18 June 2015

Briefing Note

THE CASE FOR AN OFFICE FOR INTER-GENERATIONAL RESPONSIBILITY

MICHAEL JOHNSON

1. UK PLC: NOT SUSTAINABLE

The Office for Budget Responsibility's (OBR) latest annual Fiscal Sustainability Report (FSR, June 2015) makes for sobering reading, particularly if you are a member of Generation Y, or younger.[1] It is unambiguous:

> *The central projection in each of our reports over the past five years has pointed to an unsustainable fiscal position over the long term.*

The OBR defines an "unsustainable fiscal position" as *one in which the public sector is on course to absorb an ever-growing share of national income simply to pay the interest on its accumulated debt.* The latter continues to grow at a pace that *far outstrips the UK's rate of economic growth,* net borrowing (i.e. the budget deficit) for 2014-15 being £87.3 billion, 4.8% of

1 Generation Y: those born between c.1980 and 2000, i.e. aged between 15 and 35 today, also referred to as "millennials". They are preceded by Generation X (early 1960's to 1979 births).

GDP. This is akin to a snowball rolling downhill in wet snow, gathering momentum: come rising interest rates, and the slope will only steepen.

Further evidence of economic unsustainability is afforded by the Treasury's Whole of Government Accounts (WGA). Closer to company accounting than the National Accounts, it provides a more realistic picture of the UK's financial condition by including many of the vast *unfunded* promises that the baby boomers, in particular, have been making to themselves.[2] Items such as £1,300 billion of public sector pensions, provisions for nuclear decommissioning (£77 billion) and clinical negligence (£27 billion), and PFI contract obligations (£33 billion) all appear in the WGA, but are omitted from the National Accounts. At end-March 2014, the WGA's liabilities exceeded its assets by £1,852 billion (£70,000 per household), £450 billion more than the National Accounts' nearest equivalent, the public sector net debt.

But even the WGA does not provide the whole picture. Bizarrely, the State Pension, the largest of all unfunded liabilities (roughly £4,000 billion, raising the burden per household to £221,000) is excluded because it is deemed to be a benefit rather than an obligation. Do NICs not create *any* entitlement (and with that, a liability)?

Reported or not, the unfunded liabilities will still have to be met by subsequent generations, primarily through rising rates of taxation, further fuelled by an ageing population (a point also made in the recent FSR). This is the baby boomers' legacy, a generation that has become masters at perpetrating inter-generational injustice.

Indeed, such is the scale of the unfunded promises that if the UK were accounted for as a public company, it would be bust.

2. GENERATION Y: ON THE RACK

The UK's debt mountain, combined with the risk of an anaemic long-term rate of economic growth, poses a serious threat to Generation Y's future economic wellbeing. This, a generation already faced with unaffordable housing, college debts, fragmented careers, earnings stagnation, relatively thin occupational pension provision, and a rapidly retreating State Pension age. As perhaps the first generation to experience a quality of life below that of their (baby boomer) parents', it could be forgiven for organising themselves to declare "taxation? Forget it."

Meanwhile, politicians, irrespective of hue, continue to fawn to today's pensioners. In the run up to the general election, no one dared confront the State Pension's utterly unaffordable triple lock guarantee,[3] nor the panoply of ancillary pensioner benefits such as the winter fuel payment, the Christmas bonus, free prescriptions from 60 (England), free TV licences and subsidised (or free) travel.

---

2 Baby boomers: born between 1946 and the early 1960's.

3 The triple lock guarantees that the State Pension will increase each year by the higher of CPI inflation, average earnings or a minimum of 2.5%. OBR; *Fiscal Sustainability Report*, July 2013.

3. THE CHANCELLOR RESPONDS

The Chancellor is not oblivious to the OBR's conclusions, and used his recent Mansion House speech to outline plans to bind future governments to running a budget surplus in "normal" times (undefined, but growth-related), to be policed by the OBR. His direction of travel is commendable, but a more robust approach is required to arrest Parliament's output of unfunded spending commitments.

4. INTER-GENERATIONAL IMPACT ASSESSMENTS

A simple intervention mechanism is required right at the heart of the legislative process. Today, prospective legislation is accompanied by an Impact Assessment, an evidence-based document designed to improve the quality of regulation by quantifying its costs and benefits, but not the impact on the young, as future taxpayers. Suggestion: draft legislation should be accompanied by an *Inter-generational* Impact Assessment, not least to provide transparency as to the extent to which costs are being deferred.

Success (smaller unfunded promises) would, however, most likely have an unfortunate corollary: higher taxation, and herein lies a problem. In the final Prime Minister's Questions of the last Parliament, the leaders of the two main parties engaged in a game of (pre-election) Parliamentary Chicken. Who could name the most taxes that they would not raise, were they elected? The outcome is that the recent Queen's Speech ruled out, for the next five years, any increase in the basic and higher rates of Income Tax, along with the rates of National Insurance and VAT. And given that a Conservative administration is unlikely to raise Corporation Tax and business rates, then some 75% of the tax base is off limits.

The game's loser is the Chancellor, his fund-raising flexibility seriously curtailed. He has little choice but to cut tax reliefs and exemptions, heavily defended by special interest (primarily corporate) lobbyists intent upon hacking democracy. But, as an excoriating report from the Public Accounts Committee makes clear, HMRC rarely, if ever, assesses whether tax reliefs are an economic, efficient and effective way of meeting the intended policy objectives. Consequently, the Chancellor has little insight as to whether reliefs are working as intended, their cost and whether they represent good value for money. He needs some assistance, delivered in a manner that institutionalises his good intentions, not least to lend them an air of permanence.

5. AN OFFICE FOR INTER-GENERATIONAL RESPONSIBILITY

An Office for Inter-generational Responsibility (OIR) should be established to co-ordinate the production of Inter-generational Impact Assessments and to scrutinise all tax reliefs and exemptions. It could reside alongside (or within) the OBR, and could fruitfully liaise with the (now expanding) Office of Tax Simplification.

An OIR should exude an ethos of fiduciary duty towards current and future taxpayers, and aspire to a reputation for independence akin to that of the OBR. If it were to achieve this, it would help close what is currently a significant accountability gap between Parliament and the people (particularly future taxpayers). In addition, all tax reliefs and exemptions could be subject to a five year sunset clause, after which they would cease. Lobbyists would be required to present their cases directly to the proposed OIR, placing blue water between vested interest groups and ministers.

Finally, the Prime Minister should embellish his doctrine of personal, professional, civic and corporate responsibilities by adding a fifth category: inter-generational responsibility.

Meanwhile, the perpetration of inter-generational injustice continues unabated.

The author is a Research Fellow at the Centre for Policy Studies. This article follows on from a recent paper ***Who will care for Generation Y?****, available free at* www.cps.org.uk

majohnson@talktalk.net   *Twitter: @Johnson1Michael*