Future", Labour's pledge to remove university tuition fees and restore maintenance grants would cost £11.2bn annually. Moreover, commitments made subsequent to the launch of Labour's manifesto could have added a cost of around £3bn for the academic year 2017/18.

This pledge was made on the basis that increases to corporation tax would raise considerable amounts of revenue without having a significant impact on economic activity. The Conservative Party made much of the economic illiteracy of these plans, referring to Labour's "magic money tree". They were, of course, right to do so.

Yet, the Conservative Party failed to make an effective defence of its policy on tuition fees. In fact, Jeremy Corbyn's proposal to remove tuition fees is an elitist policy. Here's why.

According to the Department for Education, non-graduates earn, on average, £9,500 less per year than undergraduates and £15,500 per year less than postgraduates. The economic benefits to an individual of attending university are therefore clear to see.

Yet Corbyn's proposal to remove tuition fees for those attending university and ask the taxpayer to pay instead is, in effect, a subsidy from the less wealthy to the more wealthy. And it is notable that the impact on the taxpayer is significant. For example, the money

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Labour planned to spend on repealing university tuition fees is equivalent to nearly 2.8 percentage points on the basic rate of income tax.¹

Had the Conservative Party attacked the policy on these grounds – as well as highlighting the progressive payback nature of tuition fees – this could have been an effective electoral strategy.

4. LABOUR'S SPENDING PLEDGES: THE NEED FOR CREDIBLE ALTERNATIVES

Labour pledged an additional £5.3bn of funds for better access to childcare and early years funding, including more money for SureStart. Pledges such as these could explain why Jeremy Corbyn polled so well among the 30-39 age group – many of whom will have young children. 55% of 30-39 year olds backed Labour at this election against just 29% that voted for the Conservatives (see Figure 3).

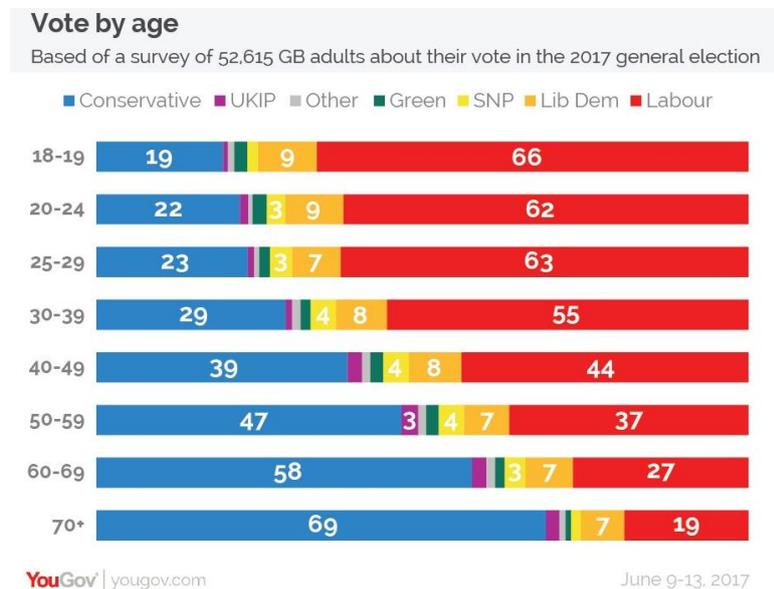
Again, the Conservatives were right to question how such a pledge would be funded. But simply criticising Labour's economic illiteracy is clearly not enough. Young families want solutions to the high cost of childcare and the cost of living in general. It was reported earlier this year, for example, that a part-time nursery place is costing British parents more than £6,000 a year, which is twice the amount the average household spends on food and drink.

¹ A change in the basic rate of income tax by 1p costs adds £4.050bn to the Exchequer (Source: HM Treasury – Direct effects of illustrative tax changes [link](#)).

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Figure 3: Voting by age at the General Election 2017



Source: YouGov

Regulatory burdens are clearly an issue when it comes to the provision of childcare. For example, the cost of childcare in the UK is thought to be so much more expensive because the ratio of carer per child, as required by Ofsted is much higher than in other countries. Advocating an effective strategy to tackle the costs of childcare – without pledging unaffordable commitments – could have been an effective electoral strategy.

To some extent, the Conservative Party Manifesto did do this with energy costs (not related to its ill-advised energy cap) by advocating an independent review of costs, which would have inevitably looked at the issue of the growing burden of environmental levies. Much more could have been made of this, along with the potential gains for households in terms of the reduced cost of living.

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5. RADICAL POLICIES ON HOUSING ARE NEEDED

The cost of housing has become increasingly unaffordable for the ‘Just About Managing’ classes. Since 1997, England’s median earnings to house price ratio has risen from 3.54 to 7.49, according to the Department for Communities and Local Government (DCLG). It is now estimated that just 20% of 25 year olds own their own home – which is down from 46% 20 years ago.

Fundamental to this problem is that the new supply of homes is failing to meet demand. Natural population increase, a falling average household size and high levels of net immigration mean that the UK requires up to 320,000 new homes annually.

Encouragingly, opinion polling suggests that NIMBYism is on the decline. Today, almost twice as many people in England back building new homes in their local area compared to 2010, the National Housing Federation has found.

The Government’s White Paper on Housing this year was encouraging in many aspects. It suggests some modest reductions to planning regulations and stipulates that councils must have an up to date local development plan. It is also welcome that the White Paper invites comments on the CPS’ idea of “pink zones”.

Yet this alone is unlikely to provide the radical solution that younger generations are demanding. Voters need to see dramatic action and want to be able to get onto the property ladder in the short to medium term. This requires much more radical measures, including a review of the greenbelt and the construction of more garden cities.

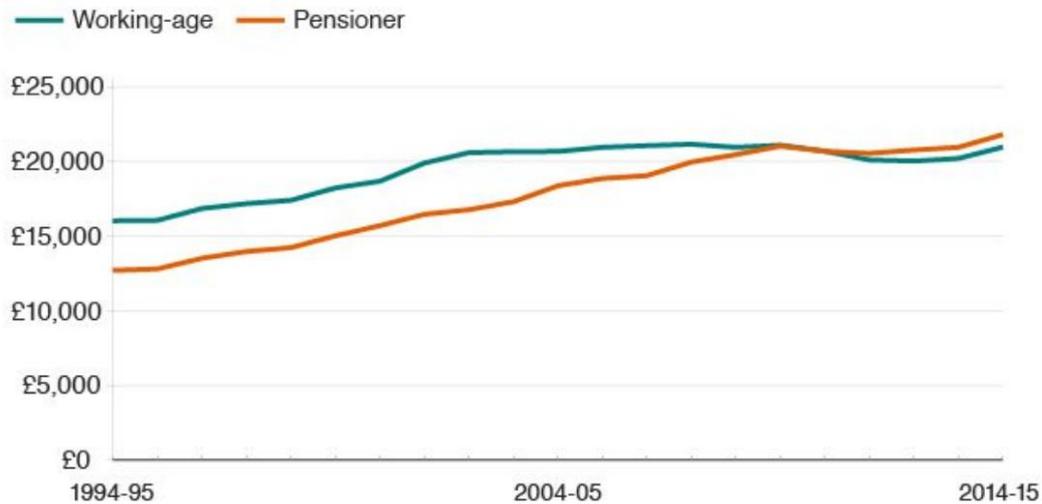
6. INTERGENERATIONAL RESPONSIBILITY

The Government’s fiscal consolidation programme since 2010 has certainly been necessary. The fiscal position inherited by the Coalition Government in 2010 was a major threat to the UK’s long term economic security. However, the way welfare reform has been carried out would also appear to be unbalanced, with the primary focus of the Government’s welfare changes has been on the working age population. While most of these savings have been necessary, pensioner benefits have been effectively ring-fenced during this period. This has led to the extraordinary situation whereby typical pensioner incomes after housing costs are now higher than those of a typical working age household (see Figure 4).

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*Figure 4: How incomes for people on a pension compare with working-age people
Comparison of median disposable income after housing costs*



Source: Resolution Foundation (*As Time Goes By*) February 2017 [link](#)

It is therefore now time for the intergenerational impact of legislation to be examined. This election result has bolstered the case for the introduction of an Office of Intergenerational Responsibility – as proposed by Michael Johnson. This should be established to co-ordinate the production of inter-generational impact assessments and scrutinise all tax reliefs and exemptions. For example, the abolition of National Insurance Contribution relief on employer contributions would save the Exchequer £8 billion a year, and the introduction of a flat rate of income tax relief on pensions could save more than £10 billion a year. These resources could be freed up for the benefit of all generations.

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7. A POSITIVE VISION FOR THE UK'S EXIT FROM THE EUROPEAN UNION

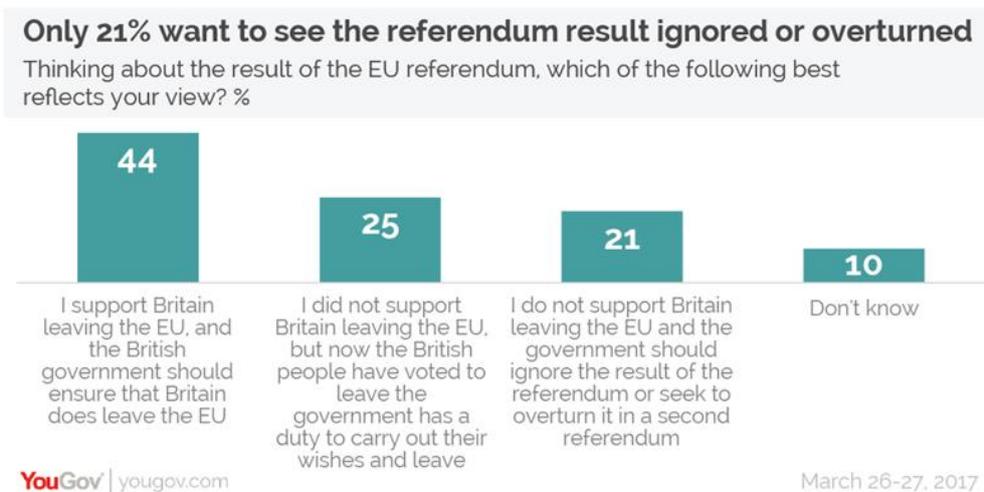
The younger generations overwhelmingly voted against Britain leaving the European Union (see Table 2). Yet it is also true that the vast majority of the British public now want to get on with the best way of Britain leaving the European Union (see Figure 5). This makes it all the more important that the Conservative Party shows why Brexit will be good for Britain.

Table 2: How Britain voted in the EU referendum

How Britain voted		Remain	Leave
Older people with fewer formal qualifications most likely to have voted Leave			
2015 vote	Conservatives	39	61
	Labour	65	35
	Liberal Democrat	68	32
	UKIP	5	95
	Green	80	20
Age	18-24	71	29
	25-49	54	46
	50-64	40	60
	65+	36	64
Education	GCSE or lower	30	70
	A level	50	50
	Higher below degree	48	52
	Degree	68	32

YouGov | yougov.com June 23-24, 2016

Figure 5: Views about the referendum in March 2017



Source: YouGov

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Although there are, of course, risks associated with Brexit, there will also be opportunities for the UK. Freed from membership of the Single Market and the Customs Union, the UK has the chance to promote free trade deals with non-EU countries (including, incidentally, poorer nations that suffer from policies such as the Common Agricultural Policy), implement a migration policy that is under the control of the UK government and regain sovereignty over the UK's territorial waters. These are benefits that must be espoused by Government Ministers.

The Conservative Party could also give a unilateral commitment to guarantee the rights of EU citizens currently residing in the UK. The exact details of any commitment would, of course, need to be carefully thought through, but the signal to citizens that are currently worried about their future would be positive.

CONCLUSION

The Conservatives have managed to attract a very strong vote showing with the over-50s. There is no reason to suppose that by offering the young a better deal means attacking these voters. It is now time for the Conservatives to make an attempt to explain policies that are aimed at all the generations, which promote socially fair outcomes and economic self-sufficiency.

Daniel Mahoney and Tim Knox

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