JUSTICE FOR THE YOUNG

EDITED BY
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Introduction

By Robert Colvile

In 1919, a letter appeared in the Times. It warned that in the wake of the Great War, Britain faced a second and more subtle crisis: it was living beyond its means. 'It is so easy to live on borrowed money; so difficult to realise that you are doing so,' wrote the sender. 'It is so easy to play; so hard to learn that you cannot play for long without work. A fool's paradise is only the ante-room to a fool's hell.'

'In 2021, the last year for which we have data, the UK's net worth rose by £1 trillion to £11.8 trillion, the largest increase on record'

The author appealed to Britain's wealthy classes: 'They know the danger of the present debt: they know the weight of it in the years to come.'[1] So, he suggested, they should voluntarily sacrifice one fifth of their assets to pay down that debt, in the interest of the country and of future generations.

There were two extraordinary things about this letter. The first was that the anonymous author, 'FST', was in fact the Financial Secretary to the Treasury, Stanley Baldwin. And the second was that he really did practise what he preached, donating a fifth of his wealth, the equivalent of roughly £5 million today, to cut the debt, and urging others – largely unsuccessfully – to do the same.

Today, Britain is a vastly wealthier place than it was in Baldwin's time. In 2021, the last year for which we have data, the UK's net worth rose by £1 trillion to £11.8 trillion, the largest increase on record.[2] More than half of that uptick was driven by rising land and property prices. But who owns that wealth?

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1 ed. Edward Baldwin, Philip Williamson, *Baldwin Papers A Conservative Statesman, 1908-1947*, Cambridge University Press (2004).

2 Office for National Statistics, 'National balance sheet estimates for the UK: 1995 to 2021', (23 January 2023).

Back in the 1910s, the answer was the same as it had been for centuries: the elite. During the decade in which Baldwin was writing, the richest 10% possessed more than 90% of the nation's wealth – and the ratio had been rising rather than falling.[3]

Today, prosperity in Britain is much more broadly based. But there is still a economic divide running right through the heart of our society. That divide is not between the aristocracy and the rest, but between young and old.

'Since 1997, the number of people who own their homes outright has climbed from 5.2 million to 8.2 million'

Since 1997, the number of people who own their homes outright, mortgage-free, has climbed from 5.2 million to 8.2 million, even as the value of those homes has soared. This represents the greatest increase in wealth in our country's history. And it is the elderly who have overwhelmingly reaped the benefits. Almost three-quarters of retired households now own their home outright, compared with less than 30% where the main earner is self-employed and less than 20% of those who are employees.[4] Life is also sunny for those approaching pension age: median wealth for households aged 55-66 now averages £553,400, 25 times higher than for those aged 16 to 24, making them the richest cohort in society. Those over-55s are also those most likely to have racked up significant pension savings, which are second only to property as a source of wealth, at 40% and 30% of the national total respectively.

Of course, it is inevitable that those who have worked longest will have accrued the most savings. But the seesaw has tilted hugely in recent years. Between 2006-8 and 2018-20, those aged 65-74 saw their wealth increase by an average of £13,000 just from growth in asset prices, vs £5,000 for those aged 30-39.[5] During that same period, those over 55 have seen their share of household wealth increase by 11%, while those under that age saw it fall by the same amount.

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3 Simon Szreter, 'The history of inequality: the deep-acting ideological and institutional influences', Institute for Fiscal Studies (2021).

4 Office for National Statistics, 'Household total wealth in Great Britain Statistical bulletins' (January 7, 2022).

5 Molly Broome, Sophie Hale, Nye Cominetti, Adam Corlett, Karl Handscomb, Louise Murphy, Hannah Slaughter & Lalitha Try, 'An intergenerational audit for the UK', Resolution Foundation (November 2022).

And it is getting hard to see how the younger generations will ever catch up. Today the average house costs almost nine times the average salary, the worst affordability ratio for the past 150 years. With the assistance of favourable tax and monetary policy, many of those who already own have used that wealth to become buy-to-let landlords, making it far harder for first-time buyers to get on the housing ladder. The Centre for Policy Studies has shown that the increase in the number of properties owned by landlords in the decade after the financial crisis (2.1 million) outstripped the number of new homes we built (1.67 million).[6] In other words, we built new homes – but ownership still went backwards.

‘The UK has among the highest tuition fees in the OECD, and by most metrics the highest childcare costs’

But it is not just about home ownership. As the essays in this collection show, young people in Britain have an increasingly raw deal. Real wages, having been stagnant for 20 years before the pandemic, are now markedly below where they were in 2021, thanks to the recent inflation spike.[7] The UK has among the highest tuition fees in the OECD,[8] and by most metrics the highest childcare costs.[9] Analysis by the Land, Planning and Development Federation suggests that rising house prices are preventing people having as many children as they want, with owners having more children and renters having fewer. It also found that childbearing rates were higher in areas with more living space.[10]

On top of all of this, government is actively making things worse for young workers and better for older retirees. The Resolution Foundation has shown that on average, someone born in 1956 will pay £940,000 in tax while receiving state benefits amounting to about £1.2m – but someone born in 1996 will enjoy less than half of that figure.[11] And many of the tax and benefit changes introduced in this parliament have reinforced that pattern

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6 Graham Edwards, ‘Resentful Renters How Britain’s housing market went wrong, and what we can do to fix it’, Centre for Policy Studies (December 22, 2019).

7 Office for National Statistics, ‘Average weekly earnings in Great Britain: October 2023’ (November 14, 2023).

8 OECD, ‘Annual average (or most common) tuition fees charged by tertiary institutions to national and foreign students (2019/20)’ (September 16, 2021).

9 OECD, ‘Is Childcare Affordable?’ (June 2020).

10 Strategic Planning Research Unit, ‘Housing: The unintended contraceptive’ (January 10, 2023).

11 Bagehot, ‘Britons in their thirties are stuck in a dark age’, *The Economist* (January 5, 2023).

– such as retaining the triple lock on the state pension, and other universal benefits, while freezing income tax and National Insurance thresholds. As Tom Clougherty sets out in his essay, an ageing population means the NHS is remorselessly increasing its share of day-to-day spending: on current trends, the UK state will end up as an elderly care system with a nuclear deterrent.

But as well as having enormous economic power, pensioners also have enormous political power – indeed, the former in many ways derives from the latter. As Karl Williams shows in this book, the propensity of the elderly to turn out in greater numbers at elections means that at the next election, that wealthy over-55 cohort will for the first time make up a majority of actual voters in a majority of constituencies in the UK. Indeed, if you want the simplest possible reason for why the Conservatives won the 2019 election, it is because they lost voters aged 18-24 by 56-21 compared to Labour, but won over-65s by an extraordinary 64-17.[12]

'Since the triple lock's introduction, the cost of the state pension has risen from £70 billion to a projected £148 billion by 2027/8'

To see what this does to our politics, you only have to look at the fate of recent Conservative attempts at housing reform – or indeed the history of the triple lock.

This measure was a Lib Dem manifesto commitment, agreed to in the Coalition agreement because – as one of George Osborne's advisers told me – the Treasury estimated it would cost only £50m a year. It was quite the underestimate. Since the triple lock's introduction, the cost of the state pension has risen from £70 billion to a projected £148 billion by 2027/8. In the most recent year alone, it has increased by more than 10%. It is now 20% higher than it would be if it had risen adjusted by inflation alone.[13] At the same time, policies to help younger savers – such as the Help to Buy ISA and then the Lifetime ISA – have seen their thresholds eaten away pitilessly by inflation.

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12 Chris Curtis and Adam McDonnell, 'How Britain voted in the 2019 general election', YouGov (December 19, 2019).

13 Djuna Thurley and Rod McInnes, 'State Pension triple lock', House of Commons Library (February 4, 2021).

Of course, there is nothing wrong with looking after pensioners, many of whom are still extremely poor. But the triple lock – like the panoply of other old-age benefits, such as the winter fuel payment, free bus passes and the like – is a hugely blunt instrument, handing out extra cash to binmen and billionaires alike. Yet when Jeremy Hunt announced that it would be retained, despite his needing to plug a £55 billion hole in the public finances, there were huge cheers in the Commons chamber.[14] Likewise, it was telling that the Government's solution to social care involved not setting up an insurance system, under which people could put a fraction of their housing wealth towards buying themselves peace of mind, but increasing National Insurance – symbolically, a tax that is not even paid by the elderly.

'As the Centre for Policy Studies has repeatedly spelt out, low growth and low investment are making our country poorer'

Given the electoral incentives, it is not just the Conservatives who have learned to court the grey vote. During the 2019 election campaign, John McDonnell blew a £58 billion hole in Jeremy Corbyn's 'fully costed' manifesto by promising a massive bailout for the WASPIs, those women born in the 1950s who found their state pension age rising to match their male counterparts.[15] This followed a Labour pledge at the previous election to keep the triple lock for at least eight more years.[16]

But it is the Conservatives for whom the politics, and economics, of this situation are the most challenging. As the Centre for Policy Studies has repeatedly spelt out, low growth and low investment are making our country poorer. But doing the kinds of things that will make us more dynamic and richer in the long run – in particular, building houses, roads, power stations, electricity cables and so on – is hugely unpopular with many of those who like things just as they are, and have (given their relative immunity from financial pressures) very little incentive to change their minds.

The result is not some kind of generational intifada – not least because young people view old people as their families, not their enemies. The true

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14 Robert Colvile, 'Tory nimbys want to scrap housing targets. It is selfish and wicked and must be stopped', *The Times* (November 19, 2022).

15 Sky news, 'General election 2019: Labour's £58bn pledge to right WASPI "injustice"' (November 24, 2019).

16 Talya Misiri, 'Labour pledges to keep pensions triple-lock until 2025', *PensionAge* (April 12, 2017).

extent of wealth imbalances is also disguised by the fact that increases in pension pots or house prices do not translate immediately into ready cash, so older people do not necessarily feel themselves becoming wealthier. But poll after poll shows a steady souring of younger generations' faith in the future. In a recent study by academic Ben Ansell, only 20% of under-40s agreed that a person's position in society is mostly the result of their own efforts, vs around half of over-70s. Older people were far more likely to use words such as 'work', 'achieve', 'reward', 'prepare' and 'effort'. Fewer than a third of under-30s felt they had a fair chance at buying a house.[17] Polling by the Fraser Institute in Canada showed that young people in the UK were the least sympathetic to capitalism and most sympathetic to socialism of the four Anglophone countries surveyed.[18]

'Fewer than a third of under-30s felt they had a fair chance at buying a house'

The writer Sam Freedman has described this situation as 'the moral failure of Thatcherism'. In his view, the movement our co-founder unleashed created an enormously wealthy generation. But its beneficiaries pulled the drawbridge up after themselves, preferring entitlement to entrepreneurialism. The result is that the Conservatives are 'snookered' – because the kind of things that might help the younger generation, such as building houses, will be opposed by the party's elderly activist base.

As the essays in this collection make clear, there is certainly an enormous political challenge here for the Conservatives – or indeed for any government. But this is a nettle that needs to be grasped. The current generational imbalance is not just unfair, but unsustainable. We are handing the next generation a low-growth, low-investment, high-debt, high-spending society – but such a society is also one which will be increasingly unable to pay those bills for medical and social care. It is also one in which politicians will be increasingly tempted to target the elderly via wealth taxes, on the basis that theirs is the only source of ready cash left.

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17 Ben Ansell, 'Generation Games', *Political Calculus* Substack (January 2, 2023).

18 Jason Clemens and Steven Globerman, 'Perspectives on Capitalism and Socialism: Polling Results from Canada, the United States, Australia and the United Kingdom,' Fraser Institute (February 22, 2023).

This book, in other words, makes the case for a more dynamic economy on the grounds not just of necessity, but of fairness. As Karl Williams shows, in order to sustain our current welfare state we will need growth of 2.9% a year – a colossal challenge even if the demographic winds were blowing in our favour, which they very much are not. The temptation will be, as it always has been, to load those costs on to those of working age.

‘As Karl Williams shows, in order to sustain our current welfare state we will need growth of 2.9% a year’

But if Britain is to prosper – if we are all to have the kind of lives we want – then we need a state that works for the worker as well as the pensioner, that prioritises investing in the future over taking ever more from the young to give ever more to the old. And that resists the temptation, highlighted by Baldwin, to avoid difficult choices by keeping borrowing high, and in the process impose still higher costs on the generations to come.

The essays in this book – as you would expect from such a range of writers – contain a diversity of solutions. We have essays on innovation and entrepreneurship, housing and home ownership, childcare and carbon emissions. The proposals (which represent the writers' own views, although many if not most would be endorsed by the CPS) range from school vouchers to parish votes, visa reforms to a full-spectrum reimagining of health and social care.

What they have in common is that they view the future not as a lose-lose struggle between generations, but a win-win in which higher growth and a smarter state enable the young to build up the wealth to match the old. It is an agenda for a fairer, more prosperous Britain. And it is one on which the future of conservatism should, and must, be built.

The Age Trap

By Karl Williams

There are many long-term challenges facing Britain's policymakers. But the ageing population is surely the most intractable. The demographic tide is constantly tugging us towards a world of lower economic growth and higher taxation. But those same trends also give the elderly an enormous amount of political power – which leads to policy being set in their interests, rather than the interests of the younger generation. The result is an inbuilt tendency for public policy to run contrary to the long-term national interest.

'By 2072, there will be only 1.9 potential workers for each pensioner, down from 3.3 in 2022 and 4.5 in 1972'

In this essay, we will show how our ageing population means that we are set to run into a hard constraint on economic growth over the next 20 years – unless we can achieve stellar rates of underlying productivity growth. But we will also show how what we have chosen to call the 'gerontocratic transition' is reshaping British politics. Remarkably, as of 2024 the majority of voters (taking turnout rates into account) in the majority of constituencies will be over the age of 55 – the first time this has happened in the history of British democracy.

Already, the falling ratio of workers to pensioners is undermining growth in myriad ways, including via higher taxes on workers and sclerosis in the housing market. The shift is accelerating too. By 2072, there will be only 1.9 potential workers for each pensioner, down from 3.3 in 2022 and 4.5 in 1972.[1] (Recent trends in economic inactivity, if sustained, would

1 The OBR uses a 50-year window in its biennial 'Fiscal risks and sustainability' (FSR) report. We have taken a similar approach to thinking about the long-term fiscal, economic and political costs of an ageing population.

make the outlook even more dire.)[2] In addition, per capita spending on pensioners is set to rise, as the average pensioner lives for longer but with more complex health conditions. The result is that sustaining both rising living standards and a cradle-to-grave welfare state looks to be an almost impossible task in the long run – indeed, as we will show, it would require annual growth rates substantially beyond what this country has historically delivered.

We must face up to the reality that as Britain's population is greying, so too is its political economy. The fundamental question for policymakers seeking to keep the country's head above the water is therefore: how can we rejuvenate our politics and return to robust economic growth, in defiance of demographic destiny?

Britain's ageing population

Britain has not aged as much or as rapidly as many other developed countries, including Germany, France and Japan. But with three times more people over 65 than a century ago, our population is as old as it has ever been. And it is going to get a lot older still, in a relatively short space of time.

> **'When the state pension was first introduced in 1908, people aged 65 or more made up roughly 5% of the population'**

Of course, long-term demographic projections are never entirely reliable. While the medium-term trend is pretty much baked in, even a tiny adjustment to initial conditions or one of the three key variables – mortality, fertility and net migration rates – could result in a significantly different picture after 50 years. Our analysis is based on the biennial population projections produced by the Office for National Statistics (ONS), which also underpin the long-term modelling by the Office for Budget Responsibility (OBR) and the recent Neville-Rolfe Review of the state pension age. They may turn out to be wide of the mark. But it is undeniable that they present a vast challenge.

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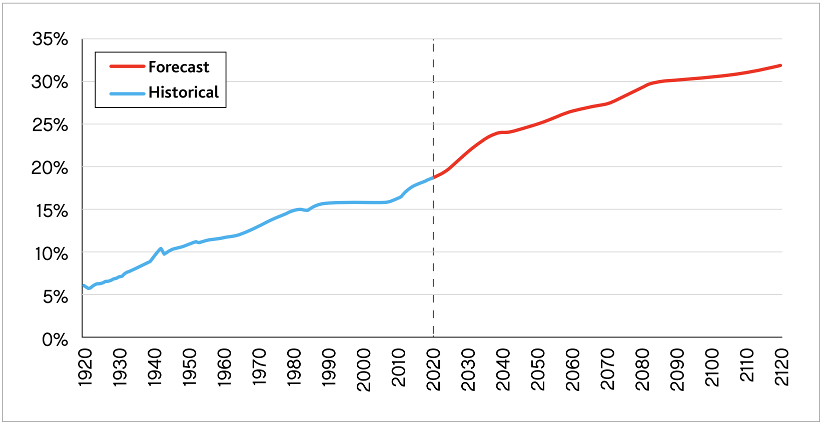
2 K. Williams, *Where are the Workers?*, Centre for Policy Studies (March 2023).

When the state pension was first introduced in 1908, people aged 65 or more made up roughly 5% of the population.[3] Today, it stands at 19%.[4] By 2040, it will hit roughly 24%, when the last of the Baby Boomers reaches retirement. After that, the increase is expected to slow. But it will still rise to 25% by 2050 and 27% by 2070.

The crucial thing here is not just the number of the elderly but the speed of the transition. It took 100 years for the 65+ share of the population to go from 5% to 16%. It will go from 16% to 24% in the space of just 35.

Share of the UK population aged 65+



But the fiscal picture is even worse than the headline figures suggest. We are seeing the rise not just of age, but of extreme age. By 2070, the share of the population over 80 will have more than doubled to 11%, and the number of centenarians – currently 14,000 – will have passed 100,000. And the health and social care needs of people in their late 80s tend to be far more complex and expensive than those of people in their late 60s.[5]

Then there is the dependency ratio: the number of people of working age, who can foot the bill for their children and grandparents. The overall dependency ratio – the number of people of working age (18-64) compared to the young (0-17) and elderly (65+) combined – currently

3 Although of course the pension age under the Old Age Pensions Act 1908 was 70 for both men and women.

4 ONS, 'National population projections: 2020-based interim' (12 January 2022).

5 OBR, 'Fiscal risks and sustainability' (July 2022), p.142.

stands at around 1.50.[6] Over the next 50 years, this is projected to fall to around 1.25 potential workers per dependent.[7]

This might not sound so bad. But the figures are being flattered by a sharp fall in the share of the population under 18 relative to the working age population. This 'young-age dependency ratio' is set to rise from 2.9 now to peak at a record 3.3 in the early 2040s. This reflects the collapse in fertility rates, which now stands at just 1.59 births per woman – 'the lowest birth rate assumed in any set of official population projections published over the last seven decades', according to the Office for Budget Responsibility (OBR).[8] But even these figures are being flattered by higher birthrates among immigrant families. As my colleague Robert Colvile has pointed out, the number of births among mothers born in the UK has fallen by 22% over the past decade.[9]

'The number of births among mothers born in the UK has fallen by 22% over the past decade'

In the short to medium term, low birth rates will help with there being enough workers to support everyone else. But in the long term, of course, it means the opposite. Low and declining birth rates means fewer people reaching working age than would otherwise be the case in the longer run. The old-age dependency ratio is currently around 3.3. Once the current ageing surge has passed, it will stand at 2.4 in the early 2040s. But it will still continue to fall after that, dropping to 1.9 by the 2070s. On current trends, the number of people over 65 will by 2026 exceed the number of people under the age of 18 for the first time in British history.

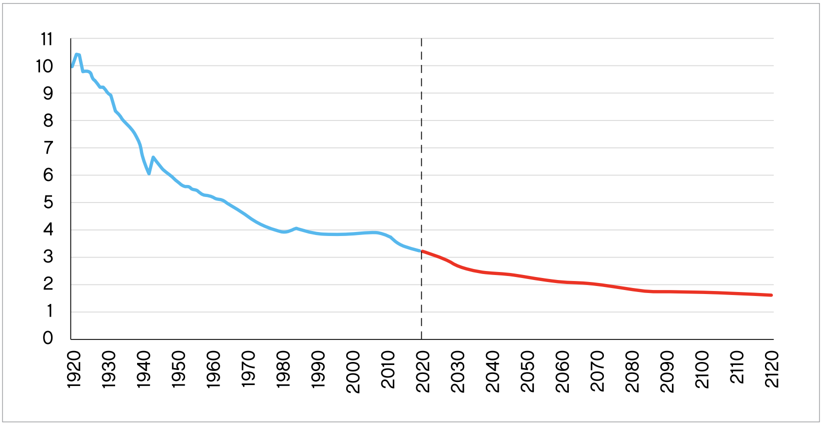
6 Although the state pension age is now 66 and set to rise further, defining working age as 18-64 allows for comparisons across time.

7 In reality, the ratio of actual workers to dependents will be tighter because of unemployment and economic inactivity varying across the business cycle and according to structural trends in, for example, higher education rates. As a rule of thumb, multiplying the population dependency ratios by 0.75 will give a rough approximation of worker dependency ratios based on current trends.

8 OBR, 'Fiscal risks and sustainability' (July 2022), p.126. See also: ONS, 'Births in England and Wales: 2022' (17 August 2023).

9 Robert Colvile, 'Meet the secret cabal controlling Britain from the shadows: your nan's bridge club', *The Sunday Times* (20 August 2023).

Number of working age people per pensioner



The deteriorating old-age dependency ratio represents a chronic challenge for the next century. But we are also coming up fast on a much more acute demographic challenge: in the absence of historically unprecedented levels of immigration, the working age population is projected to peak in absolute terms at about 41.1 million people circa 2043, before starting to shrink, declining by 1.3 million (3%) out to 2072. Economic degrowth is therefore a very real possibility if the current stagnant productivity trend continues into the long term.

In short, in both relative and absolute terms, Britain's population is greying to an unprecedented degree. And as we shall see, both the political and economic consequences of this ongoing transformation are profoundly worrying.

The gerontocratic transition

It is a truism of British politics that older people tend to decide elections. But the sheer power of the grey vote has if anything been underestimated.

In a hypothetical 2024 election, there would be 4.38 million 25- to 29-year-olds eligible to vote, and 3.52 million 65- to 69-year-olds.[10] The young would, you would think, outvote the old.

10 British Election Survey, 'Turnout', Age and voting behaviour at the 2019 General Election' (27 January 2021). Age group weightings calculated on the basis of average turnout rates across the 2015, 2017 and 2019 general elections.

But then you factor in turnout. Based on previous elections, we might reasonably expect a 50% turnout among those in their twenties, and 81% among those in their sixties. Suddenly, the actual number of votes cast becomes 2.19 million for the young and 2.83 million for the old.

When we model this 'weighted vote' across all age groups, and then look at the weighted vote share held by those aged 65 or older, we find that they currently make up around 24% of the electorate (as distinct from the population) but collectively wield 30% of voting power.[11] In 20 years' time, they will be 29% of the electorate with 36% of the weighted vote share, and by 2072, 33% with 40%.

> **'Unless young people become much more assiduous about turning up on polling day, then in 20 years, the weighted grey vote share will rise to 53%'**

Yet these calculations understate the scale of the gerontocratic transition. People do not suddenly become interested in their retirement prospects when they reach the state pension age. A 55- or 60-year-old who has reached the top of their profession, paid off their mortgage and whose children have flown the nest will tend to prioritise the same things as a 66-year-old. Indeed, the closer they get to the state pension age, the more likely they are to have left the workforce already, for reasons of ill health or to enjoy early retirement (people can access their private pensions from 55). This is reflected in economic inactivity figures – 23% and 32% for men and women aged 50-64, compared to 8% and 17% for those aged 35-49.[12]

If we look not just at OAPs but at all those aged 55 and above – the 'grey vote' – that 41% of the electorate now accounts for 49.7% of the weighted vote share. But in 2024, this is on track to rise to over 50%. Unless young people become much more assiduous about turning up on polling day, then in 20 years, the weighted grey vote share will rise to 53%. By 2070, it will be 58%.

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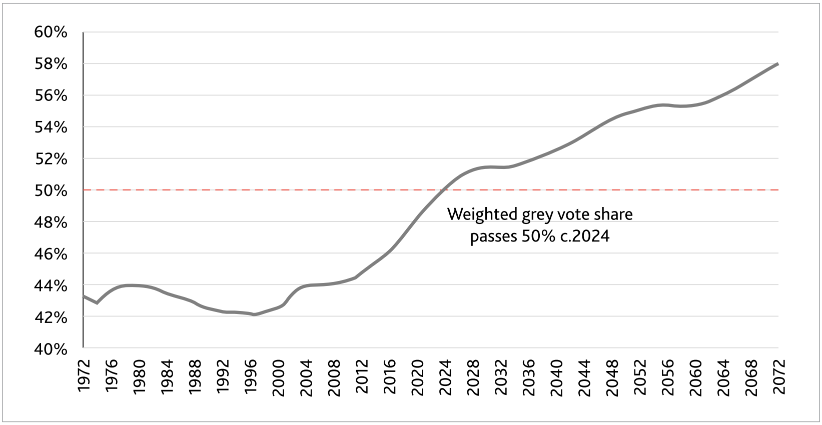
11 The publicly available data is not granular enough to be able to do this from the age of 66 upwards.

12 ONS, 'A05 SA: Employment, unemployment and economic inactivity by age group (seasonally adjusted)' (March 2023).

Clearly we are on the cusp of a notable marker in the gerontocratic transition. At the next election, the electoral power of the grey vote will, for the first time in our history, match or outweigh that of the generations below.

Weighted grey vote (aged 55+) share



And again, these headline trends become even more significant when you examine the detail – in this case, how the gerontocratic transition is refracted through the UK's first past the post (FPTP) electoral system.

There are currently 650 Parliamentary constituencies in the UK. Fully 48% (310) had already reached the gerontocratic midpoint in 2020, with more than 50% of the weighted vote share in each having gone grey.[13] By the next election, we will certainly have reached the point where the majority of constituencies have gone grey. (There were 42 seats in 2020 where the weighted grey vote share was between 49% and 50%, and it has been rising by 0.4 percentage points a year since 2011. By our calculations, the constituency that will have tipped us over the edge is Bury North, the 326th on our list.)[14,15]

Why should the grey vote be more important on a constituency basis? The simple answer is that the younger vote piles up in cities and large

13 Analysis basis: ONS, 'Parliamentary constituency population estimates (Experimental Statistics)' (16 September 2021); NRS, 'UK Parliamentary Constituency Population Estimates' (1 September 2022); NISRA, '2019 Mid Year Population Estimates for Northern Ireland' (11 June 2020). NB analysis based on 2020 population estimates for England, Wales and Scotland, 2019 estimates for Northern Ireland.

14 It so happens that Bury North is a bellwether constituency, and in fact Britain's most marginal after the 2019 general election, with the sitting MP James Daly (Conservative) on a majority of just 105 votes.

15 The upcoming boundary changes are unlikely to change the big picture in this respect.

university towns. Grey constituencies cover rural areas and provincial towns all over the country – seats like Bosworth, Norfolk North and West Worcestershire. In contrast, the younger vote tends to be concentrated in places like Islington North, Leeds West and Oxford East. (The most youthful seat is Manchester Central, where the weighted grey vote is only 21.3%.)

You can see the electoral impact of this in the results from 2019, when the Conservative landslide depended in part on winning over grey seats in England and Wales. Of the 270 English and Welsh seats which had tipped into the grey by 2020, 84% elected a Conservative MP, including a large number of 'Red Wall' constituencies such as Darlington, Sedgefield and Stoke-on-Trent South. Labour did better in areas where the younger vote is concentrated, winning all 34 seats in England and Wales where the weighted grey vote was less than a third of the total, except for the Green Party bastion of Brighton Pavilion.

The impact on tax and spend

At present, public spending on the elderly amounts to roughly 10.1% of GDP, taking into account the state pension and pensioner benefits, adult social care and healthcare.[16]

> **'The OBR estimates that public spending on the state pension amounts to 4.8% of GDP, with another 0.7% going on pensioner benefits'**

It is worth taking each of these in turn to see how the dynamics of an ageing population are likely to drive up spending, paid for by younger workers as the old-age dependency ratio compresses.

The OBR estimates that public spending on the state pension amounts to 4.8% of GDP, with another 0.7% going on pensioner benefits. Since the state pension is not means-tested, the surge in pensioners will only push this up. The Neville-Rolfe Review recommended capping state pension spending at 6% of GDP, i.e. 20% higher than now.[17] But with the actual number of pensioners increasing by over 30% in the next 20 years and

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16 OBR, 'Fiscal risks and sustainability' (July 2022), p.147.

17 Baroness Neville-Rolfe, 'Independent Review of the State Pension Age 2022', DWP (March 2023), p.10.

by over 50% by 2072, that will only be possible if we can slow the growth in the value of the state pension.

The problem, however, is the 'triple lock'. Introduced under the Coalition Government, this guarantees that the state pension will always rise in line with the highest of either inflation, average earnings growth or 2.5%. Accordingly, the state pension increased by 10.1% in April 2023, outstripping earnings growth for workers and passing £10,000 (in nominal terms) for the first time.

If the state pension were linked to earnings only, projected spending would increase to 6.2% of GDP by 2072. As things stand, even factoring in the planned increases in the state pension age, the OBR projects the share of GDP allocated to the state pension to rise to 8.1% by 2072.[18]

'Whatever happens, the young are going to lose out'

Then there are pensioner benefits, some of which are means-tested (such as pension credit) and some of which are not (such as the winter fuel payment). This spending is also projected to rise to 1.5% of GDP by 2072. So together, spending on the state pension and pensioner benefits is projected to rise from 5.5% of GDP now to 9.6% of GDP in 2072 – a 75% increase.

Then there is elderly social care. Under the changes introduced on the back of the Health and Social Care Levy – principally the £100,000 cap – the OBR projects spending on adult social care to double, from 1.2% to 2.5% of GDP. Indeed, social care is perhaps the most intractable item of spending from an intergenerational justice perspective. On the one hand, the cap means that much of the cost will fall on younger taxpayers. On the other hand, if the cap were lifted or abolished, the assets of many older people – notably their homes – might have to be liquidated to pay for their care. And for many younger people, inheriting a share of the family home represents their only hope of getting on the housing ladder. Whatever happens, the young are going to lose out.

However, the biggest source of increased spending on the elderly will be healthcare related. NHS spending – minus the Covid outlay – is around

18 OBR, 'Fiscal risks and sustainability' (July 2022), p.147.

8.3% of GDP. Estimates vary, but around 40-45% of this is spent on those aged 65 or older – amounting to 3.3-3.7% of GDP.[19] With the size of the elderly population increasing, and extreme age becoming much more prevalent, elderly healthcare spending is set to explode over the next few decades. Based on current demographic and healthcare trends, the OBR projects overall spending on healthcare to rise to 15% of GDP by 2072 (with growing elderly healthcare needs more than offsetting falling postnatal and paediatric spending).

> **‘Public spending on the over-65s – across pensions, social and healthcare – is projected to rise from around 10.1% of GDP now to roughly 21.3% in 2072’**

The basic problem here is that mortality is outpacing morbidity – that life expectancy is outpacing healthy life expectancy. Before Covid, the gap between life and health life expectancy stood at 16.3 and 19.3 years for men and women respectively.[20] Older people are more likely to suffer from chronic conditions and indeed from multi-morbidity. This of course is very costly (and not just in terms of the direct fiscal cost, but also through unpaid labour in the home and opportunity cost).

Once you put all of these together, public spending on the over-65s – across pensions, social and healthcare – is projected to rise from around 10.1% of GDP to roughly 21.3% of GDP in 2072. If age is just a number, then unfortunately for the young, it is a very large number indeed. And even this is something of a best case scenario, which assumes no further policies that increase spending on the elderly – even though they will have the voting power to make it happen.

Moreover, this is all going to have to be paid for from a shrinking working-age tax base, first in relative terms and then in absolute terms too. A fall in education spending as a share of GDP as the younger population declines will help at the margins, but then there are other priorities that will be hard to ignore as the 21st century progresses (defence spending, for example). With the tax base narrowing, borrowing is likely to become more costly

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19 Analysis basis: IFS, ‘UK health and social care spending’, *Securing the future: funding health and social care to the 2030s* (May 2018).

20 Baroness Neville-Rolfe, ‘Independent Review of the State Pension Age 2022’, DWP (March 2023), p.55.

for the British state.[21] So to pay for an ageing population, we are facing significantly higher taxes.

At present, tax receipts equate to around 35.5% of GDP, the highest level since 1951.[22] If by 2072 we were to meet the increase in elderly spending entirely from tax, then receipts would need to rise by almost a third, to 46.5% of GDP. This would be equivalent to more than doubling the share of GDP harvested by income tax or tripling what is taken in via corporation tax. And of course, as well as amounting to a massive redistribution of earnings and opportunity from the young to the old, such colossal disincentives to work and investment would in turn depress growth and deepen the problem.

Growth or bust

An ageing population is undeniably going to weigh us down. But we are not alone in this. All advanced economies are facing a similar challenge and many are caught in even more perilous demographic currents. Indeed, it seems likely that the most successful developed nations of the 21st century will be the ones who are able to escape the tax and spend vortex caused by their ageing populations.

> **'The most successful developed nations of the 21st century will be the ones who escape the tax and spend vortex caused by their ageing populations'**

The best means of escape is economic growth. Unfortunately, without radical structural reform, the long-term growth outlook for Britain is grim. Annual GDP growth averaged around 2.5% before the 2008-9 financial crisis. Between the financial crisis and the pandemic, it averaged 2.0%. The OBR expects now growth to average just 1.75% in the medium term,[23] and only 1.4% over the long term.[24]

An average growth rate of 1.4% over the next 50 years would result in the economy almost doubling in size by 2072. But as we have seen, spending

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21 M. McDougall, 'Ageing populations 'already hitting' governments' credit ratings', *Financial Times* (17 May 2023). Although of course, some economists argue that structurally lower real interest rates will be the long-term corollary of an ageing population.

22 OBR, 'Economic and fiscal outlook – March 2023' (March 2023), p.152.

23 OBR, 'C2.14', *March 2023 Economic and fiscal outlook – charts and tables* (March 2023).

24 OBR, 'Table 4.2: Long-term economic determinants', *Fiscal risks and sustainability* (July 2022), p.132.

on the elderly is projected to more than double as a share of GDP. If this forecast holds, then such spending will quadruple in real terms, from around £225 billion to £950 billion (in 2022 prices) in 2072. That is almost as much as the British state currently spends on everything put together.[25]

We might be able to shave a few tens of billions off this here and there, especially with advances in healthcare technology (lower obesity rates thanks to semaglutide, for example). But even so, given the politics of the gerontocratic transition, we are clearly on course to see a massive rise in elderly welfare spending.

‘An ageing population is likely to weigh on productivity growth, not least via the increasing number of labour-intensive care jobs’

To keep geriatric spending equivalent to around 10% of GDP in this scenario, and therefore render the narrowing old-age dependency ratio fiscally harmless, our calculation is that we would need economic growth to average 2.9% per annum over the next 50 years. That way the economy would similarly quadruple in size, and we would not have to raise taxes on the young (or make deep spending cuts elsewhere) to pay for spending on the elderly.

This 2.9% is in itself quite daunting, but we also have to recall that by 2072, the working age population is projected to be 2% smaller than it is now. So under this scenario, by 2072, the average worker will have to be 330% more productive than they are now. Growth in productivity in terms of output per hour worked would have to increase by an average of 3.0% per annum over the next 50 years to yield such an improvement. For context: from 1982 to 2007, productivity rose by 2.0% per annum on average, and in the decade of stagnation after the financial crisis and before the pandemic, by just 0.7% per annum.

To make matters worse (a familiar phrase by now), an ageing population is likely to weigh on productivity growth, not least via the increasing number of labour-intensive care jobs. Moreover, the average worker will also be older.

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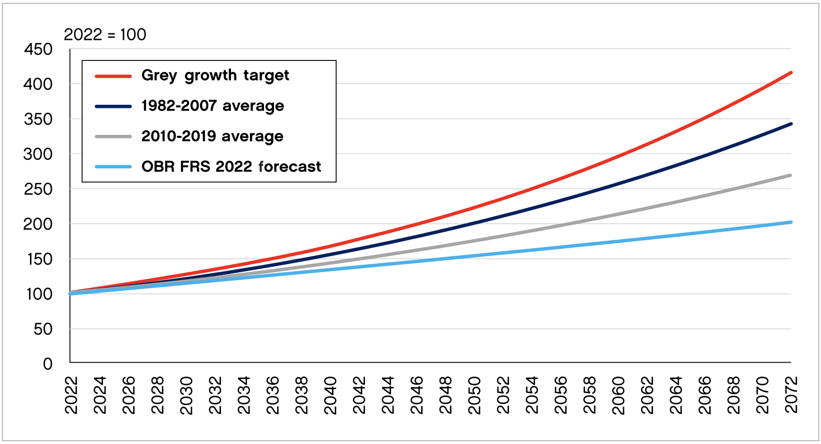
25 CPS, ‘Budget Briefing: The Age of the Trillion-Pound State’ (October 2021).

During her brief premiership, Liz Truss announced a 2.5% GDP growth target. While not entirely arbitrary, it was based on looking backwards, to Britain's long-run average growth rate before the 2008-09 financial crisis.

If we are going to set a growth target, then better to focus on the future. Which shows that, to support an ageing population without raising taxes on the young, we need to achieve sustained GDP growth averaging 2.9% across the boom and bust of the business cycle for the next 50 years. (To give us a bit of leeway, and make it a rounder number, let's nudge this 'grey growth target' up to 3.0%.)

Index of hypothetical GDP growth trajectories



We should not underestimate the scale of the challenge. Excluding the bounce-back from the pandemic, GDP growth has reached or exceeded 3% only in two of the last 20 years. But growth did average 3.0% per annum across 1982-1990 and 1993-2001, so the target is not an impossible aspiration, even if the macroeconomic fundamentals are less favourable now.

Remember: if we cannot get at least close to this level of growth, then the tax share of GDP is going to ratchet up to unsustainable levels, crushing living standards for younger workers.

But on this front, we are trapped by an awful paradox. As the debate over housebuilding shows, the increasing power of the grey vote is the single biggest political barrier to implementing the radical structural reforms needed to liberate younger workers and get economic growth going again. That is the self-reinforcing and ultimately self-defeating circular dilemma of our greying political economy.

> **'The increasing power of the grey vote is the single biggest political barrier to implementing the radical structural reforms needed to liberate younger workers'**

The rest of this collection is devoted to setting out, across a range of policy areas, how to reconcile the politics and economics of an ageing population, so that we can rejuvenate our greying political economy and find the strength to escape the tax and spend vortex. If not, we will all sink together.

Reshaping the State

By Tom Clougherty

Karl Williams' opening essay in this collection has thrown the fiscal challenges posed by Britain's ageing population into sharp relief. To recap: the Office for Budget Responsibility forecasts that over the next 50 years, public spending on the over-65s will rise from 10.1% of GDP to 21.3% of GDP, driven by the rising cost of the state pension and pension benefits, adult social care, and healthcare for the elderly. In present-day terms, that 11.2 percentage point increase in the share of GDP devoted by the state to the elderly equates to approximately £285bn. That is the fiscal black hole that, all else being equal, policymakers will have to attempt to fill over the next five decades. And that, as Williams notes, is based on the elderly not using their predominant power at the ballot box to vote themselves more goodies at the expense of the young.

'It will require an extraordinary acceleration of growth, in the face of substantial demographic headwinds, to maintain living standards for the young and the existing panoply of benefits for the old'

So what are our options? Many on the left would say that the answer is simple: taxes have to rise. Britain, they argue, is a relatively low-tax country. There is plenty of scope to move us up towards the European average, for example by targeting higher earners and corporate and investment income.

In fact, as this essay will show, the scale of the challenge is such that only extremely onerous, broad-based tax rises will suffice. To say that such tax increases would be politically unappealing is to put it very mildly indeed.

The best way out of the tax and spend vortex, as Williams said, is economic growth. But as he also made clear, it would require an extraordinary acceleration of growth, in the face of substantial demographic headwinds, for us to maintain living standards for the young and the existing panoply of benefits for the old.

So as the concluding section of this essay will argue, the only real solution is a full-spectrum approach: a renewed focus on economic growth, radical reform of age-related public expenditure and services, and policies that might support a higher birth rate.

It is always possible, of course, that some extraordinary technological breakthrough will come along to save us. But it would be unwise to sit around waiting for the singularity – which means that Britain's policy establishment needs to face the facts and start now on the changes necessary to avert disaster down the line. Without sustainably stronger economic growth, more children, and a reformed welfare state that stresses personal responsibility, we risk sleep-walking into a fiscal calamity – with today's young people left to shoulder the very heavy burden it will impose.

If policymakers care about delivering justice for the young, they need to take action – and the sooner they start, the better.

Can taxes take the strain?

It is often said that Britain is a relatively low-tax country. But measured by our own historical standards, this is not the case – and even by international standards, it is becoming rapidly less so as we speak.

> **'Without sustainably stronger economic growth, more children, and a reformed welfare state, we risk sleepwalking into a fiscal calamity'**

As the Office for Budget Responsibility put it in its most recent Economic and Fiscal Outlook, the tax burden will rise to 37.7% of GDP in 2027-28, which is not only a postwar high but a full 4.7 percentage points above where it stood before the pandemic.[1] It is no surprise, then, that many Britons are feeling the pinch – especially when one of the main drivers

1 Office for Budget Responsibility, 'Economic and Fiscal Outlook' (March 2023).

is frozen tax thresholds during a period of high inflation. (We are talking here about tax revenue rather than government revenues as a whole, which are slightly higher.)

It is also unsurprising that Conservatives increasingly despair about the fiscal legacy of their current stint in government. The last time they spent 14 years in power, they managed to get taxes down to a post-war low (in 1993) of 27.4% of GDP. Were that the case today, the Chancellor would be in a position to announce a quarter of a trillion pounds worth of pre-election tax cuts at next year's Budget – almost enough to scrap income tax altogether.

'The last time Conservatives spent 14 years in power, they managed to get taxes down to a post-war low (in 1993) of 27.4% of GDP'

The reality, of course, is very different: even if headroom is found for a few targeted giveaways, they will likely be no more than a temporary reprieve. Overall, the tax take is heading inexorably upwards. Projections by the Institute for Fiscal Studies (IFS) have total expenditure approaching 55% of GDP in the 2070s – driven by the trends identified by Williams in his essay.[2] Unless we are going to run the mother of all deficits, decade after decade, taxes will have to rise to match.

To which some might say, so what? After all, the tax take might be high by British standards, but many other countries raise more than we do as a percentage of GDP. Aren't we just seeing the inevitable end of our attempt to run a European welfare state with American taxation?

There is some truth to this narrative. As the chart below shows, the UK is a relatively low-tax country by international standards – at least based on the latest comparable data, which is from 2021. At 33.5% of GDP (according to OECD figures), the UK's tax take puts it in the bottom half of the table among advanced economies. Our tax take in 2021 was fractionally below the OECD average and further below the average for other G7 countries (36.9%), the EU-22 (37.9%), and the EU-14 (39.9%).[3]

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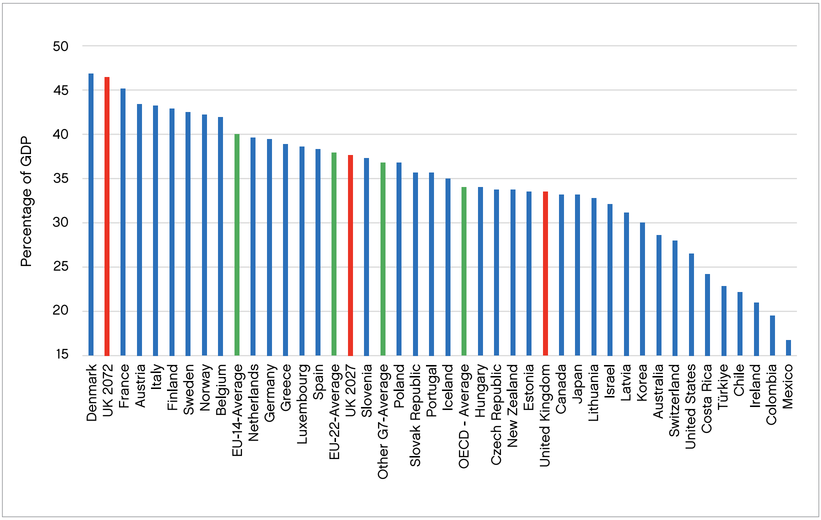
2 Isaac Delestre and Helen Miller, 'Tax and public finances: the fundamentals', Institute for Fiscal Studies (August 2023).

3 The EU-22 consists of all EU member states who are also part of the OECD. The EU-14 is basically synonymous with 'Western Europe' – that is, it excludes countries that joined the EU as part of its eastern enlargements from 2004 onwards.

Total tax revenue, OECD countries, 2021



Source: OECD Global Revenue Statistics Database, OBR.[4]

However, there are a few countervailing points to make here. First, all else being equal, the UK's tax take will have leapfrogged the OECD average and the average for other G7 countries come 2027 – by which point it will be roughly equivalent to the average for the EU-22.

Second, raising taxes enough to fund the 2072 welfare state doesn't just mean converging with the European average – it would mean jumping all the way to the top of the table and more or less equalling the tax take of today's highest-taxing advanced economy, Denmark. But that in turn assumes that we can still borrow our way out of trouble: in the figures we are extrapolating from, the deficit stood at more than 5% of GDP. The OBR has argued that borrowing will become more expensive in the coming decades, meaning that we will either have to narrow the deficit or increase the amount of GDP devoted to repaying our debts.

Of course, there is a certain artificiality to these comparisons. Almost all developed countries face the same sort of demographic pressures as we do, so their tax takes are unlikely to remain static over the next five

4 Note: 2020 figures used for Japan and Australia, OBR figures used for UK 2072 and UK 2027.

decades as the UK's grows. But the chart above does serve to illustrate an important point: in today's terms, paying for an ageing population doesn't mean the UK going from 'relatively low tax' to 'average tax' – it means becoming what most of us would see as a very high tax and big state economy.

It is also worth pointing out that there are probably limits as to how far taxes can rise before they start to significantly weigh on a country's economic dynamism. Without policy change, therefore, paying for an ageing population is likely to mean different countries' tax revenues converging at a high level, rather than rising proportionally and in lock-step across advanced economies.

'There are limits as to how far taxes can rise before they start to significantly weigh on a country's economic dynamism'

Taxed enough already?

Of course, it is one thing to look at macro-statistics like total tax revenue as a percentage of GDP and draw conclusions about how high or low tax a particular country is. But those conclusions will not always map neatly on to how ordinary workers and families experience the tax system. For example, recent CPS research highlighted how a married couple with two children and a single earner on the average wage face a higher average tax rate in Britain than they would in France or Germany, which both look like much higher-tax countries if you simply look at the total tax take.[5] (For single taxpayers with no children, the situation was reversed.)

Then there is the question of effective marginal tax rates. In some cases, it might be that a particular taxpayer does not face an especially high tax burden overall, but that they do face a high tax burden on the next pound they earn. This matters a great deal for economic incentives, and can determine whether it pays to work, or to work more. Even at relatively modest incomes, effective marginal tax rates in the UK can be onerous, or even punitive.

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5 Ranil Jayawardena MP and Tom Clougherty, 'Family-Friendly Taxation: How to restore fairness to the tax system', Centre for Policy Studies (July 2023).

For example, someone earning the minimum wage for a full-time job might be subject to income tax, National Insurance, and the Universal Credit taper, and therefore face an effective marginal tax rate of 69.5%. A working parent with three children will face an effective marginal tax rate of 73% if their income goes above £50,000, and they are subject to the child benefit tax charge, income tax, and National Insurance simultaneously.

> **'A working parent with three children will face an effective marginal tax rate of 73% if their income goes above £50,000'**

You do not need to seek out special cases, or circumstances where the tax and benefits systems uncomfortably overlap, to identify effective marginal tax rates that are really rather high. Picture a youngish graduate earning an average wage (for the sake of argument, let's say £35,000). They would be a basic rate income taxpayer (20%). They would also face the standard rate of National Insurance (12%). If they are making student loan repayments, that adds 9%. Auto-enrolment pension contributions take another 5%. Put that together, and you've got a marginal tax rate of 46%. For every additional pound that this taxpayer earns, they will only see 54p of it in their take-home pay.

Now, you could object to this analysis in two ways. First, you might say that it is wrong to include student loan repayments and auto-enrolment pension contributions because these are linked to benefits that the taxpayer has enjoyed in the past (a university education) or will enjoy in the future (a more comfortable retirement). And this is largely a fair criticism. But it does not affect the fact that these taxpayers, who will be expected to cough up a lot more to pay for an ageing population in decades hence, already see relatively little of any extra money they earn.

Second, you might object in the other direction, and say that we are ignoring employer-side costs that ultimately reduce wages. For example, economists generally think that most of the incidence of a payroll tax like employers' National Insurance falls on employees, in the form of lower wages, even if the company technically pays it. The same is likely true of mandatory retirement contributions, like the 3% auto-enrolment pension contributions that British employers must make unless their employees opt out.

Factor these into the effective marginal tax rate faced by our average-earning, youngish graduate, and you come out with 54% – meaning that for every extra pound they cost their employer, they will see less than half in their take home pay. Ask this taxpayer to foot the bill for an ageing population, and they might legitimately say, 'Aren't I taxed enough already?'

Indeed, the political power of the grey vote, identified by Williams, has ensured that these workers have already borne a disproportionate share of recent tax rises, even as elderly benefits have been protected against inflation. (Another emblematic example of this was the proposal to increase National Insurance to fund elderly care – a tax, symbolically, not paid by the elderly themselves.)

> **'The political power of the grey vote has ensured that these workers have already borne a disproportionate share of recent tax rises'**

The impact of raising taxes to pay for an ageing population

The standard left-wing response to the above would be to say that there is no need for such taxpayers to continue to take the strain. Instead, we can get the money we need from the rich, from corporations, and from 'unearned' investment income. But can we really?

The Office for Budget Responsibility forecasts us to be spending an extra 11% of GDP – about £285bn in today's terms – on pensions, social care, and healthcare for the over-65s in 2072.

For better or worse, it is difficult to see a standard left-wing tax package filling that gap.

Let's start with Jeremy Corbyn's 2019 plan for the income tax system.[6] If he had become prime minister, he would have added a new 45p tax band at £80,000, and taxed incomes beyond the point at which withdrawal of the personal allowance ends (£125,140 today) at 50p. If you put those tax changes into PolicyEngine, you get a budgetary impact of +£4bn.

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6 Geoffrey Todd, 'Labour's tax policies under Corbyn', Tax Journal (September 2019).

Various other suggestions can be taken from the IPPR, who have suggested aligning capital gains tax rates with those for income tax (+£12bn), extending National Insurance to investment income and pensioners (+£12bn), replacing inheritance tax with a lifetime gifts tax (+£9bn), and abolishing non-dom status (+£3bn).[7] You might also raise corporation tax to 30% (+£15bn) while getting rid of various capital gains tax reliefs for investors and tax exemptions for private schools (perhaps another +£5bn collectively).

'To raise the sort of money to maintain today's welfare state, there is no way to avoid broad-based tax increases on ordinary families' earnings and spending'

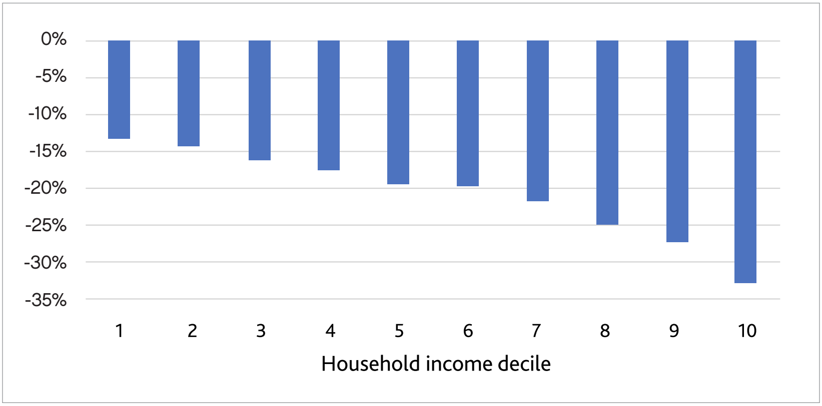
Such an agenda would, rightly, be seen as a massive tax hike. But it would still only raise around £60bn a year – just over one-fifth of the way to the target. In doing so, it would also have a pronounced effect on economic growth. Corporate income taxes are the type of tax most strongly associated with a negative effect on GDP per capita. (The evidence also suggests that their main effect is to reduce wages.) Significantly raising taxes on investment, meanwhile, is akin to eating seed-corn – it is effectively a tax on future prosperity, and may therefore be self-defeating in the long run. Once you account for behavioural effects, the promised revenues may never arrive. Another left-wing idea – a one-off wealth tax – might deliver bumper revenues once, but is no way to fund a welfare state on an ongoing basis. It is also likely to have a distinctly chilling effect on future wealth creation.

In short, if you have to raise the sort of money we're talking about here, there is no way to avoid broad-based tax increases on ordinary families' earnings and spending. Based on PolicyEngine modelling, one way to fill the £285bn black hole (Scenario 1) would be to put 10p on the reduced and standard rates of VAT (raising them to 15% and 30%, respectively) while also adding 28p to each income tax band – thus increasing the basic rate to 48%, the higher rate to 68%, and the additional rate to 73%. In principle, at least, such a scheme would raise the necessary funds. But

7 George Dibb and Henry Parkes, 'Chancellor's first step to raising tax on income from wealth leaves potential £50 billion untapped', IPPR (November 2022).

it would also increase poverty by 57.8%, and cost the average household nearly £8,000 per year.

Relative impact on net household income by decile under Scenario 1

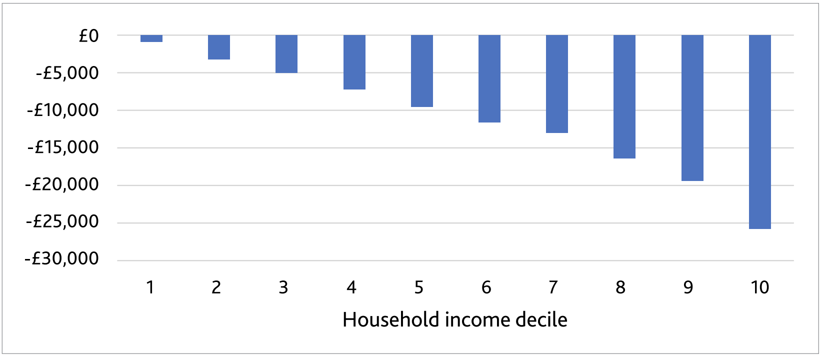


Source: PolicyEngine modelling

Of course, it is highly questionable whether this tax package would actually deliver as much revenue as a static analysis would suggest. Top tax rates of 45p or 50p may or may not be the wrong side of the Laffer Curve (the point at which tax rates so discourage economic activity that they lose revenue rather than raise it) but rates of 68p and 73p almost certainly are, especially with National Insurance on top.

A second scenario, which economists might judge more likely to succeed in raising revenue (at least in a world without politics), could involve the following policies: raising the standard and reduced rates of VAT to 25p; replacing council tax and stamp duty land tax with a 2% residential land value tax; scrapping employee National Insurance and charging income tax at a flat 50% on all earnings; and paying all adults a £50 per week 'basic income' (as a partial replacement for various tax allowances). The downsides would be a near-tripling of poverty among seniors and a reduction in net household income of nearly a quarter.

Absolute impact on net household income by decile under Scenario 2



Source: PolicyEngine modelling

Needless to say, the point of these examples is not to suggest what should be done to the tax system over the course of the next 50 years, but rather to highlight how unpalatable future fiscal policies are likely to be if we do not do everything in our power to get a grip of age-related spending and boost economic growth now.

The examples presented here might be extreme, and of course there are all sorts of ways a government might seek to raise revenue that cannot be straightforwardly modelled using an open source system like PolicyEngine. But whichever way you slice it, one inescapable fact remains: unless we get our act together soon, today's children are going to be forced to shoulder an extremely high tax burden over the course of their working lives. If we care about justice for the young, that is an outcome we should be bending over backwards to avoid.

Is there another way?

It is easy to look at the fiscal projections outlined by Williams and be filled with despair. It is equally easy for that despair to translate into inertia. If a problem looks so large as to be unsolvable, then why would any politician risk the massive political hit that starting to deal with it might involve?

And that, roughly, is the story so far. The potential fiscal impact of Britain's ageing population is not exactly news – people have been talking about it and writing about it for years, if not decades. But far from tackling the problem, we have been busy making it worse, with policies that undermine economic growth and increase fiscal commitments to the elderly. Westminster's wilful blindness to these issues – despite biennial reports from the OBR laying them out in gory detail – is the epitome of political short-termism and rank irresponsibility.

Change is long overdue. But what form should that change take? Ultimately, we need bold, decisive action on three fronts – growth, families, and the welfare state. And we need the focus on reform to be sustained over a long period of time. Future-proofing the British economy is not the work of a single Budget or election manifesto: it will need an all-encompassing programme of reform for many years to come.

'Westminster's wilful blindness to these issues is the epitome of political short-termism and rank irresponsibility'

The precise policies involved could be the subject of countless essays, each much longer than this one. In what follows, I will simply outline the main areas that are in need of attention.

First, economic growth must genuinely be made central to everything the government does. Plenty of politicians have paid lip service to this idea, of course. But few seem to have grasped what it would mean in practice. A regulatory system designed to maximise growth would look nothing like the one we have today. Interventions would be light-touch and few and far between, focusing solely on cases where clearly defined market failures give rise to significant and likely harms.

A tax system designed to maximise growth would not aim to redistribute income, but rather to raise funds in the least distortionary way possible. Such a system would consist mostly of a broad-based VAT, a land value tax, and a flat tax on personal and business income that gave full relief for saving and investment.

Above all, putting growth first would mean the near-complete liberalisation of land use planning, so that the market could deliver housing, commercial development, infrastructure, and cheap, abundant energy according to demand.

Second, we should not accept that our demographic decline is inevitable. Whether to have children and how many to have should always be a personal decision, but it is nevertheless clear that people generally have fewer children than they say they want, and that supportive policies can make more and larger families possible.

> **‘Putting growth first would mean the near-complete liberalisation of land use planning’**

Deregulating land use is crucial here, too, so that we can build plenty of family homes where parents and their children want to live. Liberalising childcare – getting rid of barriers to entry and regulations that raise costs – would help. We might also want to look at generous family tax allowances, like those in France and other countries, to ease the financial burden of child-rearing for working parents. Reversing demographic decline also means taking on doom-laden visions of the future that discourage some young people from starting families.

Third, we need to start reforming our welfare state with an eye to the future. That means trying to downsize demands on the state (and by extension the taxpayer) while boosting the role of personal responsibility. This would require significant long-term changes to pensions, social care, and the NHS – and is obviously a very challenging agenda from a political perspective.

On pensions, the goal must be to gradually reduce the value of the state pension while also boosting private savings for retirement – so that future retirees depend more on their own nest eggs, and less on future taxpayers. Of course, as Williams notes, the triple lock pushes in the opposite direction. And while auto-enrolment has been a huge success in getting more people to save, they generally aren’t saving enough, and there remain gaps in provision.

Nevertheless, with a clear long term strategy, the balance could gradually be shifted, delivering savings over the long run without exposing pensioners to any hardship. The long-term goal should be to get as close as possible to a fully pre-funded pension system – that is, one in which benefits are paid out of past investments, rather than funded by the contributions of current workers.

On social care, we must resist the temptation to make care for the elderly the general responsibility of the taxpayer – whether by fully funding private provision or, worse yet, nationalising it as part of the NHS. There will be strong arguments in the other direction. But from a fiscal standpoint, we are already in a hole and we should avoid making it deeper.

‘Healthcare is both the most important thing to fix and the hardest, practically and politically’

The big challenge here is to make some form of insurance financially viable. Some have suggested that government could foster an affordable private market by taking on the ‘tail risk’ of insured people needing care for a very prolonged period.[8] Lord Lilley, a former Secretary of State for Social Security, has outlined a way those approaching state pension age could pay a one-off care insurance premium via a modest charge on their home (which would be recouped later, once the house was inherited or sold).[9] Damian Green, another former Secretary of State, made similar proposals in a paper for the CPS.[10] All share the position that individuals need to contribute more towards their own care, and that this can be done via the creation of an insurance market, without forcing them to sell their own homes.

Finally, healthcare is both the most important thing to fix and the hardest, practically and politically. Part of the problem is that innovation in healthcare, which is of course welcome, often makes care more expensive overall, by expanding the range of treatments and technologies available. It is possible that some coming innovations will work the other way – such as anti-obesity drugs making chronic illnesses less common among the elderly – but we should not count on technology to make the books balance.

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8 Eamonn Butler and Paul Saper, ‘Fixing Social Care: New funding, new methods, new partnerships’, Adam Smith Institute (June 2009).

9 Peter Lilley, ‘Solving the Social Care Dilemma? A Responsible Solution’, Civitas (March 2021).

10 Damian Green MP, ‘Fixing the Care Crisis’, Centre for Policy Studies (April 2019).

Ultimately, we need structural changes that improve the economics of healthcare in an ageing society.

Obviously, every discussion of the NHS starts from the premise that healthcare must be free at the point of use. Yet this not only puts an ever-increasing burden on the taxpayer – including those of working age – but insulates patients from the financial consequences of their decisions. The result is either to inflate demand, or to impose de facto rationing via scarcity – precisely what we have seen in the health service in recent years, despite the record sums being spent. And to make matters worse, ours is not merely an ageing society but an increasingly overweight one: almost three quarters of people aged 45-74 are now overweight or obese.[11] It may be that Ozempic and other semagultides can turn the tide. But if not, there will be a bow wave of costs from unhealthy lifestyles.

'Almost three quarters of people aged 45-74 are now overweight or obese'

There are obviously many policy changes that could help bend the cost curve downwards. The need to shift the balance of treatment more towards prevention than cure is something that has been talked about for decades, but is no less true: it is cheaper to fit a handrail than to fix a hip, not to mention greatly to the patient's benefit. However, that kind of shift will not only demand more money in the short term, but also involve pulling power away from hospitals, which has historically been an extremely difficult thing to make stick. It is also worth pointing out that while it would be good for both patients and the economy to extend healthy life expectancy, we will still confront the problem that an ever more elderly population develops ever more comorbidities at the end of life – complex conditions that are correspondingly expensive to treat.

If we are genuinely to keep the NHS affordable, we may need to tackle that most sacred cow of all, and ask those who can afford it to contribute directly to their own care. If you were setting up a health system now,

11 Carl Baker, 'Obesity statistics', House of Commons Library (January 2023).

you would almost certainly adopt some element of 'pre-funding' – that is, building up funds over people's working lives that can be drawn down in their old age.[12] Transitioning to such a system now might be tough, but not impossible. We already use personal budgets on a small scale in health and social care, but a system such as Singapore's MediSave accounts would allow most people to accumulate savings to pay for basic healthcare directly, without taxpayer involvement and the inefficiencies that third-party payment entails.[13] They would also introduce a degree of de facto pre-funding into healthcare for the (future) elderly – much to the benefit of the following generations.

'It will be grotesquely unfair to the young to ask them to bear the inflated health and care costs of the richest cohort in history'

More widespread deployment of user fees and co-payments within the health system would help keep healthcare demand under control. It would also shift some of the burden of financing healthcare from (typically younger) general taxpayers to (often older) service users. We could also extend the role of market pricing and competition. Assuming that the taxpayer continued to have a primary role in funding healthcare, this would mean putting money in the hands of patients, wherever possible, and letting them choose between different providers who would compete transparently on price (and a range of other factors).

None of this will be popular, or uncontroversial. None of it will happen overnight. But over a half-century horizon, it will be grotesquely unfair to the young to ask them to bear the inflated health and care costs of the richest cohort in history, rather than asking that cohort to contribute directly for their own care.

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12 Kristian Niemietz, 'A Piggy Bank for Healthcare: Why the health system needs old-age reserve funds', Institute of Economic Affairs (May 2017).

13 For a good example of this could work in the UK, see Cynthia Ramsay and Eamonn Butler, 'Medical Savings Accounts', Adam Smith Institute (2001). For more detail on Singapore's healthcare system, see William A. Haseltine, 'Affordable Excellence: The Singapore Healthcare Story', Brookings Institution (2013).

Conclusion

The welfare state, as it exists today, is not sustainable in the context of an ageing population. Over the next few decades, a rising tide of spending on the elderly risks overwhelming anything else we might want to do for the younger generation, by burdening them with rapidly rising tax bills (without any commensurate increase or improvement in the services they receive).

The idea that the fiscal costs of an ageing population can be funded by targeted taxes on politically soft targets – big corporations and the wealthy – is a fantasy; without policy change, tax increases will have to be broad-based and very significant indeed. Ordinary families rightly feel that they are taxed enough already, but sadly, if the OBR's projections come to pass, they ain't seen nothing yet.

> **'The welfare state, as it exists today, is not sustainable in the context of an ageing population'**

At some point, policymakers will surely have to face up to what is coming down the track and attempt to change course. That process is never going to be easy, but the longer we leave it, the harder it will get. Radical reform of pensions, social care, and the health service is essential. But we should not just focus on the public spending side of things. An all-encompassing programme of economic liberalisation could, if it succeeded in raising the growth rate, make the burdens of an ageing population much easier to bear. Similarly, if we can help people to have more children today, tomorrow's old-age dependency ratio will start to look a lot more manageable.

It is wrong, though, to frame these sorts of reforms purely in fiscal terms. After all, if our goal is to deliver a brighter future for Britain's young, what could be better than giving them a more dynamic economy, with all the opportunities that entails, as well as the chance to raise in comfort whatever size of family they desire? That really would be justice.

From Stagnation to Innovation

By Matthew Feeney

If alien anthropologists tasked with studying humanity were to have arrived on Earth during the end of the 19th century there are a few findings they would no doubt have reported back to their extraterrestrial home. One of the most remarkable would be that, after hundreds of years of relative global technological stagnation, the people from a small island in the North Atlantic had unleashed a historic wave of innovation and growth.

> **'In recent decades, many developed economies have endured a long period of lacklustre growth and productivity'**

Today, the situation is very different. In recent decades, many developed economies have endured a long period of lacklustre growth and productivity improvement described by economist Tyler Cowen as the 'Great Stagnation'.[1] According to Cowen, the US (and by implication other Western countries) plucked the low-hanging fruit available – including free land; undereducated children and underemployed women; and a host of technological breakthroughs – to leave us stuck in a world where innovation is far harder. Cowen has also argued that the forces opposed to it are far stronger – not least the group referred to in another of his books as 'The Complacent Class', who protect their privileges at the cost of wider progress.

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1 Tyler Cowen, 'The Great Stagnation: How America Ate All The Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better', Dutton Adult (2011).

Intuitively, this argument makes sense. Between 1880 and 1970, a range of life-changing inventions, innovations, and industries emerged: the car, the aeroplane, nuclear power, space flight, the radio, the pharmaceutical industry and the computer. Someone born in 1900 who died in 1970 passed away in a completely different world than the one they were born in. Someone born in 1950 who dies tomorrow will have lived through some technological change – the internet being the most obvious example – but they will not have experienced the same number of revolutionary inventions as their parents or grandparents.

> **‘The reality is that the government and regulators too often send a strong signal to technology entrepreneurs, investors and businesses that they ought to look beyond the UK’s borders for opportunities’**

This stagnation, when coupled with the UK’s poor GDP growth figures, is poised to leave the UK’s young people with dismal prospects. The current generation of young people may well be the first in many years to not know what it is like to experience significant economic growth or seismic technological revolution. So what can we do about it?

A hostile environment for innovation

From a bird’s eye view, it might appear as if the British government is seizing the opportunities of Brexit and committed to a technology policy strategy that will make the UK a global technology governance leader. However, a sea-level view of the situation paints a bleaker picture, with the Government prioritising rhetoric over action and delivering legislation that is often at odds with a pro-growth and pro-innovation agenda.

What do I mean? The last few decades are full of bold government plans and strategies such as the National Data Strategy, the Innovation Strategy, the Digital Strategy, an AI Strategy, an AI White Paper, a Centre for Connected and Autonomous Vehicles, a Technology Code of Practice and much more.[2] Successive governments have also introduced a range of technology-specific legislation: in the last few years the Government has proposed the Data Reform Bill, the Digital Markets, Competition and Consumer Bill (DMCC) and the Online Safety Act.

All of this activity may look like evidence of tech-friendly, innovation-inspired governance. However, the reality is that the Government and regulators too often send a strong signal to technology entrepreneurs, investors and businesses that they ought to look beyond the UK's borders for opportunities.

'The Online Safety Act and the DMCC separately threaten technology firms with fines of up to 10% of annual global turnover'

For example, there are all kinds of flaws with both the Online Safety Act and the DMCC: as the Centre for Policy Studies has warned, they are over-ambitious, with a poor understanding of the fast-paced technology sector and a flippant disregard for free speech and privacy. They also separately threaten technology firms with fines of up to 10% of annual global turnover – hardly the greatest inducement for them to invest and operate on these shores.

The DMCC would empower the Digital Markets Unit (DMU) in the Competition and Markets Authority (CMA) with more authority to scrutinise a wide range of products and services, such as those developed by Google, Amazon and social media sites. If it passes, these companies and many others will have to consider costs associated with DMU oversight and developing products specifically

2 -Department for Digital, Culture , Media & Sport, 'National Data Strategy', December 9, 2020.
-Department for Business, Energy & Industrial Strategy, 'UK Innovation Strategy: Leading the future by creating it', July 2021.
-Department for Digital, Culture , Media & Sport, 'UK's Digital Strategy', June 13, 2022.
-Department for Science, Innovation and Technology, Office for Artificial Intelligence, Department for Digital, Culture, Media & Sport, and Department for Business, Energy & Industrial Strategy, 'National AI Strategy', September 22, 2021.
-Department for Science, Innovation & Technology and Office for Artificial Intelligence, 'A Pro-Innovation Approach to AI Regulation', March 29, 2023.
-Department for Transport and Department for Business and Trade, Centre for Connected and Autonomous Vehicles homepage.
-Central Digital and Data Office, 'The Technology Code of Practice', July 14, 2021.

for the British market.[3] Nor is it realistic to expect a quango inside a regulator to adequately oversee all of the diverse, large and dynamic markets affected by digital products.

‘The Online Safety Act gives Ofcom the authority to regulate a vast array of online services such as social media companies and search engines’

Meanwhile, the Online Safety Act gives Ofcom the authority to regulate a vast array of online services such as social media companies and search engines. Supporters of the Act argue that it will help address a range of online harms. Yet it has been criticised by a diverse group of policy analysts, academics, industry professionals and politicians as a threat to free speech and privacy. Encrypted messaging services Signal and WhatsApp suggested that they would leave the UK if the Act passed without significant amendment. They received reassurances, but no actual change to the legislation, and could leave the UK if officials exercise some of the powers granted in the Act.[4] That services used by millions of British residents could be unavailable thanks to overbearing and ill-considered legislation is an own goal from a Government that has demonstrated a willingness to handle the social issues associated with online speech with the blunt instruments of regulation and regulators.

Unfortunately, these pieces of legislation reflect an attitude that has come to dominate government: to regulate technology via broad mandates and broad legislation while empowering regulators. Indeed, the CMA is one of the British institutions that has been sending some of the strongest anti-technology signals, objecting to two major acquisitions (Meta’s acquisition of Giphy and Microsoft’s acquisition of Activision Blizzard) involving American technology companies.

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3 Ryan Bourne, ‘Sprawling regulator could end the dream of having a British digital powerhouse’, *The Times* (April 27, 2023).

4 Cristina Criddle, Anna Gross and John Aglionby, ‘UK pulls back from clash with Big Tech over private messaging’, *Financial Times* (September 6, 2023).

How does this affect young people? Because without the innovation that the digital sector can bring, their lives will be worse and poorer – and it will be far harder to deliver the productivity growth that frees them from the spending trap identified by Karl Williams and Tom Clougherty in the previous essays.

> **‘One of the best ways to boost UK innovation would be to encourage smart people from all over the world to come to the UK to live close to each other’**

How government can foster innovation

Stagnation is not inevitable, but it will continue absent specific bold policy reforms. Some of these reforms will be more difficult to implement than others, but they should be at the forefront of any policy agenda that aims to deliver innovation and growth. These reforms can be broken into four categories: mindset, talent, funding, and permission.

Mindset

Technology policy in the UK faces a number of problems that require fundamental rethinking of regulation and law. One of the main problems is that the Government continues to treat ‘technology’ as something that fits neatly into a ministerial portfolio. It is an improvement that science and technology now has its own department, rather than digital being bundled in with opera, sport and media oversight. But technology needs to be part of everything the Government does. Civil servants and ministers based in the Department of Transport, for example, are best-placed to consider how AI and autonomous vehicles will affect buses, trains and cars. The Ministry of Justice is best-placed to consider how AI should be used in sentencing guidelines and how pre-AI law should inform decisions about new crimes (e.g. hacking into an autonomous vehicle).

Talent

One of the best ways to boost UK innovation would be to encourage smart people from all over the world to come to the UK to live close to each other. It is not surprising that explosions in innovations of all kinds tend to happen in cities. Not only do cities allow for more opportunities for collaboration, they also allow for increased competition.

‘The Government is aware that for the UK to be a tech superpower British companies need to hire international talent’

The Government should be intently focused on ensuring that talent from all over the world can come and live in the UK in affordable and desirable homes. Two of the biggest barriers to British cities being home to a 21st century technology revolution are immigration restrictions and lack of housing.

The talent necessary for technological innovation is highly educated and highly mobile. Someone qualified to work on AI, robotics or nanotechnology can shop their talents all over the world in many countries and can demand comparatively high salaries. Unfortunately, London often does not look as attractive as many American, Asian, and European technology hubs.

The Government is aware that for the UK to be a tech superpower British companies need to hire international talent. There are currently a number of visa options available to foreign workers wishing to work in the British technology industry.[5] These can be divided into two categories: 1) employer-sponsored visas and 2) individual-sponsored visas.[6]

The employer-sponsored visas, such as the Skilled Worker and Senior or Specialist Worker visa, do have their advantages (e.g. clear points criteria and relatively easy application process), but they impose costs that some businesses find prohibitive.[7]

Individual-sponsored visas save businesses money, but many workers will find themselves unable to apply for one of these visas due to their education and income requirements.

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5 Coadec, ‘Immigration Guide for Start-ups’ (January 2023).

6 Ibid.

7 Ibid.

For example, the High Potential Individual Visa is a visa open to graduates from a list of 50 of the best universities around the world. It is valid for two years (three if the applicant has a PhD or other doctoral qualification).[8] The Government could improve this visa to attract more international talent by increasing the number of universities to 200. If it were to extend the length of stays from two years to five and expand the list of qualifying universities, the British technology sector would be able to attract many more workers without imposing some of the current costs associated with employer-sponsored visas.

‘In order for the UK to be an attractive venue for qualified technology workers there must be attractive and affordable places for such workers to live’

Of course, even if the government expands the pool of potential workers it will be left with the problem of housing. In order for the UK to be an attractive venue for qualified technology workers there must be attractive and affordable places for such workers to live.

The UK is home to some of the world’s most elite academic institutions and financial centres. Yet housing in and around cities such as London, Oxford and Cambridge is very limited and housing prices are high. More houses around these cities and others in the UK would allow for technology workers to live in affordable houses close to one another, rivalling cities such as Boston and San Francisco in density of technology and academic talent. Unfortunately, it is unlikely that any British city will experience the significant growth in housing necessary for the UK to establish itself as a global magnet for high-skilled, innovative technology workers – absent implementing reforms such as those recommended by Anya Martin elsewhere in this volume.

8 Government website, ‘High Potential Individual (HPI) visa’, accessed September 14, 2023.

Funding

It is at first glance reassuring to hear that the UK technology sector is the third-highest valued in the world (behind the US and China) and that there are more tech unicorns (companies worth more than $1 billion) in the UK than any country in Europe.[9]

However, these facts obscure the fact that the British technology sector is not doing as well as it could in terms of technology funding.

> **‘In 2021, only 26.4% of British pension fund assets were invested in equities, a drop of almost 30% from 2001’**

Although the figures reflect the fact that some technology companies in the UK do enjoy high valuations, it is important to consider that many British technology companies sell up to Asian and American companies. As start-up investor and the former chief executive of Oxford Science Enterprises Alexis Dormandy said, the UK is the world’s low-cost ‘technology sweetie shop’.[10]

While it is by no means bad news that the UK is home to many high-valued technology companies, the Government should remember that it will be difficult for the UK to establish itself as a global leader in technology innovation if its successful firms are bought by foreign companies.

Fortunately, there are reforms that can ensure that British technology firms enjoy more investment and funding. One of the low-hanging policy fruits that would encourage such investment is pension reform. UK pension schemes are comparatively risk averse. This is in part thanks to reforms to UK pensions made in the wake of the untimely death of Robert Maxwell.[11] After his death, it emerged that the newspaper mogul had been engaging in pension fraud.

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9 Department for Digital, Culture, Media & Sport and Paul Scully MP, ‘UK tech sector retains #1 spot in Europe and #3 in world as sector resilience brings continued growth’, December 21, 2022.

10 Peter Foster and Daniel Thomas, ‘The UK’s dream of becoming a ‘science superpower’, *The Financial Times* (January 5, 2023).

11 Harriet Agnew and Katie Martin, ‘Britain’s ‘capitalism without capital’: the pension funds that shun risk’, *Financial Times* (April 19, 2023).

As a result, the government implemented new regulations and laws that included many incentives for companies to close defined-benefit schemes and to divest from equities.[12] Thanks in part to this so-called 'Maxwell Effect', British residents are stuck in a pension regime that is very protective and risk averse.[13] In 2021, only 26.4% of British pension fund assets were invested in equities, a drop of almost 30% from 2001.[14] This compares to 40.6% of Canadian pension fund assets and 47% of Australian pension fund assets.[15] The result, according to chair of biotech company Immunocore Sir John Bell, is that 'trillions of pounds sitting in pension funds that are not being used to invest in companies, drive growth or do a whole range of things that the economic viability of the country depends on'.[16]

> **'Absent reforms aimed at increasing investment, the UK could lose its standing as the third largest technology investor in the world'**

Given the untapped investment opportunities in British pensions, the government should prioritise pension reform. The UK's technology unicorns have already experienced a significant decline in venture capital funding.[17] Absent reforms aimed at increasing investment, the UK could lose its standing as the third largest technology investor in the world.

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12 Ibid.

13 The Pensions Archive, 'The Maxwell Effect', November 19, 2021.

14 Agnew and Martin.

15 Agnew and Martin.

16 Ibid.

17 Charlie Conchie, 'UK 'unicorn' creation plummets as tech venture capital dries up', *City A.M.* (March 23, 2023).

Permission

Even if British entrepreneurs, businesses, and labs have the means to hire from a global talent pool, enjoy more investment in new ideas, and host workers attracted by British housing, they still need permission from the Government to launch their new ideas. Unfortunately, the regulatory state hinders many new products and services making it to market.

There are a number of reforms the government can make to ensure that entrepreneurs and businesses feel confident that they have permission to try new products and services in the UK.

> **'There is a risk that the UK's youth will grow up in a country bogged down in technological stagnation'**

The CPS will shortly be bringing out a major paper examining the shape of the regulatory state. But one of its key recommendations is that there should be a designated minister with the same authority to query and veto new regulations as the Chancellor has over new spending.

The minister would be responsible for three main objectives:

1) A review of existing regulation. Such a review would include a cost analysis as well as recommendations on which existing regulations were worth repealing, keeping or amending.

2) Oversee revisions to regulatory objectives. The new minister would task each regulatory body to complete a policy document outlining the safety standards it aimed to impose and the harms it sought to mitigate.

3) Identify the mostly costly retained EU law and prioritise it for swift repeal or amendment. Previous attempts to legislate sunsetting retained EU law have failed. Tasking a minister with overseeing retained EU law would be a welcome alternative to legislation.

Conclusion

Thanks to a succession of governments that have failed to follow up pro-technology rhetoric with robust policy actions, there is a risk that the UK's youth will grow up in a country bogged down in technological stagnation. Fortunately, it is not too late for the current government to change course and to implement policies that would make the UK one of the most technology-friendly countries in the world. Absent these policies, the UK risks losing out in a world that will increasingly reward governments that can harness the tech-fueled, global and dynamic economy that will define the 21st century.

The Power of Entrepreneurship

By Eamonn Ives

So far, the essays in this collection have painted a gloomy portrait of Britain's future. They have argued that without growth and innovation, young people face a future of higher taxes and lower living standards.

But how to deliver that growth? Policies set by central government can help and facilitate. But ultimately, both growth and innovation will be driven by the private sector – and in particular, by a new generation of entrepreneurs. And the good news is that Britain is already in a very good position to unearth and support that wave of talent.

> **'Ultimately, both growth and innovation will be driven by the private sector – and in particular, by a new generation of entrepreneurs'**

It is easy to bundle business and entrepreneurship together. But entrepreneurs play a distinct and important role in the economy. This small yet ambitious segment of the workforce is responsible for much of the innovation and positive disruption which is necessary to prevent the economy from stagnating.[1] The companies they build are disproportionately productive, bring new goods and services to market, challenge incumbents, and generally push forward the frontiers of the economy. To paraphrase a famous quote, entrepreneurship in the economy isn't everything, but in the long run, it is almost everything.[2]

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1 Kauffman Foundation, 'The Importance of Startups in Job Creation and Job Destruction' (July 2010).

2 P. Krugman, *The Age of Diminishing Expectations* (1994).

Entrepreneurship can also offer a ticket to success for overlooked groups in society, not least young people at the beginning of their working lives. While most will not follow in Mark Zuckerberg's footsteps and set up a social media giant aged 19, it is nonetheless the case that for many young people, entrepreneurship can be an attractive alternative to 'conventional employment' – which increasingly does not match their ambitions or attitudes. Their inexperience is their advantage, giving them the courage and confidence to have a go and possibly change the world.

Even before the coronavirus pandemic struck, polling from The Entrepreneurs Network – the think tank I work for – laid bare the appetite among young people for entrepreneurship. We interviewed more than 1,500 people aged between 14 and 25, and found that more than half had either thought about starting a business or had already started one.[3] A further 35% reported that while they had not thought about starting a business, they were interested in the idea of doing so.

'More than half of those we interviewed aged between 14 and 25 had either thought about starting a business or had already started one'

Of course, polling like this can only unearth stated preferences, but it nonetheless suggests that there is a considerable gap between the number of young people who are curious about entrepreneurship and those who are actively pursuing it. As such, policymakers should be thinking hard about what can be done to enable more of them to make their dreams a reality.

This raises the question, however – is there anything we can do to help today's young people unleash their entrepreneurial spirit? In short – yes, I believe there is.

While there is no 'Boost Entrepreneurship' lever in Whitehall for ministers to pull, an examination of where startup ecosystems locate themselves around the world suggests that there are certain conditions necessary for entrepreneurship to flourish. And often governments are in a position to bring about these conditions.

3 The Entrepreneurs Network, 'Future founders: Understanding the next generation of entrepreneurs' (2019).

Note that this is not to say that the state is the main determinant of whether or not a young entrepreneur will go on to launch the world's next unicorn – far from it. Entrepreneurs as individuals have and always will be the pivotal force. Rather, it is to say that through careful attention to policy-making, governments can meaningfully shift the dial in favour of promoting entrepreneurship, and reap the benefits that flow from doing so accordingly.

At the most basic level, entrepreneurs are people with the ability to spot a problem and devise a solution to it. This might be something revolutionary, such as the internal combustion engine or incandescent light bulbs, or something altogether more mundane (though still exceptionally useful) such as wheeled suitcases. The common denominator is that the inventors behind these advances saw an opportunity and had the know-how, means, and aspiration to seize it.

> **'At the most basic level, entrepreneurs are people with the ability to spot a problem and devise a solution to it'**

My colleague Anton Howes has written extensively about the idea of an 'improving mindset' being critically important to pushing forward innovation, from the early modern period through to the present day.[4] He has also highlighted how so much of the advancement in technology which we have seen stems from a vanishingly small proportion of the population – just a few thousand extremely talented inventors and entrepreneurs spread over the last several centuries.[5]

While a portion of these inventors might be accurately characterised as Wallace-and-Gromit-style eccentrics, pottering away on contraptions in their sheds, most would have been highly networked individuals – exchanging ideas in rich entrepreneurial ecosystems, and often depending on external capital to turn their ideas into reality. Certainly, that is the case for the average entrepreneur today, and it is something which policy-makers need to keep at the forefront of their minds if Britain is to welcome

4 A. Howes, 'Age of Invention: Upstream, Downstream', *Age of Invention Substack* (21 January 2021).

5 The Entrepreneurs Network, 'Operation Innovation' (April 2020).

the next generation of entrepreneurs to its ranks, and maintain its startup superpower status.

The reason why California's Silicon Valley and Boston, Massachusetts are among the world's most prominent hubs of technological innovation is because they densely concentrate not just entrepreneurial minds, but also talented graduates, investors, lawyers and other individuals essential to the development of new and interesting ideas and products.[6] Alfred Marshall popularised the benefits of this type of clustering in the late 19th century, and it remains true to this day, even in an age of smartphones and videoconferencing.[7] To put it bluntly, clusters matter.

It would be naive, however, to assume that we can just cut and paste this insight and sit back and wait for the blessings of entrepreneurship to magically appear. Startup ecosystems are organic – they form from the ground up as the collective result of a near-infinite amount of disparate and individual decisions.

'Entrepreneurs face all sorts of challenges in their lives running and growing startups'

What we can do, though, is ensure that conditions are as optimal as possible for entrepreneurs and investors to make such decisions.

Entrepreneurs face all sorts of challenges in their lives running and growing startups. Many of these hold true whether they are serial entrepreneurs with decades or wisdom, or bright-eyed go-getters working on their first venture. But if we are considering how to get more young entrepreneurs starting businesses, and giving them a shot at growing them into mature companies, then certain considerations rise up in prominence.

Above all, having a general culture which incentivises, venerates and enables people to become entrepreneurs is critical. Admittedly, as objectives go, this is about as nebulous, abstract and unquantifiable as they come. But you recognise it when you see it. It is also something exceptionally difficult to foster – taking time, resources and perseverance.

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6 M. Porter, 'Clusters and the New Economics of Competition', Harvard Business Review (November 1998).

7 A. Marshall, Principles of Economics (8th ed.) (1890 (1920)).

No individual initiative or piece of legislation will tip the balance between a city or country going from being hostile to entrepreneurship to conducive to entrepreneurship. But there are broad policy areas where governments can make a difference.

Take planning policy. If there is one single variable that can help or hinder young entrepreneurs in today's economy, it is the rules that govern the extent to which 'spaces' in our urban areas can flex to meet the changing demands upon them.[8] Within this, housing should of course be considered first and foremost, but also of critical importance are offices, laboratories, markets, retail space and so on. (Silicon Valley veterans would doubtless throw their hallowed 'garages' into the mix too.)

'Poor planning policy generally limits the supply of new spaces in an area, and thus equally limits entrepreneurship'

Poor planning policy generally limits the supply of new spaces in an area, and thus equally limits entrepreneurship. It pushes up prices, making it harder for people to interact, while shrinking the benefits of them doing so as productivity increases are eroded by higher rents.

This harms almost everyone in society, but in particular younger people – who, typically without much starting capital of their own, struggle disproportionately to secure places to live and work. We should also remember that entrepreneurs often use housing equity to fund early-stage businesses. If they do not have access to that, they will have a harder time raising the investment necessary to turn their ideas into a reality.

Closely related to planning policy is infrastructure policy. Poor connectivity within and between urban areas, caused by poor infrastructure provision, also places a ceiling on entrepreneurship. It prevents entrepreneurs from meeting potential investors, customers, and each other.

The effective size of cities in the UK is often far smaller than the case is in continental Europe, largely because of the simple reality that it takes so

8 TEN, 'Strong Foundations' (February 2022).

long to travel in and around them.[9] Congested roads, unreliable buses and infrequent trains literally slow the economy down.

Again, poor infrastructure generates many of the same problems as poor planning policy – which is that it ultimately stymies the economically efficient allocation of human capital, which we know is determined in large part by how big urban areas are.[10]

> **‘Poor connectivity within and between urban areas prevents entrepreneurs from meeting potential investors, customers and each other’**

Good transport infrastructure, in particular good public transport infrastructure, is especially important for young people. They are increasingly less likely to own a car, for instance.[11] Transport expert Harry Rushworth has shown how governance and decision-making structures stack the deck against transport investment in many parts of the UK where entrepreneurial potential lies untapped, such as our northern cities.

Solving this and connecting these areas could help rebalance the economy and enable startups to flourish right across the country, not just in London and the South East.

Another very important policy area that influences the entrepreneurial success of young people is immigration, not least given the fact that Britain’s foreign-born population skews young (94% of immigrants are under the age of 45 on arrival to the UK, or 63.5% after omitting children).[12]

Immigrants make an outsized contribution to the startup economy. We recently found that two fifths of Britain’s 100 fastest-growing companies by valuation had a foreign-born founder.[13] If you’re the sort of person who relishes the risk of moving to a new country, you’re probably the sort of person who can start and grow a successful company. Indeed, research shows that business ownership is higher among immigrants than native-born populations in the US, Canada, Australia and the UK.[14]

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9 T. Forth, ‘Birmingham is a small city’ (14 January 2019).
10 NBER, ‘Matching in Cities’, SSRN (5 November 2018).
11 DfT, ‘Statistical data set: Driving licence holding and vehicle availability’ (30 August 2023).
12 ONS, ‘International migration, England and Wales: Census 2021’ (2 November 2022).
13 TEN, ‘Job Creators’ (10 July 2019).
14 R.W. Fairlie & M. Lofstrum, ‘Immigration and entrepreneurship’, Econstor (2015).

The immigrants who move to the UK have positive spillovers for native British entrepreneurs too – a number of our most dynamic startups were founded jointly between someone born here and an immigrant, such as Monzo and First Light Fusion. They might have met at university, as so many entrepreneurial teams do, which underscores the importance of maintaining policies like the Graduate Visa, as well as the need to do more to cut visa fees and bureaucracy for promising international talent looking to move to the UK, such as by reforming the High Potential Individual visa or extending the Youth Mobility Scheme.[15] (See Matthew Feeney's essay on innovation for more on this.)

Our modern economy is a world apart from what it was 15 years ago, let alone 50. Digitisation more than anything else has enabled new business models to emerge – built on intangible capital and uniquely scalable.[16] This poses interesting challenges, and lucrative opportunities – especially for young entrepreneurs who can take advantage of the lower barriers to entry which digitisation creates.

‘Our modern economy is a world apart from what it was 15 years ago, let alone 50’

Instead of an individual diligently working their way along the established career paths of yesteryear, today's determined young entrepreneurs can fast-track their way to sitting atop of some of the most dynamic, rapidly growing and valuable companies in the economy. Of course that will not, and cannot, happen for every single one of them – but the fact that it's now a possibility is one of the most exciting aspects of our new economic reality.

However, the ease with which younger people are able to do that is determined by forces largely out of their control. Government policies will shape the extent to which young entrepreneurs can exchange ideas and get exposure to investors. And because of the rapidity with which our economy has shifted, it is incumbent upon policymakers to ensure that policies and priorities for economic growth keep pace too. (I would argue that our current situation suggests that they have not. While by

15 TEN, ‘True Potential’ (June 2022); The Entrepreneurs Network, ‘Passport to Progress’ (September 2023).

16 J. Haskel & S. Westlake, *Restarting the Future* (2022).

no means a scientific measure, a cursory glance at Hansard shows that even the mere mention of the word 'agglomeration' is something of a rarity in Parliament.)

> **'Digitisation more than anything else has enabled new business models to emerge – built on intangible capital and uniquely scalable'**

In other words, a pro-youth, pro-entrepreneur agenda for Government is one that focuses on agglomeration: building up our existing centres of startup activity, and removing the obstacles to creating more of them. Of course, there are many other policies that matter too – access to finance, appropriate regulations, the tax system, energy and digital infrastructure to name a handful. But in the round, if a government can get clusters to cluster, much else will follow.

Solving the Planning Problem

By Anya Martin

The housing crisis is one of the most important public policy challenges facing Britain today. And as Robert Colvile points out in his introduction to this collection, it is one that affects young people far more than most.

That's not to say that it is only young people who are affected. Our housing shortage leaves older Britons as well as younger ones living in smaller, less conveniently located homes. It constricts the wider economy, meaning that Britons of every age have worse jobs, lower wages and less well-resourced public services than they otherwise would. But at least for those who own, there is the consolation of a huge increase in their asset wealth. For younger Britons, the housing shortage rarely offers even this consolation.

'Today, few young British people own their own homes: only 28% of 25- to 34-year-olds as of 2019, a fall from 51% in 1989'

Today, few young British people own their own homes: only 28% of 25- to 34-year-olds as of 2019, a fall from 51% in 1989. They may at some point inherit their parents' properties, but this is likely to happen much later in life, after their own children have left home and their period of most acute housing need is past. Increasingly, young people are realising this, generating growing demand for reform. It was that demand that led to the formation of PricedOut, the campaign for affordable housing I have helped to run for several years.

In recent years, our campaigning – as well as the work of the Centre for Policy Studies and many other organisations on both left and right – has highlighted the scale of the housing crisis. But we've also seen how strong the opposition to reform can be. And the worse the housing crisis gets, the more appetite there is on both left and right for dramatic solutions, which are often either actively harmful or would be so unpopular they would make the situation worse.

'The surface area of metropolitan Paris today is three or four times greater than it was in 1939'

So in this essay, I want to look beyond the usual arguments about the details of Tory and Labour policy, or the rows over planning targets (though I obviously have strong views on all of those) to set out an approach to planning reform that could be both extremely effective and politically achievable, drawing on the best examples from overseas. I will start by setting out how the housing shortage is affecting the young. I then look at rent controls, which are frequently implemented by cities to handle rising rents, but tend to have unintended consequences and worsen the underlying cause of the problem, as well as calls for radical planning liberalisation, which might address the underlying problem but have the opposite challenge that they are virtually impossible to implement. And in the final section, I outline a series of practical policies that really could make a difference.

The cost of the housing shortage

The average British home has long been substantially smaller than those of other large European nations, and this trend is even more marked with new-builds today.[1] Our housing stock is the oldest in the world, meaning that much of it was built at a time when a much larger proportion of the population lived in large households: this means that there are especially acute shortages of homes suited for the young, as well as for the elderly and for single people of all ages.[2] Much of it is poorly insulated and expensive to keep warm.[3]

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1 For discussion, see Alex Morton and Elizabeth Dunkley, *The Case for Housebuilding*, Centre for Policy Studies (2023) and Samuel Watling and Anthony Breach, Centre for Cities, *The Housebuilding Crisis* (2023).

2 For a range of data on UK housing, see Justine Piddington et al, *The Housing Stock of the United Kingdom*, Building Research Establishment (2020).

3 William Baker et al, *Decarbonising Buildings: Insights from across Europe*, Imperial College London (2022).

These are all problems that affect the whole population. So do the huge economic costs of the housing crisis. The most obvious such cost is in the lack of what economists call 'agglomeration effects', whereby people are more productive when they are physically near to large numbers of other people. A brilliant structural engineer living in an isolated hamlet might be completely unable to practise their profession because there is nothing for an engineer to do there. In a small market town, they might work for a small local builder. In London, they might lead a division at one of the world's great engineering firms. In the first situation, the engineer earns nothing and is able to contribute very little to the economy; in the third, they should earn and contribute a great deal.

This is the most important reason why many people want to live in population centres, and why their doing so tends to boost the economy as a whole. Yet postwar Britain has deliberately thwarted this process.

> **'A famous study found that spatial policy constraints had lowered US growth by 36% between 1964 and 2009'**

As early as 1973, Peter Hall's 'The Containment of Urban England' set out how green belts prevented the outward expansion of cities in the areas where there was most demand, while the planning system largely prohibited the intensification of existing urban areas.

The original intention was to make up for this by building New Towns elsewhere, created on tracts of rural land appropriated by the state at existing use value and built out under a development corporation. This process proved unpopular, however, with no further New Towns designated after the 1970s. Britain was left with the postwar system's mechanisms for blocking development but without its mechanisms for enabling it.

This situation has persisted so long that it feels completely normal to those of us in Britain. But in fact, this makes a significant international outlier. The surface area of metropolitan Paris today is three or four times greater than it was in 1939. That of London is almost unchanged: in most places, the capital stops today where the builders laid down their tools when they went to war.

The economic growth that has been foregone through this is enormous. A famous study found that spatial policy constraints had lowered US growth by 36% between 1964 and 2009. British spatial policy is more restrictive than most places in America, so it is likely that our figure is even higher.[4]

These figures may sound abstract, but what this means is not just more individual wealth but more resources for hospitals, schools, social care, the justice system, and the other public services that British people care about.

These effects, as I mentioned, are felt by more or less everyone. But for homeowners, there is a consolation: rising house prices. Some 63% of British households are still owner-occupiers, and the value of many of these homes will have increased enormously in recent decades.

> **'Some 63% of British households are still owner-occupiers, and the value of many of these homes will have increased enormously in recent decades'**

But this is not, in fact, as much of a positive as it might seem, even for those homeowners. Theoretically, their wealth has gone up. But those who want to move to a bigger home still lose out, because bigger homes have become more expensive even faster than small ones. Homeowners who do not sell or remortgage their current home do not experience any improvement in their standard of living, because their wealth is locked into their home – a paper gain that does not actually result in higher living standards. So the only homeowners who benefit concretely are those who trade down.

If you bought a house as a young professional in London in the early 1990s, sold it in the 2020s, and retired to somewhere where housing supply is abundant, then you have probably benefited from the housing shortage – in fact you may have benefited a lot. Along with landlords, land promoters and landowners with planning permissions, you are among the small minority of British people who are probably net winners from the housing shortage.

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4 Chang-Tai Hsieh and Enrico Moretti, 'Housing Constraints and Spatial Misallocation', *American Economic Journal: Macroeconomics* 11:2 (2019).

Yet young people are very unlikely to belong to this group. As mentioned above, only 28% of 25- to 34-year-olds owned their own home in 2019, a fall from 51% in 1989. Even then, the great majority of this 28% will only be on the first rungs of the housing ladder, hoping vainly to trade up, maybe to a family house like the one they grew up in. Almost none of them will have a house that is larger or more centrally located than they need, allowing them to move down the housing ladder (or, traditionally, outside the capital) in return for genuine riches or a larger property. Indeed, many cannot even afford to enter the private rental market: the proportion living with their parents has risen by around half since 2000, to 28% in 2020.[5]

> **'The shortcomings of British planning are not the product of villainy or conspiracy. But the system is systematically redistributing advantages and opportunities from the poor and young to the rich and old'**

The housing shortage is, then, a bad thing for a majority even of older Britons. But it is even worse for younger ones. Many young Britons today have worse homes than their parents did at the same age – an astonishing reversal of a trend of improving housing conditions that dates back at least as far as the middle decades of the 19th century.[6]

The social effects of this are only just beginning to be grasped, from falling birth rates to abandonment of mainstream political parties.[7] If the shortage is not addressed, they will mount steadily in the years ahead.

The shortcomings of British planning policy are not, on the whole, the product of villainy or conspiracy. The post-1947 system was created with good intentions, and its failure was not orchestrated by any one individual. But it is now systematically redistributing advantages and opportunities from poorer and younger people to richer and older ones. So as well as generating massive deadweight losses, it is one of the most regressive policy programmes of modern British history. Few areas can be so important to the prospects of young British people today.

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5 For a comprehensive discussion, see Alex Morton and Elizabeth Dunkley, *The Case for Housebuilding*, Centre for Policy Studies, (2023).

6 Stefan Muthesius, *The English Terraced House*, Yale University Press, (1984).

7 See the contemporary classic, Ben Southwood, Sam Bowman and John Myers, 'The Housing Theory of Everything', *Works in Progress*, (2021).

Rent control – the tried and failed approach

So how can we help these young people? One proposal that is gaining attention is rent control.[8]

On the face of it, the argument for rent control is appealing. The most common version is that rents are rising not because landlords are working to increase the value of the property, but simply because housing is scarce, so it is unearned wealth extracted from those to whom it rightfully belongs. Capping rents therefore does not deprive people of the legitimate fruit of their labour, but simply prevents a privileged minority from capturing more unearned income. Although it will not in itself address the shortage of housing, it will mitigate one of its main malign effects on young people.

> **‘As well as generating massive deadweight losses, the planning system is one of the most regressive policy programmes of modern British history’**

The standard argument against rent control is that it reduces housing supply in the long term by disincentivising homebuilding. At some levels, this is obviously true. If rent control forces rents below the point at which they cover build costs, building to rent will become uneconomic. But this would not necessarily be the outcome in the areas of Britain where housing is most scarce. In London, floorspace value is typically three or four times higher than build cost, so in theory rents could be depressed greatly without making new building unviable.[9] (In practice this is not so true as those figures suggest, since much of this value is already captured by the Community Infrastructure Levy, affordable housing requirements, stamp duty, and so on: indeed, some development is already being pushed all the way into unviability by all this.)

But there is another problem: rent control makes it extremely hard to get a property in the first place. That’s because, in addition to

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8 I refer in this essay to ‘hard’ rent controls (caps on the maximum rent charged at the outset of a tenancy) rather than ‘soft’ rent stabilisation measures, which set limits on within-tenancy increases, and have different impacts.

9 Detailed data on UK floorspace values have been collated by Anna Powell-Smith at House Prices per Square Metre in England and Wales. Data on build costs are available at Building Cost Information Service, ‘Housing development: the economics of small sites – the effect of project size on the cost of housing construction’, (2016).

the potential impacts on supply, the lower rents make it easier for some people to occupy much larger properties than they need. That is a benefit to those individuals, who will largely be largely existing residents. But the flip side is that there is far more competition for the same properties, and especially for larger properties, leaving others with nothing.

Again, this makes intuitive sense. An older couple whose children have long since left, and who have a prime central property at a low rent, are likely to opt to stay there rather than downsizing, in order to keep the discount. This means that the young family who would have taken that home are left with nothing, and must either stay with their own parents, or simply leave the city. This is not just theoretical: Stockholm has a waiting list of up to 20 years for a rent-controlled apartment. During Berlin's recent experiment with rent control it became famously difficult to find a property to rent at all. A common result is the emergence of 'shadow' rental markets, where tenants pay market rent, but without the legal protections offered to formal tenancies.

> **'Stockholm has a waiting list of up to 20 years for a rent-controlled apartment'**

Another notorious issue with rent control is that it disincentives maintenance. If a landlord maintains a property poorly, its market value declines. Under normal conditions, this is bad for the landlord: they must either lower the rent to match the declining value of the property, or they will not be able to find tenants for it. But if the rent is fixed below market value anyway, the landlord essentially loses nothing by letting the property decay to the point at which its market value equals the controlled rent. If the landlord can charge £500 per month, at which rate they will easily be able to find tenants regardless of the state of the property, they will be unlikely to address repairs with the enthusiasm they might if it meant the property being empty for longer.

Again, there are numerous historical examples of this. In France, tight rent controls were imposed during the First World War and retained through the interwar period. As a result, only 6% of dwellings had a bathroom in 1951, compared to 42% in West Germany, while as late as 1946, 63% of dwellings did not have running water.[10] Meanwhile, East Germany retained Nazi-era rent controls all the way to German reunification, causing a spectacular decay of its buildings that was often remarked upon by visitors. As recently as 1989, 24% of all East German homes had no private toilet.[11]

The crucial thing to understand, in other words, is that capped rents do not erase the market rent: they hide it, such that it manifests itself another way. It might, in theory, be possible to design a rent control system that avoids these typical pitfalls. But it's hard to find of any such examples internationally or historically, not least because it assumes a degree of clever policy design that seems unlikely in contemporary politics. Better, then, to focus on what is making rents high in the first place, and tackle the underlying cause rather than the symptom.

'Only 6% of dwellings in rent-controlled France had a bathroom in 1951, compared to 42% in West Germany, while as late as 1946, 63% of dwellings did not have running water'

Planning deregulation – untried but politically problematic

If we want to tackle the root causes of the housing crisis, the most obvious solution is to build more houses. And the most obvious way to do that is to make it much, much easier to build.

This is obviously something many of us would agree with. But the more radical your approach, the more politically problematic such reforms become.

To see what I mean, let's look at the most extreme version of planning liberalisation, taking the example of London – what you might call the '1894 Plan'. This would be to repeal the 1947 Town and Country Planning Act and reinstate the 1894 London Building Act, which like the similar systems governing all European cities at the time, essentially allowed people to build more or less whatever they wanted within the boundaries

10 Steven Zdatny. 'The French Hygiene Offensive of the 1950s: A Critical Moment in the History of Manners', *The Journal of Modern History 84:4: Europe in the 1950s: The Anxieties of Beginning Again*, (2012).

11 Hubertus Knabe, 'Die DDR zeigt, wohin Mietspreisbidung führt', *Berliner Morgenpost*, (2019).

of London, subject to building safety regulations and a height limit – the same height limit which produced the gorgeous mansion blocks of Chelsea, Marylebone and elsewhere.

It's easy to understand why people might like the idea. The most immediate consequence would be a gigantic building boom, which would not relent until house prices had fallen by about 75%, to equal build costs. Much of outer London could be transformed into something like Marylebone or Bloomsbury. The UK would see one of the greatest economic booms in the history of the developed world: average incomes could easily soar over those of the French and Germans, and close rapidly on those in the United States. Living standards would be enormously improved, and the tax generated would be enough to vastly improve our public services. Making it so attractive to build in London would also make the great majority of greenfield building unviable, easing most of the planning pressure on the English countryside.

'If it returned to the London planning rules of 1894, the UK would see one of the greatest economic booms in the history of the developed world'

Sadly, political reality means that the 1894 Plan and its close cousins are unfortunately unachievable. Partly because crashing prices like this would annihilate most of the asset wealth of the homeowning majority of the population. And partly because people would see a wave of building sweeping across their neighbourhoods, with eight-storey mansion blocks starting to appear on every suburban street in areas of acute housing scarcity.

In 1894, of course, this was essentially what people expected to happen – cities had developed through gradual intensification since the beginning of urban life. But norms have changed: people now have an expectation, literally priced into their homes, that they will be protected against disruptive development. They tend to react angrily to it, as we pro-housing activists know all too well, and are unlikely to be appeased by the reassurance that their children and grandchildren will be vastly better off for it.

Of course, the 1894 Plan is not a realistic proposition: serious supporters of planning reform know that a move of this scale would be out of reach, and none (to my knowledge) are actively advocating it. But it does show that politically achievable planning reforms need to have a minimum level of political durability to pass and to remain passed. Indeed, we are now approaching two generations of failed efforts at reform, each of which has collapsed in the face of the NIMBY backlash.[12]

> **'We are now approaching two generations of failed efforts at reform, each of which has collapsed in the face of the NIMBY backlash'**

In other words, it is easy to devise 1894 Plans that would produce huge quantities of housing. It is difficult to devise reforms that deliver large quantities of housing without generating unstoppable backlash. In the formula of John Myers of the YIMBY Alliance, this is the 'hard question' of housing politics.[13] So how can housing reformers credibly answer it?

Towards a new planning consensus

The politics of development are sometimes presented as a zero-sum conflict between a privileged older generation of homeowners and a deprived younger generation of renters: each can win only by crushing the other.

As we have seen, it is certainly true that young people suffer especially from the housing shortage. But what happens if we reject the adversarial framing, and seek ways to make development popular across the generations?

It turns out that, precisely because of the scale of the housing crisis, the benefits of reform are sufficiently great that you really can create a broad-based majority in favour of building more homes.

This idea may sound ludicrous: surely experience shows existing communities are always against change, regardless of the benefits they derive from it?

In fact, there are numerous international examples which show that communities often support development – if they are given a generous share of its benefits.

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12 Brian Lund, *Housing Politics in the United Kingdom*. Routledge, (2016).

13 John Myers, 'Progress Studies: The Hard Question', *Works in Progress*, (2020).

For decades, South Korea has operated a system whereby the government permits specific urban districts to vote on intensification schemes. The scheme has generated huge quantities of housing. Indeed, districts often vie for the right to hold a vote, so great are the opportunities that it will generate for residents.[14] Likewise, Israel recently developed a system allowing apartment blocks to vote for the right to redevelop at higher density. This was originally intended as a way of enabling more buildings to reach modern earthquake standards, but residents have been so keen to take advantage of it that it has ended up generating a substantial share of Tel Aviv's new housing.[15] And there are similar examples in Canada and the United States.[16]

> **'For decades, South Korea has operated a system whereby the government permits specific urban districts to vote on intensification schemes'**

In fact, we do not even need to go so far afield. In London, since 2018, all estate regeneration schemes have been required to ballot existing residents on whether they want the scheme to go ahead. They can only proceed if they win majority support.

Many expected this to prevent estate regeneration, but in fact dozens of ballots have been won, frequently giving estate regeneration a stronger democratic mandate than it possessed previously.[17] Existing residents support regeneration because they are guaranteed bigger and better homes when it is over. Like people with any other tenure type, they are willing to put up with considerable disruption if the benefits are great enough. The same is true in the West Midlands, where the Conservatives

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14 Se Hoon Park, Hyun Bang Shin and Hyun Soon Kang, *Exporting Urban Korea? Reconsidering the Korean Urban Experience*, Routledge, (2020). See also John Myers, 'Seoul Searching: Does the Korean capital have the solution to the housing crisis?' *CapX*, (2021).

15 Tal Alster, 'Homeowners Saying 'Yes, In My Backyard': The Evidence from Israel', *Urban Affairs Review*, (2022).

16 Michal Halliday, 'The bold new plan for an Indigenous-led development in Vancouver', *The Guardian*, (2020); Nolan Gray, 'Subdividing the Unzoned City: An Analysis of the Causes and Effects of Houston's 1998 Subdivision Reform', *Journal of Planning Education and Research*, (2020).

17 Greater London Authority, *Estate Regeneration Data*, (2023). Cf. Dave Hill, 'Tower Hamlets: The Parable of the Aberfeldy estate regeneration ballot', *On London* (2023).

have performed most impressively in the areas that are benefiting the most from new housing and the new HS2 line.

In fact, a policy based upon this principle of consent and mutual benefit is currently under consideration in Parliament – 'street votes', versions of which have been proposed by a number of organisations.

> **'Existing residents support estate regeneration because they are guaranteed bigger and better homes when it is over'**

The principle is simple. If permission were granted for a street of suburban semi-detached houses to be redeveloped at the densities of Georgian Marylebone, then – in areas with an acute housing shortage, such as London – it would instantly increase enormously in value, even before any building work had been done. Many individual homeowners would very much like this to happen. Their neighbours, however, would not want the construction work, loss of sight lines, and so on. It's a version of the Prisoner's Dilemma: on any given street there might be a large majority of residents who would very much like to redevelop their property, and make themselves much richer in the process, but they are currently incentivised to block such permission for everyone else.

Under normal circumstances the planning system would reflect this by blocking such redevelopment. But street votes gives such residents the power to get around this collective action problem by creating permission for change through a qualified majority vote. The very group who would block the 1894 Plan – existing suburban residents – are thereby incentivised to vote in favour of creating the homes that the next generation so badly needs. As mentioned above, similar policies have had high uptake in Houston, Tel Aviv and Seoul, and have become established parts of their housebuilding systems. In Houston, such an incentive system is so popular that residents have rejected reforms to it via referendum no fewer than three times.

The crucial thing here is that this housing is not being imposed from above, but embraced from below. If those local communities do not want it, it cannot and will not happen. It is a policy based around consensus.

It's also easy to see how this kind of thinking could be applied elsewhere.

In much of England, parish councils can allocate sites for development through a referendum on the neighbourhood plan, if the community thinks that such development would be a net benefit for it. However, many areas where development would create an extensive value uplift lie in green belts, and parishes are forbidden from releasing green belt land.

In some cases, this is reasonable, since the land may be an important national asset as well as an important local one (for instance, because it is of scientific or environmental importance). But is it reasonable that parishes should be forbidden from permitting 'gentle density' development on environmentally poor land near to railway stations – given such development tends to enjoy the strong support of existing residents?

Supposing the development were to pay for exemplary local services and substantial reductions in council tax bills, or the creation and protection of genuinely high-quality green spaces nearby, residents might be keen to see it happen. Why not at least give them the option?

> **'If residents received a generous share of the benefits from redeveloping at higher densities, might they be keener to do so?'**

It would also be possible to extend the possibility of estate regeneration. As we have seen, estate regeneration is often popular with a majority of local residents on account of the benefits it brings them. However, power to initiate such development lies entirely with the council or housing association. This is a problem, because estate regeneration is a complicated and exhausting process, and councils and housing associations do not necessarily have strong incentives to undertake it.

Between Canary Wharf and the City of London lie many relatively low-density postwar housing estates. If residents received a generous share of the benefits from redeveloping it at higher densities, might they be keen to do so? Might we find a way to give them a choice?

It is worth investigating more radical options here. One option might be allowing housing association residents to convert their associations to a cooperative model, in which tenants become part-owners of the estate in which they live. They would then be in a position to capture the lion's share of the value uplift that redevelopment would bring, and they would be empowered to bring such changes about. And by doing so, they could create new homes for young people, in the places where such homes are most urgently needed.

Conclusion

Young people are not the only victims of Britain's housing shortage, but they are certainly the most severely affected. Their homeownership rates are collapsing. They have to pay sky-high rents – which in turn, as Elizabeth Dunkley sets out in the next essay, makes it harder to save for a mortgage – or remain living with their parents for years longer than they would prefer. This has knock-on effects on everything from their employment opportunities to their prospects of starting a family. If these trends persist, a generation will grow up for the first time whose living conditions, and possibly even living standards, are clearly worse than those of their parents.

> **'We need to avoid framing the housing shortage as an intergenerational war, in which the young can prosper only by triumphing over the old'**

The key to resolving this is to avoid framing the housing shortage as an intergenerational war in which the young can prosper only by triumphing over the old. The 'containment of urban England' has suppressed so much growth that – if we design our policies rightly – we can find ways of enabling development that benefit everyone, winning the support of those who currently block it.

The policies listed above are complex and require much more discussion than I can give them here. But they illustrate at least the type of policies that we need to explore if we are to find a remedy to the housing shortage that actually helps, and that might actually happen.

Expanding Home Ownership

By Elizabeth Dunkley

The public, of all ages and backgrounds, still see owning a home as an essential part of living the good life. But for young people, that ambition is being increasingly thwarted. As a result, the country is being divided into a nation of property haves and have-nots.

Home ownership for 25- to 34-year-olds hit a peak of 51% peak in 1989. Since then, it has halved. Meanwhile, almost three quarters (74%) of people in England aged 65 years and over own their homes outright, up from 56% in 1993.[1] Overall, under-40s are half as likely to own a home as their parents were at their age.

> **'Conservative political prospects depend not just on supporting current property owners but on maintaining a property-owning electorate'**

This, as many other contributors to this collection have pointed out, is one of the starkest generational inequalities in our country. It is one of the main reasons why there is a real possibility that the younger generation will be the first to be poorer than their parents and grandparents. It is also making a whole host of other problems worse, because of the knock-on impacts on productivity and public spending.

It is also a political problem for the Government. Conservative thinkers have long understood that their political prospects depend not just on supporting current property owners but also on the maintenance of a property-owning electorate. Home ownership is also central to the

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1 Office for National Statistics, 'Living longer: changes in housing tenure over time', (10 February 2020).

conservative principles of responsibility, family and individual responsibility. So making property ownership more accessible is not only an electoral cause, but a moral one.

It is sometimes suggested that the desire to own a home is irrational. On the contrary: it is deeply ingrained in the British psyche. Eight in 10 young people aspire to own their own home one day.[2] Young adults rank home ownership as more important than getting married or having children and achieving their career or educational goals.

> **'Young adults rank home ownership as more important than getting married or having children'**

And the benefits of homeownership are plentiful. Despite high upfront costs, living expenses have recently been lower for property owners, with the average first time mortgage costing less than the average private rent – as well as the knowledge you are building a tangible stake in your property rather than lining the pocket of your often faceless landlord. The quality of the private rental sector tends to be much poorer than owner occupied homes. Additionally, owning property offers stability, which is vital for those wishing to settle down and start a family. Property ownership also brings financial security, as a house can also be used as collateral for future leverage on cheaper loans – or indeed to help fund a startup, as Eamonn Ives suggests.

Yet despite overwhelmingly wanting to own a home, some 70% of young people now believe that the homeownership dream is over for their generation.[3] As a result, they have either had to resign themselves to the private rented sector or are stuck living in their parents' home: if anyone doubted we have a housing crisis, just point to the fact that one in three of those aged 20-34 are now stuck at home, up from one in five in 2000.

What is behind the fall in home ownership among young people?

There are three, deeply interconnected issues that are prohibiting young people from getting on the housing ladder. The biggest and most pressing is the lack of supply, discussed by Anya Martin in the previous essay. Put

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2 NatCen and Yorkshire Building Society, 'First-time buyers An early life crisis: Britain's homeownership aspirations', (26 March 2016).

3 M. Brignall, 'Young Britons believe dream of owning home is over, survey says', *The Guardian*, (31 July 2019).

simply, there are far too few homes being built to keep up with demand. Not only are we not building enough homes to cope with increasing population fuelled largely by immigration, we are also nowhere close to meeting the massive backlog of demand.

This is not just about building new homes, but building the type of homes people want to live in, in the places they want to live. Too often we have seen politicians actively trying to discourage home-building in the places where there is the highest demand, namely in London and the South East.

‘As a result of restricted supply, house prices have risen steeply, with the price of property in England having increased by 173% since 1997 in real terms’

Added to this, the UK suffers from very poor allocation of the existing housing stock. On the one hand, large, family-sized homes sit largely empty, with older people being financially penalised for attempting to downsize. On the flipside, younger people can often only afford to rent rooms in overcrowded, poorly kept multiple occupancy properties (typical referred to as HMO).

This leads into the second issue: rising prices. As a result of restricted supply, house prices have risen steeply, with the price of property in England having increased by 173% since 1997 in real terms. Meanwhile, real wages grew at a much lower rate prior to the financial crisis and have stagnated in the aftermath. This in turn is more likely to make lenders more wary of the risks involved in lending large sums to would-be first time buyers (FTBs).

The third major issue, which this paper will focus on, is financing. The traditional model of home ownership was simple. You worked hard. You saved. You got a deposit and a mortgage. A few years later, as your family grew, you would trade up to a bigger house.

Today, no part of that system is working as it should. Almost all FTBs require mortgage finance to buy a home. Yet obtaining suitable finance has become increasingly challenging, both due to macroeconomic shifts and deliberate Bank of England policy. The result, as Graham Edwards pointed out in his Centre for Policy Studies paper ‘Resentful Renters’, is that such buyers have been displaced by buy-to-let landlords.[4]

4 G. Edwards, ‘Resentful Renters’, Centre for Policy Studies, (22 December 2019).

As Edwards pointed out, these landlords bought up more houses in the decade after the crash than we ended up building.

This trend also shows up in the mortgage statistics. Between 1985 and 2005, there were an average of 484,000 FTB mortgages issued every year. But over the last decade, in spite of Government interventions in the market via schemes such as Help to Buy, we have seen an average of around 200,000 fewer FTB mortgages annually. This is not for lack of demand from would-be buyers, or any inability to afford monthly payments – which were, until the recent rise in inflation, at historic lows when compared to incomes.

‘Since the financial crisis, the regulatory pendulum has swung hard away from the days of easy credit’

It is understandable that this happened. Loose lending was at the heart of the global financial crisis, in particular in America. But even in the UK, nearly half of mortgages issued prior to the crisis were approved either via self-certification or fast-tracked, meaning lenders provided loans without little to no evidence that the borrower could pay the loan back.[5]

Yet since then, the regulatory pendulum has swung hard in the other direction. Most notably, the Mortgage Market Review of 2014 and the subsequent regulatory changes severely constrained banks’ lending criteria.

Whereas historically FTBs were only required to save for 5% deposits,[6] nowadays the average first-time buyer deposit in the UK is £62,470, which is around a fifth of the average first-time buyer house price.[7] This is a dramatic rise from even pre-pandemic levels: in 2019, the average first-time buyer deposit in the UK was £46,450,[8] meaning the average FTB has to find an additional £16,000 from somewhere.

At the same time that deposit requirements have increased, young people have faced stagnant wages and private rents have reached a record high, all of which has made saving for a suitable deposit much harder.

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5 A. Ulrich, ‘Mortgage Regulation’, Adam Smith Institute, (26 October 2009).

6 G. Edwards, ‘Resentful Renters’.

7 Lloyds Banking Group, ‘Cohabitation nation – more than six in 10 first-time buyers go joint to get on housing ladder’, (26 January 2023).

8 Lloyds Banking Group, ‘Soaring house prices failed to deter first-time buyers in 2020’, (22 January 2021).

Even if you do manage to get past the first hurdle and save for a deposit, there is another obstacle: obtaining a suitable mortgage. By one estimate, as of 2022 more than three quarters of non-homeowners aged between 25 and 44 were unable to meet lending criteria.[9] In particular, the recommendations restricted banks from lending more than 4.5 times income; limited interest-only mortgages for first-time buyers (but not for landlords); and introduced a 3% affordability stress test, though this was withdrawn last year[10]

'The median gross income for workers aged 22-39 this spring was £27,500, whereas the average FTB home cost £302,000'

The Bank of England may argue that recent increases in interest rates showed the wisdom of this policy: despite sharp increases in mortgage payments as people came off their fixed-term deals, there has been no wave of defaults and repossessions. But a big part of the explanation for that is that you generally have to be extremely well-off, or in receipt of very substantial support from your family, to get a mortgage in the first place.

For example, as of this spring, the median gross income for workers aged 22-39 was £27,500.[11] The official guidelines state that a borrower can receive an income multiple of up to 4.5x earnings, but in reality the average tends to be around 3.2 times their gross income. If a buyer on the average income were to borrow the maximum allowed by most banks, they could only borrow £110,000 – some £192,000 short of the average FTB home. This, of course, is why most of those buying houses are dual-earners. Yet a couple working full-time on the average wage would still fall very far short of being eligible for a mortgage on the average home.

This picture will, of course, have shifted recently. But even if house prices have fallen slightly compared to wages, higher interest rates have driven up the cost of mortgages. And in the longer term, it is hard to see things becoming much better: housing supply is still constrained; inflation has squeezed household finances, making it harder to save for a deposit

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9 I. Mulheirn, J. Browne and C. Tsoukalis, 'Bringing It Home: Raising Home Ownership by Reforming Mortgage Finance', Tony Blair Institute for Global Change, (27 May 2022).

10 G. Edwards, 'Resentful Renters'.

11 Office for National Statistics, 'Earnings and hours worked, age group: ASHE Table 6', (26 October 2022).

(and indeed to pay rising rental bills); and mortgage lenders are tightening lending criteria. In short, it is still the case that only those who are high earners and/or can depend on family wealth are able to afford a home via traditional means.

A blueprint for increasing home ownership

At the moment, our housing market leaves millions of people stuck in the middle – too wealthy for government housing support, but not earning enough to buy a home for themselves. In 'Resentful Renters', the CPS showed that if ownership patterns had remained the same after the financial crisis, there would now be 3.57 million more owner-occupiers. We also estimated that there were nearly two million people stuck in the rent trap: paying more in rent each month than they would in mortgage payments, yet failing to meet banks' lending criteria.

> **'If ownership patterns had remained the same after the financial crisis, there would now be 3.57 million more owner-occupiers'**

In response, some people have argued it is time to relax the current lending restrictions completely. There is some evidence to suggest there may be some room for loosening.[12] But dropping these prudent lending policies entirely would be not just unwise but politically fraught, given that it impinges on the Bank of England's independence and its primary duty to ensure financial stability. (The Bank will also point to recent events as justification for its tough line on lending.)

Similarly, some have called for the return of Help to Buy. This scheme was well-intentioned, but we believe misguided. It made home ownership affordable for the few – but as analysis by a House of Lords committee has shown, drove up prices for the many.[13]

A more attractive approach would be to rethink our attachment to the traditional short-term lending model. Yet doing so will require a change in mindset from all involved in the process – policy-makers, regulators, consumers, data accessibility managers and brokers.

12 The Conveyancing Association, 'Modernising the moving process', (November 2016).

13 J. Goddard, 'Meeting housing demand: Built Environment Committee report', House of Lords Library, (2 November 2022).

Supporting long-term, fixed-rate mortgages

The first option, identified by Edwards in his report, is long-term fixed-rate mortgages. In comparison to other countries, the United Kingdom has a higher proportion of mortgages tied to variable and short-term interest rates, which, as we have seen in recent months, make them significantly more vulnerable to market changes.

> **'Regulators should allow lenders to offer higher loan to income ratios on long-term mortgages, especially if the borrower has stable employment prospects'**

In countries such as the United States, Denmark and Spain, long-term fixed-rate mortgages are the norm. They can be fixed for either a number of years – typically five to 10 – or for the length of the entire mortgage. (In fact, around nine in 10 mortgages in the United States have a fixed-rate for the full term of the mortgage.) In the UK, fixed-rate mortgages are practically non-existent, with mortgage brokers and lenders preferring instead to retain repeat and regular custom from borrowers with all the fees that come with it.

One of the crucial attractions of these mortgages is that they obviate the need for stress tests and income caps. Guidance from the Bank of England's Financial Policy Committee tells lenders not to lend when the debt-servicing ratio (DSR), ie the proportion of income spent on the mortgage, would reach 40% once the stress test has been factored in. This is because a DSR above 40% is associated with higher default rates.

But with long-term fixed-rate mortgages, there is no risk of interest rates going up, which means the rationale behind limiting mortgage loans to a maximum of 4.5x income also falls away. The only consideration ought to be whether the monthly payments are affordable.

Of course, the case for long-term mortgages is somewhat weaker with interest rates above 5% rather than the 0.1% of a couple of years ago. But rates will come down again. And we should get the policy environment right to encourage the growth of long-term, fixed-rate mortgages when they do – not least to avoid a repeat of the current mortgage crisis.

With this in mind, regulators should allow lenders to offer higher loan to income ratios on long-term mortgages (over 10 years), especially if the borrower has stable employment prospects. Alternatively, regulators could allow a higher DSR to become the norm – in the United States, where long-term fixed rate mortgages are typical, the average mortgage DSR is around 40% compared to the UK at around 25%.[14]

Backing gradual home ownership

Long-term fixed-rates are not the only solution. An alternative emerging, market-led form of home finance negates the need for a mortgage entirely. This comes in the form of gradual home ownership (GHO).

> **‘Gradual home ownership has the potential to move hundreds of thousands of people from renting into ownership’**

GHO allows buyers to purchase homes with a minimum stake, with the remaining amount bought by the provider’s institutional investors in cash. (These are often pension funds, using GHO as a scalable model to invest in pre-existing housing stock.)

Unlike traditional shared ownership schemes, GHO is not restricted to just new builds, which can come with a number of hidden costs, such as service charges and ground rents. Under GHO, a FTB can choose a home and the GHO provider acts as the buyer and handles the whole purchase process, dealing with agents, conveyancers and surveyors, as well as carrying out due diligence checks. There is no mortgage, and hence the normal income multiples do not apply – nor is there any risk of falling into negative equity or of anyone ever losing their home due to changing market conditions. Borrowers instead pay market rent on the portion of the property they do not own, and can simply and easily ‘staircase up’ by buying a maximum of 5% per year (or completely buying out the investor). This can be done at any time, anywhere. It’s as simple as making a purchase on Amazon.

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14 I. Mulheirn, J. Browne and C. Tsoukalis, ‘Bringing It Home: Raising Home Ownership by Reforming Mortgage Finance’.

Taking the typical FTB earning the average of £28,500 and with a 5% deposit. Under GHO they could quite comfortably obtain a home at or above the national average. In a few short years such schemes have already helped around 250,000 households move from renting into the security of having a home to call their own. A home, which unlike a rented property, they hold a tangible stake in, can decorate however they wish, keep their pets in and live securely in the knowledge the house is theirs for as long as they want to continue living there.

> **‘It is unfair that a young person getting a foot on the housing ladder should have to pay stamp duty not just once but twice’**

This is a model that, with a little help from government, has the potential to move hundreds of thousands of people from renting into ownership. However, as things stand, GHO is at a regulatory and legal disadvantage compared to most other forms of affordable homeownership, such as the more traditional shared ownership sector.

In order for it to expand, the Government needs to update the current rules that penalise FTBs who use gradual ownership and offer them legal and regulatory parity.

At present, FTBs can claim full stamp duty land tax (SDLT) relief up to £425,000, with reduced liability up to £625,000. Yet FTBs buying a home via GHO are not entitled to any SDLT relief. This is deeply unfair. The rules have rightly been changed so that other schemes, such as shared ownership, are exempt – but not GHO. Would-be GHO customers also face paying double SDLT when it comes to buying the institutional investor out.

By definition, affordable homeownership schemes, such as gradual homeownership, are there to help the less wealthy. So there is no way it can be seen as fair that a young person getting a foot on the housing ladder via GHO should have to pay stamp duty not just once but twice, whereas their wealthier peers are totally exempt from paying SDLT. The government should swiftly change this by updating the Finance Act 2003 to ensure FTB using GHO are fully exempt from paying any SDLT.

This is not the only point of discrimination. As it stands, Lifetime ISA (Lisa) rules also penalise young people who wish to buy a home via GHO. Those who have saved into a Lisa are ineligible for the government uplift if putting their savings towards buying using a GHO model. This is because buying with a mortgage is one of the prerequisites. This seems discriminatory not only towards less wealthy would-be FTBs but also under the Equality Act. This is because Muslim savers are prohibited from taking out loans with interest and thus buying a home with a mortgage. However, they are able to own a home via gradual ownership, because it does not charge interest. A simple amendment to the Lisa rules to change this can almost certainly be achieved via Statutory Instrument and issued as guidance by a minister.

‘At present GHO providers are limited to offering properties under £500,000 in value’

Finally, at present GHO providers are limited to offering properties under £500,000 in value. This is owing to the Annual Tax on Enveloped Dwellings (ATED), which was introduced in the 2013 Finance Act. The well intentioned Act was designed to discourage the holding of residential property in the UK through corporate structures as a means to reduce tax liabilities. The ATED was extended gradually, first to all properties worth more than £2m in 2014, then £1m in 2015 and from April 2016, any worth more than just £500,000.

However, because GHO customers jointly own property with an LLP, they are liable for hefty tax bills should their property be valued at £500,000 or higher. Hence GHO providers generally have to limit their offers to young people living in London and the South East, where homes are more expensive. Again, this is deeply unfair. The Government ought to urgently exempt jointly owned properties, where one party is domiciled in the property, from having to pay ATED, so that GHO can be an option open to everyone, regardless of where in the country they happen to live.

In short, GHO has the potential to offer hundreds of thousands of young people, who would otherwise be stuck in substandard rental accommodation, the opportunity to get a foot on the housing ladder along with all the benefits that come with homeownership.

The Government has said it is looking for ways to help support FTBs, with Rishi Sunak reportedly mooting bringing back the controversial Help to Buy. But making these minor exceedingly affordable changes would not only grab headlines but change lives in exchange for the Government doing very little.

So far, this essay has concentrated on the private sector. But of course, there are millions of people craving ownership who currently rent not from a private landlord, but from the state. Today there are 1.6 million properties directly owned by councils, and a further 2.5 million owned by housing associations.[15] In fact, Britain has the fourth highest stock of social housing in Europe – and the fifth lowest home ownership rate.

> **'Today there are 1.6 million properties directly owned by councils, and a further 2.5 million owned by housing associations'**

For those living in council houses, there is meant to be a path to ownership: the Right to Buy, introduced by Margaret Thatcher. But the number of tenants buying their own properties has collapsed, from an average of 67,000 homes each year in the early 2000s to just 15,000 in the years before the pandemic, or the equivalent of 2% of the stock each year to around 0.4%.[16] Plans to expand the Right to Buy to housing associations, meanwhile, were stymied by resistance from within the sector.

As Alex Morton showed in the Centre for Policy Studies paper 'The Right to Own', the decline of the Right to Buy has come about not because social housing tenants have become any less keen on owning their own homes. Yet for every £1 the state spends on helping people rent, it spends just 2.3p on helping them own.[17] This is not just bad policy, but bad economics: helping people into ownership will cut the long-term bill for housing benefit that is a crucial driver of the growth in state spending identified by Karl Williams and Tom Clougherty in their essays in this collection.

The Right to Buy declined not just because of hostility from councils, or the transfer of property to housing associations. Taking up the Right to Buy has become riskier. Today's tenants are actually more likely to be in work than their 1980s equivalents – but moving from rent into ownership denies them access to housing benefit; forces them to absorb additional and unpredictable costs, such as repairs and renovations; and leaves them

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15 A. Morton, 'The Right to Own', The Centre for Policy Studies, (19 June 2022), p. 5.

16 Department for Levelling Up, Housing and Communities, 'Table 678: annual social housing sales by scheme for England' (10 August 2023).

17 A. Morton, 'The Right to Own', The Centre for Policy Studies, (19 June 2022), p. 6.

exposed if their circumstances suddenly change. They are also more likely to be doing a multitude of often temporary jobs, rather than having a single main employer. And they are very unlikely to have the necessary savings.

Morton's proposal was to revamp the Right to Buy into a Right to Own – along very similar lines to the GHO model mentioned above. Tenants would obtain a mortgage worth 60% of the value of their home (the existing Right to Buy discount) and gradually pay it off as any other buyer would. At the end of the period, they would be given the rest of the property outright.

'With every monthly payment, council and housing association tenants would be earning a greater slice of their property'

In other words, with every monthly payment, they would be earning a greater slice of their property, and building up their ownership stake. If they lost their job or their relationship broke down, they would be able to access the equity they had been building up, buying breathing space to manage their life. And if in work they could continue to partially claim housing benefit, though this would not count against the mortgage.

This model also countered the criticism that the original Right to Buy resulted in a depletion of the housing stock. The new Right to Own would create a stream of mortgages that the Government could sell in order to reinvest in a major new affordable housing building programme – creating both more owners and more affordable housing stock. Morton also argued that the new Right to Own should be extended to housing associations, again with the receipts being recycled into new or upgraded housing.

Conclusion

Conservatives understand that it is a moral imperative to support young people in fulfilling their home ownership dreams. Home ownership is a cornerstone of personal financial security and a pathway to building wealth and intergenerational prosperity that Conservatives seek to promote.

However, the soaring housing market and increasing income disparities have made it exceedingly difficult for young people to afford a home, often leaving them trapped in a cycle of unaffordable rents and limited prospects for the future. Reassessing the short-term, one-size-fits-all approach to home financing, and providing people with more routes into home ownership, could help solve a big part of the problem.

Educating for Success

By Mark Lehain

If we want to help young people, one of the most obvious ways is to give them the skills they need to thrive. And on that score, there is plenty of good news: England's school system is doing a significantly better job nowadays than it was 30 years ago, thanks to a series of reforms under both Conservative and Labour governments.

> **'Only 65% of 11-year-olds left primary school in 2019 having met the expected standard in reading, writing and maths'**

But the job is not yet complete. Too many young people still get off to a weak start, especially in terms of the fundamentals of reading, writing and mathematics. Even before Covid wreaked havoc on children's education, only 65% of 11-year-olds left primary school in 2019 having met the 'expected standard' in reading, writing, and maths.[1] Last summer, in the first national assessments since the pandemic, this fell to 59%,[2] and it was the same this summer too.[3] The picture is similar at GCSE, with 'standard pass' rates in English and in maths stuck at around 65%, and only around 43% achieving a 'strong pass' in both.[4]

This matters hugely. There is a lot more to life than the three Rs, but the problems that arise from being less capable or fluent in these core domains are innumerable.

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1 Department for Education, 'National curriculum assessments at key stage 2 in England, 2019 (Revised)' (December 2019).

2 Department for Education, 'Academic year 2021/22 Key stage 2 attainment' (September 2022).

3 Department for Education, 'Academic year 2022/23 Key stage 2 attainment' (July 2023).

4 Department for Education, 'National statistics Key stage 4 performance 2019 (revised)' (February 2020).

Whether it's reading children's classics sooner, or writing letters and stories that ignite your imagination, or being able to add stuff up at the shops for mum or dad, mastering the three Rs opens doors to beauty and opportunity and fun. More prosaically, if a child doesn't get off to a good start, they are unlikely to catch up later on, making the rest of their studies harder than they otherwise would be. In 2019, of those who had not met the expected standard at the end of primary, only 21% achieved a grade 4 or above in English language GCSE, and only 14% did in maths.[5]

Such pupils often end up with a more limited curriculum experience, to free up time for catch-up work. If they don't achieve a decent pass in their GCSEs, they have to do resits as a condition of continuing their studies, eating into time that could have been spent on other subjects or activities.

'A child that does not master the 3Rs will miss out on £1,000-£2,000 a year, every year of their working life'

All of this has a knock-on effect in later life. In particular, youngsters who haven't mastered these skills see a significant negative effect on their lifetime earnings. The Department for Education has estimated that a pupil that reaches the expected standard in 2030 will enjoy increased lifetime earnings of between £37,000 and £72,000.[6] Putting it the other way round, a child that does not master the 3Rs will miss out on £1,000-£2,000 a year, every year of their working life.

This isn't just a problem for the individual, but for the state. The DfE analysis suggests there is a higher risk of unemployment, or income insufficient to meet basic needs, and of lower job quality. This impacts not just on people's job satisfaction, but the benefits bill – and of course it is well-known that deprivation tends to be passed down through the generations, blighting not just those who fail to fulfil their potential but any children they may have.

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5 Department for Education, 'Ready reckoners and transition matrices for key stage 4' (February 2020).

6 Department for Education, 'Economic benefits of meeting the ambitions set out in the Schools White Paper' (March 2022).

Where is there most room for improvement?

It might not feel like it, but schools have improved in many ways in recent decades, thanks to the effort of governments, teachers, pupils and families.

Take attendance. In the past, a blind eye was all too often turned to pupils not turning up, particularly if they were more challenging or harder-to-teach. High and regular attendance is now one of a school's biggest priorities, especially after Covid.

There is also a much bigger emphasis now on schools being safer, kinder, more inclusive places. Preventing bullying is a big priority, as is dealing with it swiftly when it happens. Pupils and teachers treating one another with respect is non-negotiable – there is no space for dark sarcasm in the classroom these days. Indeed, the kind of unsafe sink schools that were tabloid staples in the past are now so rare as to be genuinely newsworthy when they do occur – and are swiftly dealt with, taken over and turned around or closed.

‘When the first ‘phonics screening check’ was carried out in 2012, only 58% of six-year-olds passed it’

In terms of the actual learning, the past decade has also seen what and how children are taught come on in leaps and bounds. Whether it's the teaching of phonics to four-year-olds, or the rigour of the history curriculum at GCSE, or how teachers are trained and developed, the reforms since 2010 have started to make their mark for the better.

But there is still so much that is holding children back.

Take reading. More pupils get off to a good start nowadays thanks to the adoption of 'systematic synthetic phonics' by schools. When the first 'phonics screening check' was carried out in 2012, only 58% of six-year-olds passed it.[7] By 2019, 82% hit the mark, with 91% getting there by the end of Year 2.

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7 Department for Education, 'Phonics screening check and key stage 1 assessments: England 2019' (September 2019).

This is a huge improvement, the cumulative effect of which is that there are more than a million kids in school in England who got off to a stronger start in reading than before. As a result, England has risen markedly in international literacy league tables.[8]

However, if you drill into the phonics data, you can see significant gaps: between boys and girls (around 7% fewer boys than girls hit the standard in Year 1) and between disadvantaged pupils and their more advantaged classmates (around 14% fewer disadvantaged pupils pass than others).[9]

And sadly, for many pupils hitting the phonics standard early on doesn't mean they go on to reach the 'expected standard' in reading by the end of primary. While 90% pass phonics by Year 2, only around three quarters reach that mark in their Year 6 reading tests.[10]

Worse, the stats above are from 2019, and thus pre-Covid. Results since are generally poorer, with bigger gaps between the advantaged and disadvantaged.

> **'Pupil absence in 2022/23 was around 50% higher than pre-Covid, at 7.5%'**

It's the same with attendance. If pupils aren't at school, they are almost certainly not learning. And since the pandemic, absence has rocketed. Pupil absence in 2022/23 was around 50% higher than pre-Covid, at 7.5%.[11] The proportion of pupils who were 'persistently absent' – missing 10% or more of school days – was a shocking 22.3% overall, and 28.3% at secondary school. And if you drill into the data, you find the usual patterns, with children on free school meals or who have special educational needs attending substantially less often than their peers.

We can do more when it comes to pupil behaviour, and mental health too. Not least because recent analysis has given us a much better idea of what is going on.

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8 Ariel Lindorff, Jamie Stiff & Heather Kayton, University of Oxford, 'PIRLS 2021: National Report for England Research report' (May 2023).

9 Department for Education, 'Phonics screening check and key stage 1 assessments: England 2019' (September 2019).

10 Department for Education, 'National curriculum assessments at key stage 2 in England, 2019 (Revised)' (December 2019).

11 Department for Education, 'Pupil attendance in schools' (10th August 2023).

In the spring and summer of 2022, the first ever National Behaviour Survey was undertaken in schools.[12] The results came out this June. And there were some pretty stark findings.

- When asked how often they felt safe at school, only 41% of pupils said that they had felt safe at school 'every day' in the past week.[13]
- Teachers reported that on average about 20% of lesson time was lost to misbehaviour – 6.3 minutes for every 30 mins.[14] 69% of teachers reported that between one and ten minutes were lost per 30 minutes of lesson time.[15]

We have never had this kind of data before, so can't say for sure how it compares to pre-Covid or further in the past. But we can say that it is not good enough and we must do better.

> **'69% of teachers reported that between one and ten minutes were lost per 30 minutes of lesson time'**

Similarly, in terms of mental health, the statistics on referrals and access are shocking.

- Of the 1.4 million children estimated to have a mental health disorder, fewer than half (48%) had at least one contact with children and young people's mental health services (CYPMHS) and only 34% had at least two contacts.[16]
- 32% of children who were referred did not receive treatment.[17]
- The average waiting time between a child being referred to CYPMHS and starting treatment increased from 32 days in 2020/21 to 40 days in 2021-22.[18]

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12 Department for Education, 'National behaviour survey, Findings from Academic Year 2021/22' (June 2023).

13 Ibid.

14 Ibid.

15 Ibid.

16 Children's Commissioner, 'Children's mental health services 2021-2022' (March 2023).

17 Ibid.

18 Ibid.

Of course, these problems are not unique to young people. Mental health services, like most health services, are struggling in general. And it is hard to know how much of the increase in reported problems is down to greater recognition by society of problems, or over-diagnosis, or the short-term impact of the pandemic. But pupils, parents and professionals report it to be a major barrier to children's learning and thriving.

All in all, we cannot consider the state of affairs to be truly fair for the young until we have addressed the above problems.

How can we make things fairer?

We spend huge amounts of money on education, with the core schools budget at £53.5 billion this academic year and rising in real terms.[19] However, it's clear that unless more kids attend school, and more of them behave when they are there, it does not matter how good the curriculum or teaching is, or how much money we are spending.

> **'We spend huge amounts of money on education, with the core schools budget at £53.5 billion this academic year and rising in real terms'**

It's also clear that the mental health of young people has taken a hit in recent years, even before Covid, and that this is a barrier to better attendance and behaviour.

Addressing access to mental health support won't solve all the behaviour challenges, so we need to improve the capacity of schools to deal with these. And we should empower parents to support their children in their learning, so they can plug gaps where needed or simply enhance the educational experience.

After all, families are nearly always the best advocate for the interests of their children. They might not know exactly what needs to be done to improve their offspring's reading or knowledge of history or grasp of the pluperfect tense in French. But giving more families the means to support a child's learning would have a substantial positive impact and help far more of them get off to a good start.

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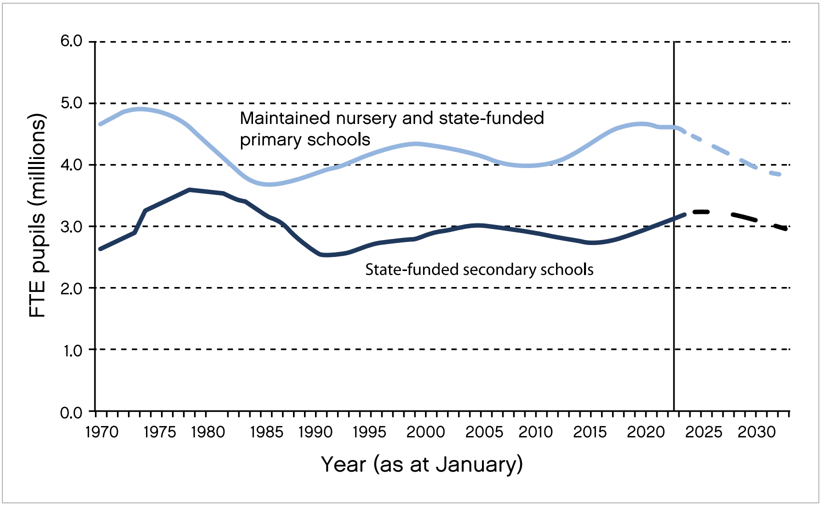
19 Department for Education, 'Financial year 2022-23 School funding statistics' (January 2023).

Encouragingly, we do not need a massive increase in the schools budget to address the above. Some of it is about changing habits and practices that are no- or low-cost. But much of the headroom comes from the demographic trends identified by Karl Williams in his introductory essay – and in particular, the fall in the fertility rate.

Britain's schools have been through something of a baby boom in recent years. But that process is going into reverse. By 2030, the pupil population is forecast to fall from 7.86 million to 7.12 million, a decline of 9.4%.[20] Primaries are due to see numbers drop even more – from 4.53 million today to 3.92 million in 2030, a fall of 13.5%.



In other words, if the overall core schools budget is kept steady – or even just falls by less than pupil numbers – then there is scope for money to be freed up for interventions on mental health, behaviour and parental support. Indeed, given the speed and size of the decline in the pupil population, there should be plenty of scope to keep both schools and the Treasury happy.

But what should we prioritise?

20 Department for Education, 'Reporting year 2022 National pupil projections' (July 2022).

Get a grip on smartphone use

Before doing anything else, we need to deal with the effect of smartphone use on children – an issue rightly highlighted by the Education Secretary at this year's Conservative Party Conference. They are incredible devices, but they are also incredibly destructive when not kept in their place, especially for youngsters.

Smartphones and their apps are designed to be compelling, if not actively addictive. Talk to anyone working with young people, particularly teenagers, and they will give you a bunch of examples of the negative effects. Lack of sleep. Screen- or social media-induced anxiety and stress. Bullying. Classroom distractions. Playground tensions. Access to porn and violent imagery. The list goes on.

> **'We will not achieve justice for young people unless they are in the right frame of mind to learn. Which means taking tough action'**

We will not achieve justice for young people unless they are in the right frame of mind to learn. Which means taking tough action.

- All schools should ban access to smartphones during the school day and on the school site. This was the position set out by Gillian Keegan in Manchester, and should be widely welcomed.
- A coalition of parents and professionals should launch a 'Parent Pledge' scheme, modelled on schemes like Wait Until 8th[21] in the USA, or the Safe Screens for Teens[22] campaign in the UK. This would enable parents to coordinate their children's smartphone access with other families and make it easier to delay and reduce use.

Improve access to mental health support

There is reasonable cause to think that if we can reduce smartphone use then demand for mental health support for youngsters will decline over time. (Not least given the extraordinary correlation between smartphone and social media take-up and the rise of anxiety among young people, in particular girls – see the work of Jean Twenge[23] or Jonathan Haidt[24] among others.)

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21 'Wait Until 8th', accessed Thursday, October 5th, 2023.
22 'Safe Screens', accessed Thursday, October 5th, 2023.
23 Jean M. Twenge, 'Have smartphones destroyed a generation?', *The Atlantic* (September 2017).
24 Jonathan Haidt, 'Get Phones Out of Schools Now', The Atlantic (June 2023).

But that will do nothing to help today's young people. So we need to improve mental health support right now.

- Ensure that all families know that they are able to refer their child to CYPMHS, and do not have to go through a GP or someone else.
- Introduce a voucher system to allow those who have not had contact with a mental health professional within four weeks of referral to seek out support elsewhere. This could be through a school counsellor – which would over time boost the capacity of schools to provide mental health support on site, and during the school day.

'The results of the first National Behaviour Survey (NBS) are striking and somewhat shocking'

Better behaviour

The results of the first National Behaviour Survey (NBS) are striking and somewhat shocking. But at least we now have, for the first time, a way to monitor things and see how they change over time.

Bans on smartphones will help, especially at secondary level. But pupils misbehaved before the invention of the mobile phone, and will still find lots of ways to push boundaries if they're banned. So we need to continue with the drive of recent years to make the development and sustenance of positive school cultures a key focus.

- The Government should pull together national minimum standards, in conjunction with the sector, to detail the minimum level of behaviour those who work and learn in schools can expect to experience.
- Ofsted should incorporate these into its inspection framework. It should also use the NBS questions when visiting schools, to have consistency of approach. It could even ask the entire school community to complete the survey during an inspection.
- More capital funding should be used to create specialist provision within multi-academy trusts (MATs), so that behaviour facilities, Alternative Provision, and Pupil Referral Units increasingly exist within the main school support and accountability frameworks. MAT leaders are keen to have greater responsibility for specialist provision, and it would make them more accountable for vulnerable pupils too.

Leverage parent power via personal learning budgets

A more ambitious proposal, but one with enormous potential to improve young people's life chances, is to harness parental interest in a child's success by complementing the money we give schools with a Personal Learning Budget (PLB) for every pupil: a ring-fenced budget for families to spend on high-quality educational support or resources.

Under this system, most families would probably focus on reinforcing what is happening at school. They might spend the allowance on tuition, buying textbooks, or subscriptions to websites or educational apps. Some might choose to use the budget on different but equally important things, like after-school or holiday clubs with an educational focus.

The PLB should be set up such that a family could pool the budget with other families to make it go further. For instance they could club together to hire a tutor for small-group tuition, or purchase class sets of books, or secure after-school enrichment activities that depend on having a minimum number of participants.

To maximise the options open to families, it should be possible for them to 'spend' the budget at their child's school. By allocating the money for each pupil to the family in the first instance, schools would have to make the case for the funding being spent through them rather than elsewhere.

> **'We should complement the money we give schools with a Personal Learning Budget for every pupil'**

Clearly there would need to be rules and processes to control what the money was spent on, to avoid fraud and reduce deadweight losses. However, these are not insurmountable challenges. Nor would PLBs necessarily require a whole new Government-created bureaucracy to deliver. For example, it might be that only tuition providers on a quality-assured list could be chosen for PLB spend, or it could be left to parents to decide who was good enough. Similarly, it might be that only validated resources on specific aspects of learning were approved to be accessible via PLBs, or again, it could be left much looser and for parents to decide what would be most effective for their child.

To get the PLB system off to a good start requires balancing a number of factors, including: it being big enough to purchase a decent amount of tuition (as the evidence supporting this as improving attainment is strong), or a substantial amount of other educational resource. The overall cost would need to be less than the decline in the core school budget nationally. And a critical number of families within a school community would need to be eligible, in order for them to be able to learn about it from one another, discuss how it was best spent, and be able to club together to procure tutors etc should they wish to.

With this in mind I would propose that, after some pilots to stress test systems, the policy should focus on primary-aged pupils, start off nationally with just Reception and Year 1 pupils, before rolling up the ages, and be a universal offer. A budget of £300 would fulfil the criteria above.

Doing it this way would mean that every family in a class or year group had the same opportunity to benefit from it, and create higher awareness so that less clued-up families were carried along with the support of those who are more savvy, as well as the school itself.

‘The median pupil now has a much better experience than their predecessors. Yet things are far from good enough’

With enough flexibility in the system, you could imagine entire new types of providers emerging, to support families in allocating their PLBs effectively, how these link up with schooling, and so on. Tracking how families spend their budgets would also enable people to see which things provide the biggest bang for buck and thus provide further feedback for improvements over time.

Conclusion

The school reforms in recent decades have shown that significant improvement is possible. The median pupil now has a much better experience than their predecessors. Yet things are far from good enough, as the evidence presented above shows. Focusing on mental health, behaviour, and parent power will improve the educational prospects of all pupils, in ways that can be done within existing budgets.

It requires parents and professionals to step up to the mark and trust one another. It won’t be easy. But young people deserve nothing less.

The Value of University

By Emma Revell

Whenever you talk to young people about generational inequality, there is one topic that comes up again and again. But once they've finished complaining about the housing market, they will soon get on to the topic of higher education. And no matter what path they pursued, they are likely to feel ripped off.

'The Institute for Fiscal Studies estimates that 20% of students – about 70,000 every year – would actually have been better off financially had they not gone to university'

If they went to university, they will be lumbered with sky-high student debt, which only those on the very highest salaries will be able to pay off easily. If they went down the technical route, they will often feel slighted both in terms of the resource gap with university and the prestige gap that persists. And if they entered the labour market directly, they will find themselves competing with hordes of overqualified graduates for those positions that are available – or indeed locked out of professions such as nursing or policing which have been increasingly restricted to those with formal qualifications.

All of these issues are important. But in this essay, I will focus on the first of them – the university track.

University is one of the earliest 'adult' institutions most young people have to deal with. Questions over where to go, what to study, or even whether to go at all start creeping into their lives as early as 15 or 16. Long before they are worrying about saving for a deposit on a flat or whether their new job offers a good pension scheme, young people are thinking about what their post-school path looks like.

For many, university is still the preferred choice. It is seen as the path to a 'good job'. It is the path their teachers think is best. It is the path their parents would be proudest of. But with the controversy about 'low-value' courses and enormous debt piles, are we short-changing young people right from the start?

The figures certainly suggest we are. The Institute for Fiscal Studies (IFS) estimates that 20% of students – about 70,000 every year – would actually have been better off financially had they not gone to university.[1] According to the Office for National Statistics (ONS), 31% of British graduates are overqualified for their jobs.[2] And drop-out rates vary enormously by institution. A record 11% of full-time undergraduates who started their degree courses in 2020-21 dropped out, but that ranged from as low as 1.0% at Oxford to a shocking 31.6% at the University of Bedfordshire.[3]

> **'A record 11% of full-time undergraduates who started their degree courses in 2020-21 dropped out, but that ranged from as low as 1.0% at Oxford to a shocking 31.6% at the University of Bedfordshire'**

Let's be clear. As the IFS has found, most students are better off for having gone to university. And the Exchequer is certainly better off for their having done so. But there are still far too many school leavers who embark on a path they are told will unlock a fulfilling and rewarding career, only to find they had chosen the wrong path or could not meet the university's standards – or to graduate and realise some years later that they were mis-sold a degree which did little to equip them for the labour market, with no recourse for complaint. Even those who do get graduate work in their chosen field find themselves concentrated in cities, facing extortionate rents, with no prospect of homeownership – as

1 Institute for Fiscal Studies, 'Most students get a big pay-off from going to university – but some would be better off financially if they hadn't done a degree', (29 February 2020).

2 Office for National Statistics, 'One in three graduates overeducated for their current role', (29 April 2019).

3 *The Times and The Sunday Times*, 'Tougher A-level grades 'vital' as unprepared students quit university', (13 August 2023).

colleagues address in other chapters of this collection. In short, they feel as though the future they were promised if they did as their parents and teachers told them is increasingly unachievable.

This is obviously not good for the graduates themselves. It also less than ideal from a social point of view: as Peter Turchin has argued, political unrest tends to be driven by those who are over-educated and under-rewarded, who have their expectations about their futures raised and then dashed.[4]

The cost of university

It will come as no surprise that students attending university by and large find themselves graduating with a significant amount of debt. But it may surprise you to know that the typical debt of a US student is around £29,000, compared to £45,600 for a British student.[5,6] (Of course, America has a twin-track system, with private loans as well as federal. But the average borrower still has much less to pay.)

'The typical debt of a US student is around £29,000, compared to £45,600 for a British student'

How did this come about? In 2009, the Labour Government commissioned the Browne Review into the future of university tuition fees, charging Lord Browne to take into account the aim of widening participation and the need to simplify support for students.[7] The Review recommended removing the previous tuition fee cap of £3,000 per year and allowing universities to charge different fees for different courses, putting the responsibility on institutions to prove value for money. However, the decision was left until after the next general election.

In the wake of that election, the Liberal Democrats, who had signed up to a National Union of Students campaign pledging not to raise tuition fees, secured an exemption in the Coalition Agreement which would have

4 Turchin, P. (2023). End Times: Elites, Counter-Elites and the Path of Political Disintegration. Allen Lane.

5 Forbes, '2023 Student Loan Debt Statistics: Average Student Loan Debt', (16 July 2023).

6 House of Commons Library, 'Student Loan statistics', (4 July 2023), p.4.

7 BBC News, 'Review of student fees launched', (9 November 2009).

allowed them to abstain on any future vote to raise fees.[8] However, they U-turned on this promise – although the Coalition did decide to reject Browne's original proposal, citing fears unlimited fees 'could deter some students', and instead cap fees at £9,000.[9]

In the foreword to the report, Lord Browne argued that the recommendations would give students the ability to make informed choices about what and where they study. He also wrote: '[students] do not pay charges, only graduates do; and then only if they are successful'.[10]

The problem is that today, too many students are not informed, and too many graduates are not successful.

> **'Students embarking on an undergraduate degree from August 2023 will repay 9% of their post-graduate income over £25,000'**

The majority of domestic students in England fund their university education through government loans. Students only start repaying these once they graduate and earn an income above a certain threshold. So students embarking on an undergraduate degree from August 2023 will repay 9% of their post-graduate income over £25,000.

The current funding settlement has worked very well for universities (at least until the current bout of inflation, which has driven up their costs while capping their revenue). As soon as they filled a place, they received a guaranteed tuition fee, paid by the student using a Government loan, whether or not that student ever earned enough to repay the state – or indeed received any return on the time and money invested in their degree.

The university therefore only had an upside in expansion. That saw many higher education institutions offering more and more courses with little regard for quality. But for the taxpayer, it was a mixed blessing – not least because they bore most of the financial risk. In its 2021 paper of the same name as this essay, the CPS cited Institute for Fiscal Studies (IFS) data showing that the

8 Gov.uk, 'The Coalition: our programme for government', (20 May 2010).

9 Gov.uk, 'A independent review of higher education funding & student finance', (12 October 2010), p.3.

10 Ibid.

Government will ultimately reclaim only 46% of the value of the loans it makes, representing an £8bn write-off for every cohort of students.[11]

As for the student, they are largely protected from the downside by the easy terms of the student loan. But they may also experience increasing frustration at finding themselves more qualified on paper but no more employable in reality. Furthermore, even if you are not paying your student loan, it always there looming in the background.

‘The expansion in the number of young people going to university did not coincide with an increase in the quality of courses’

Not having to fund tuition fees upfront is a key element of the tuition fees system across the UK, as is an element of taxpayer subsidy. The former aids in social mobility and the latter is natural, given we accept that having a broad subset of the population educated to university level is a good thing for the country as a whole. Entry rates for 18-year-olds into university rose from 24.7% in 2006 to 38.2% in 2021.[12] But this expansion in the number of young people going to university did not coincide with an increase in the quality of courses.

We also need to consider the quality of education students receive pre-university. Promoting university as a route to getting more high-skilled workers into the workforce only happens if the students have basic skills in the first place. Yet the core literacy and numeracy skills of English graduates were both fifth from bottom among 23 OECD countries.[13]

In other words, in our zeal to widen access to university, we let in too many people without the core literacy and numeracy to get the most out of the experience. Indeed, the evidence suggests that having a degree does not compensate for graduates with low basic skills once they enter the labour market. In 2012, the median monthly salary of a graduate with numeracy below Level 2 was £1,550, while the same for a graduate with numeracy above Level 2 was £2,740; the median monthly salary for a graduate with literacy below Level 2 was £1,520, while the same for a graduate with literacy above Level 2 was £2,650.20.

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11 Centre for Policy Studies, ‘The Value of University’, (7 November 2021), p.9.

12 House of Commons Library, ‘Higher education student numbers’, (21 February 2023), p.6.

13 OECD, ‘Building Skills for All: A Review of England’, (2016), p.51.

Furthermore, the OECD found in the same paper that the earnings gain for school-leavers with low basic skills was at least as high if not higher from short professional qualifications as from university degrees.

As a result, as outlined above, we have found ourselves in a situation whereby billions of pounds of tuition fees are never repaid as students do not earn enough in later life. According to the House of Commons Library, the Government only expects around 27% of full-time undergraduates starting in 2022/23 to repay their loans in full. That means taxpayers, not universities, will be picking up the tab for courses which have failed to boost the career prospects and future earnings of graduates.

'According to the House of Commons Library, the Government only expects around 27% of full-time undergraduates starting in 2022/23 to repay their loans in full'

What is the alternative?

In July 2023, partly in response to the work of the CPS and others, the Government announced a crackdown on 'rip-off' university degrees, which in their view were those with high drop-out rates or which 'leave students saddled with debt, low earnings and faced with poor job prospects'.[14] Under the plans, the Office for Students will be able to limit the number of students universities can recruit on to courses that are deemed to be failing to deliver good outcomes for students (which we now have much better metrics on).

However, this does not address the underlying misalignment of risk between the taxpayer, the student and the university.

There are numerous benefits to attending university which have nothing to do with money. The friendships and relationships formed there can last a lifetime. And the pursuit of knowledge for its own sake should not be scoffed at. But that shouldn't mean we disregard the financial implications, especially when the costs are borne by the taxpayer both initially and ultimately.

14 Gov.uk, 'Crackdown on rip-off university degrees', (17 July 2023).

The current system allows universities to get away with none of the financial risk of over-expansion or poor quality courses. We should move towards a system which is fairer to students and taxpayers. In particular, reforming the university funding system to link institutions' funding more closely to graduates' earnings will help prevent school leavers with poor basic skills being saddled with debt from courses which will not improve their future earnings and instead encourage them to take alternative routes.

> **'We should make universities directly accountable for the future income of their students'**

In such a system, the government would loan funding to universities who themselves lend directly to students, with students repaying universities who in turn repay the government. The repayment would mirror the current system: a certain percentage of post-graduate income above a set income threshold, with a cap on the amount an individual student would repay.

This system would make universities directly accountable for the future income of their students and incentivise them to focus on providing courses which deliver the best financial return. School leavers would be less likely to be lured into low-earning, low-value courses and away from alternative more productive routes such as apprenticeships. This is because the universities themselves would carry the risk of lesser earnings across the graduate's lifetime. The cap would also mean universities would not be able to rely on a smaller pool of high-earning graduates to subsidise others, although inevitably there would be an element of cross-subsidy.

As mentioned above, the IFS estimates that the long-run cost to the government of the 54% of unpaid fees and maintenance loans from each cohort that ends up being defaulted on is £8bn.[15] Helping students choose degrees with better long-term earning potential will drive up the repayment rate, helping the government recoup more of the cost of student loans.

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15 The Institute for Fiscal Studies, 'Where is the money going? Estimating the government cost of different university degrees', (4 March 2019), p.15.

Full repayment is highly unlikely given the current high rate of default – indeed, if the Government demanded 100% repayment from universities under the proposed new system, many would be forced to dramatically cut back the courses they offer. But if a saving of half that were made, the Government would have a significant pot of money with which it could directly fund bursaries for expensive, desirable and under-funded courses such as medicine or engineering. The savings could also be used to better advertise and support alternatives to university, such as apprenticeships and technical education, opening up these pathways to more students who would otherwise enrol on unsuitable and unrewarding degrees.

> **'Students would no longer find themselves blindsided by the poor return on their investment when taking courses such as creative arts'**

Overlaying these changes, the Department of Education should require all universities to make publicly available information on the average wage of graduates of each course, and have it clearly stated on advertising materials to aid in students' decision-making.

Ultimately this system would reward universities that offer students the best return and scale back courses that do not offer any enhanced career prospects.

Universities would still be free to offer courses with lower earnings potential, and students still free to take them – but with more openness and transparency. Students would no longer find themselves blindsided by the poor return on their investment when taking courses such as creative arts, which research showed has zero effect on earnings for the average female graduate and a negative effect for the average male graduate.[16]

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16 Centre for Policy Studies, 'The Value of University', (7 November 2021), p.12.

Conclusion

How best to educate the next generation is one of society's most important considerations. Our economy depends on training not just doctors, engineers and lawyers but teachers, psychologists and business leaders. For many, skills for these professions have to come from classroom instruction and practical placements. But university also provides young people with a range of intangible benefits – the freedom of moving away from home; improving presentation, research and writing skills that will serve them well regardless of their chosen profession; the chance to make new friends or potentially meeting a future spouse.

'University provides young people with a range of intangible benefits'

That does not mean that we can ignore the shocking statistic that as many as one in five graduates would have been better off in the long-term had they not gone to university at all – especially given the size of the debt students are incurring, the drag on their earnings as they struggle to pay it back, and the loss to the Treasury from the extraordinarily high default rate.[17]

Changes to the funding system would make universities more accountable for the outcomes of the courses they offer and give young people more information, allowing them to make more informed decisions about their career goals.

By reducing the number of people taking courses with low earning potential, we can not only get better return on investment for the taxpayer, but reduce the number of young people who feel frustrated and betrayed when they discover their supposedly career-boosting degree is not worth the paper it is printed on.

The measures outlined here will not fix every problem with the education system, especially not the creeping credentialism that limits people without a degree from applying for roles where a degree is an entirely irrelevant qualification. But we can start to arm school-leavers with the knowledge and ability to critically evaluate the costs and benefits of university education, so they can make informed choices that have a positive impact on the rest of their lives.

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17 Institute for Fiscal Studies, 'Most students get a big pay-off from going to university – but some would be better off financially if they hadn't done a degree', (29 February 2020).

Delivering Cheaper Childcare

By Alys Denby

Britain has among the most expensive childcare costs in the Western world. It's a sentence that you often see written down. But it can be hard to understand what that means until you're actually a parent yourself.

So let me put it more simply. For a while before she started school, my daughter's childcare accounted for 70% of my post-tax earnings. This meant that my husband was, in effect, subsidising the Centre for Policy Studies to employ me. A great service to the nation, to be sure, but perhaps not the most logical choice for our household finances.

'My daughter's childcare accounted for 70% of my post-tax earnings'

My decision to work wasn't purely a financial one. I felt it was important for my career, for my self-worth and to set an example to my daughter. But the sheer impracticality and expense of doing so are among the reasons I worked part-time – and am unlikely to have another child.

Most essays in this book focus on unfairness to the young as a single generation. But our cripplingly expensive childcare system manages to blight two generations at once – people of child-bearing age, and their children, both existing and yet to be born.

The British state spends an enormous amount on childcare, with subsidies costing about £7bn a year. Much of this is made up by the offer of 30 hours of 'free' childcare a week for three- and four-year-olds, as well as 15 hours for some two-year-olds. Yet one in four parents who use formal childcare say that it still costs more than 75% of their take home pay.[1]

1 Pregnant then Screwed, 'Three quarters of mothers who pay for childcare say that it does not make financial sense for them to work', (2 March 2023).

Part of the problem is that, while government subsidies have certainly helped those parents who benefit, they have also helped drive up costs for families who don't. We think of sending children to private school as a luxury for the extremely wealthy. Yet the average cost of a full-time nursery place for a child under two is £14,000, a mere £1,200 a year less than the average fee for a private primary school. And for a family with two working parents, paying up is a basic requirement.

> **'Many parents, mostly mothers, are working less or dropping out of the workforce entirely, as well as having fewer children'**

Meanwhile, nurseries themselves are struggling to cover their costs. With workforce pressures accelerated by the pandemic, around 4,000 early years providers closed in 2021/22.[2] Nine in ten councils say they fear further closures this year.[3]

The upshot is that many parents – and speaking from experience, mostly mothers – are working less or dropping out of the workforce entirely, as well as having fewer children. That is terrible for gender equality and inimical to the growth this country so desperately needs. But perhaps more invidious is the problems this is storing up for the next generation.

As other writers have noted in this collection, Britain's declining birth rates mean that our children will be paying for the pensions and healthcare of an increasingly aged and infirm population.

While other factors are undoubtedly contributing to lower birth rates, most notably the housing crisis, the demographic time bomb facing us can in part be attributed to the simple fact that people just cannot afford to have the number of children they might like. A recent essay in Works in Progress magazine showed that one of the main reasons for the postwar Baby Boom was that it became much cheaper to raise your family, and to afford a house large enough in which to do so.[4] In Britain today, the opposite is the case.

There are those who argue that the solution is to encourage more mothers to stay at home. But the current system of a semi-universal offer for nursery

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2 Gov.uk/Ofsted, 'Main findings: childcare providers and inspections as at 31 March 2022', (29 June 2022).

3 Isos Partnership/Local Government Association, 'Nursery Closures: Research on the nature, impact and drivers of nursery closures in England', (July 2023).

4 Works in Progress, 'Understanding the Baby Boom', (7 September 2023).

settings, along with interventionist regulation that makes informal childcare less accessible, makes this harder too.

Whether you believe a woman's primary function is to be a caregiver or you strive for economic emancipation, the policy solutions are the same. Parents need a range of affordable and accessible options so that they can choose what is best for their family.

'Whether you believe a woman's primary function is to be a caregiver or you strive for economic emancipation, the policy solutions are the same'

With the rising cost of living set to be a defining issue at the next election, politicians of all stripes are waking up to this. Many have childcare policies packaged and ready ahead of the next general election.

But will any of them work?

The Truss approach

During her brief premiership, Liz Truss was reportedly considering a number of radical changes to the way childcare operates in Britain, including relaxing the ratios of adults to children in nurseries, extending subsidies, and handing money directly to parents, rather than providers. Many of these ideas were ones she had developed during her earlier role as childcare minister in the Coalition years, only to see them blocked by the Liberal Democrats.[5]

This plan was seen (like so many of Truss's policies) as an insane act of deregulation. However, these ideas were only radical if viewed through the prism of British politics. Childcare is in part so expensive because we have some of the most restrictive ratios in the Western world. Far from some libertarian attempt to water-down safety for children, the changes proposed would merely bring us in line with some of our closest neighbours.

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5 *The Guardian*, 'Nursery ratios: Clegg blocks Tory attempt to relax childcare standards', (6 June 2013).

English nurseries can look after up to four two-year-olds for every member of staff, compared to six two-year-olds per member of staff in the Netherlands and Ireland, and eight two-year-olds in France. Countries such as Denmark, Germany and Sweden do not set national mandatory ratios for children of any age.[6]

Given we know of no epidemic of child neglect or poor outcomes from these nations' nurseries, we can assume some relaxing of ratios would not adversely affect children. In fact, by taking on an extra child or two, nurseries and childminders could use the additional income to pay staff more, reduce fees for parents, or invest in extra activities for the children.

> **'The failing system will keep costs sky-high, meaning families are denied a free choice about the kind of care that works best for them'**

While deregulation to cut costs was popular with Truss supporters, there are other Conservative MPs whose idea of family friendly policy is tax incentives for mothers to work less and have more babies. Sadly, without action, the failing system will keep costs sky-high, meaning families are denied a free choice about the kind of care that works best for them.

The Sunak solution

In March 2023, Jeremy Hunt unveiled one of the biggest interventions in childcare provision in recent years. In the Budget, the Chancellor announced plans to introduce 30 hours of free childcare for every single child over the age of 9 months, where all adults in the home work over 16 hours per week. The Government claims the package would be worth on average £6,500 every year for a family with a two-year-old child using 35 hours of childcare every week and reduce childcare costs by nearly 60%.[7]

Because of the size of the change, the rollout will be staggered, with working parents of two-year-olds able to access 15 hours of free care from April 2024, extending to all children from 9 months in September

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6 Department for Education, 'More great childcare – Raising quality and giving parents more choice', (January 2013), p.7.

7 Gov.uk, 'Spring Budget 2023 speech', (15 March 2023).

2024. The plan is that by September 2025, every working parent of under-fives will have access to 30 hours free childcare per week. The Chancellor also announced a small change to ratios for children under two, bringing England in line with Scotland.

> **‘The plan is that by September 2025, every working parent of under fives will have access to 30 hours free childcare per week’**

‘Free’ childcare is of course, as always, a misnomer. The childcare is still being paid for: the taxpayer is just carrying even more of the cost than previously, with demand inflated enormously.

From an ideological perspective, therefore, this solution satisfies no one. To those who want more children to be raised at home, it represents a government-sanctioned effort to march them into formal settings. For free marketeers, it is a huge expansion of the state.

Meanwhile, childcare providers themselves have raised serious concerns about how they would be able to offer these additional hours when they have a staffing crisis and the government subsidy is below the market rate. The Budget offered no reassurances or announcements to tackle the regulatory burdens placed on providers, the cost of which is driving many out of the sector.

The Labour promise

In a speech in March 2023, Shadow Education Secretary Bridget Phillipson argued that ‘more ‘free hours’ for parents means more underfunded hours for nurseries, more costs piled on to providers struggling to deliver services as they are now, and more need for cross-subsidy.’[8]

This articulated the failings of the current Government’s proposals, but failed to offer solutions.

Still, Phillipson has indicated that the issue will be a priority for Labour. In an interview with The Sunday Times in January, she said that Labour’s ambition would be to ‘make a change in education . . . like the change

8 LabourList, ‘‘Our focus will be on reform’ – Bridget Phillipson’s speech on childcare’, (9 March 2023).

that we saw post-1945 with the creation of the NHS. That's the scale and ambition that we have.'[9] But she was rather less forthcoming when asked how it should be paid for.

In March, Phillipson repeated her promise that childcare should be more affordable and that childcare should be 'better linked to educational priorities'.[10] In July, ahead of a speech by Keir Starmer to outline his fifth policy mission on education, she elaborated on this, telling The Guardian that a future Labour government would parachute graduate teachers into nurseries and deliver more training for childminders.[11]

'Increasing barriers to entry for childcare workers would further reduce the number of people able and willing to work in the industry'

Yet given the affordability crisis in childcare and recruitment crisis in education, diverting graduate teachers into childcare settings is hardly the answer. Nurseries would duly raise their prices given their staff were more qualified, assuming they could even find enough graduate teachers in the first place. (The number of graduate teachers fell to 'catastrophic' levels in 2022, down 20% from the previous year.)[12] Increasing barriers to entry for childcare workers would only further reduce the number of people able and willing to work in the industry, hastening the closure of nurseries and driving up demand for those that remain.

While some mums and dads will always be willing to pay extra for more academically rigorous childcare from a very young age, many parents across the country simply want to know their child is safe, well cared for, accessing age-appropriate activities, and developing their social skills with other kids.

As my colleague Emma Revell outlines in her chapter on universities and tuition fees, creeping credentialism like that proposed by the Labour Party only drags more young people into university education

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9 *The Sunday Times*, 'Bridget Phillipson: Labour's childcare plan will be like the birth of the NHS' (15 January 2023).

10 Ibid.

11 *The Guardian*, 'Labour wants graduate-led nurseries to fight nurseries', (3 July 2023).

12 *The Guardian,* 'Number of graduates in teacher training in England at 'catastrophic' level', (1 December 2023).

that may not be right for them and saddles them with debts they will likely never repay.

Solving the childcare challenge

There does exist another path – one which delivers choice and affordability for families, strong returns for the economy, and brings our childcare system more in line with our European neighbours, all for no additional cost to the taxpayer.

The model proposed by the Centre for Policy Studies in its report 'Solving the Childcare Challenge"[13] proposes a threefold solution: reducing the burden of government on providers, reassessing the compulsory nature of the Early Years Foundation Stage, and actively promoting the supply and use of cheaper, informal childcare and childminders.

> **'Teachers say that 54% of pupils are not developmentally ready for school, unable to perform basic tasks like using a knife and fork and going to the toilet'**

First, as outlined above in relation to Liz Truss's childcare plans, relaxing ratios is key to unlocking additional places without compromising on safety or requiring additional staff. While the current government did make a small tweak in this area – giving nurseries in England the option to bring their ratios in line with Scotland and take one extra child – this was not bold enough. If England relaxed child-staff ratios to French levels, we could cut childcare costs much more significantly.

But it's not just about ratios. The Early Years Foundation Stage (EYFS) consists of a range of welfare and safeguarding requirements and a set of Learning and Development goals that must be followed by all institutions providing care for the under fives, even the most informal providers: childminders. The Learning and Development targets, which are applicable only in England, cover communication and language; physical development; personal, social and emotional development; literacy; mathematics; understanding the world; and expressive arts and design. Compliance is monitored by Ofsted and staff are forced to spend time

13 E. Dunkley Solving the Childcare Challenge, Centre for Policy Studies (May 16, 2022).

providing detailed and comprehensive written records, as well as providing written and oral feedback to parents, instead of playing with children.

All parents want to see evidence that their child is progressing well. But I found it slightly absurd to be given an assessment of my two-year-old's 'literacy' before she could read, or reasonably be expected to. Another friend's daughter was given a 'set text' of The Very Hungry Caterpillar. Few other countries have a mandatory 'curriculum' for toddlers, instead relying on childcare providers to recognise that it might be a good idea to occasionally read to children.

> **'I found it slightly absurd to be given an assessment of my two-year-old's 'literacy' before she could read'**

Of course, if a family wants regular detailed feedback against an extensive list of criteria, they should be free to seek out – and pay for – an organisation which provides that. But by placing this burden on all providers, we are forcing up costs and taking childcare workers' attention away from children and on to tick-box exercises.

Indeed, contrary to Labour's proposal for graduate-led nurseries, there is no evidence that requiring ever more qualifications and codification improves the quality of childcare. First because, by increasing the costs, the EYFS means fewer families are able to access formal childcare. Second because parents who care for their preschoolers at home are unlikely to be following a curriculum, and no one is seriously suggesting they are worse off for it. The fact that teachers say that 54% of Reception pupils are not developmentally ready for school, unable to perform basic tasks like using a knife and fork and going to the toilet, does not suggest the EYFS is giving English children a head start.[14]

The Government should therefore learn from international best practice, and assess whether EYFS ought to be scrapped, made voluntary or have its applicability to the majority of childcare provision reviewed.

Finally, we should seek to actively increase cheaper, informal childcare and childminders. The UK's uniquely heavy regulatory burden on early years childcare has resulted in a rapid decline in the number

14 Kindredsquared, '2022 School Readiness Survey', (January 2023).

of childminders – often a much cheaper alternative. Numbers have collapsed in the last quarter of a century, from 103,000 in 1996 to 28,500 in 2022. This has, inevitably, driven up costs. For example, it is currently illegal to be paid to care for a friend's child unless you are registered with Ofsted. Two police officers almost faced prosecution for sharing a babysitting arrangement.[15] Another absurd case saw a woman battle with planning authorities over whether she was allowed to use a shed in her garden as part of her childminding business.[16]

'Britain treats families much less favourably in the tax system than almost every other developed country'

Greater flexibility and choice in this sector will deliver a dual benefit: enabling parents to go back to work more easily if they wish to, and allowing nurseries to be more innovative and responsive in what they offer. As well as delivering economic benefits for childcare businesses and the country as a whole, this will make life fairer for families struggling with the cost of living.

Finally, I should of course point out that making it cheaper and easier to raise children is not just about the childcare system. The recent CPS report 'Family-Friendly Taxation', by Ranil Jayawardena MP and my colleague Tom Clougherty, demonstrated conclusively that Britain treats families much less favourably in the tax system than almost every other developed country – and in particular discriminates significantly against single-earner families.[17] The paper outlined how in France, the 'quotient familial' sees tax bills cut sharply – usually to the tune of thousands of euros – for every child you have. Not coincidentally, France has one of the highest fertility rates in Europe.

The key principle here is not to push people to have children against their inclinations. It is to recognise the extra costs of having children, and the wider benefit for society, and reshape the tax system accordingly. The report identifies a series of hugely unfair biases and tipping points

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15 *Daily Mail*, 'The policewoman branded an illegal childminder – for looking after her colleague's toddler', (7 September 2009).

16 *Daily Mirror*, 'Mum wins battle to run crèche from shed in garden after neighbours complain', (4 July 2022).

17 Centre for Policy Studies, 'Family-Friendly Taxation', (5 July 2023).

in the tax system, which frequently disincentivise people from starting or expanding a family, and recommends a series of reforms to the tax and benefits system to this end, in particular a properly transferable tax allowance between married couples.

> **'Families take many forms, but the status quo isn't working for any of them'**

Conclusion

Families take many forms, but the status quo – with high cost, high subsidy and high impact on family size and in many cases parental career prospects – isn't working for any of them. It's harming the economy, curtailing the freedom of parents and contributing to demographic decline. A system that denies opportunities to both parents and their children at the same time is a fundamental abnegation of the contract between generations.

It's time to put aesthetic ideological differences aside and return to the principle that parents, not politicians, know what's best for their best for their children. That means putting choice and flexibility at the heart of childcare policy.

That way, if my daughter ever has a family of her own, her choices can be determined by her desires alone. That's justice for the young.

The Net Zero Challenge

By Dillon Smith

Decarbonising our society is the defining challenge of our age. And what a challenge it is – transforming every sector of the economy and every country around the globe, in a remarkably short span of time.

The UK should rightly be proud of the progress we have made, reducing our carbon emissions more quickly than any other rich country since 1990.[1] And yet in many ways the most difficult bits are ahead of us, as politicians of all stripes have begun to discover.

> **'Recent extreme weather events have highlighted just how vulnerable we are to a shifting climate'**

Yet steep as the mountain is, we still need to reach the summit – not least because a failure to act would be a searing injustice to young people.

Of course, not all of the environmental catastrophes of the last few years (heatwaves, cold snaps, floods etc) are directly attributable to climate change. Yet their frequency and intensity will inexorably increase throughout this century as our planet warms. By the simple fact of the timescales involved, the majority of these negative effects will be felt by today's young people and their descendants – even though right now they are relatively politically powerless to do anything about it.

Net Zero is a global story, not just a UK one. But if we want developing nations to decarbonise, they will expect us to lead by example. And that example needs to be one that embraces innovation, market competition and the power of new technology, rather than sticking to the failed

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1 The Economist, 'How Britain decarbonised faster than any other rich country' (15 February 2021).

nostrums of state direction and state control. Rather than opening the subsidy floodgates as some would have it, we should pursue a more conservative, nimble approach that plays to our strengths. As Rishi Sunak has rightly pointed out, that means bringing voters along with their leaders, and ensuring that undue burdens are not placed on those least able to pay. But it also means embracing the opportunities offered by the green transition to create jobs, level up the country and boost economic growth.

The impacts of climate change will be mostly borne by young

Recent extreme weather events have highlighted just how vulnerable we are to a shifting climate. There was the heatwave last summer that saw temperatures reach 40C in England, causing runways to melt, railway tracks to buckle, and record high excess deaths among the elderly.[2] Or Storm Arwen in 2021 which led to widespread disruption and over one million people losing power.[3]

> **'According to the Met Office, all of the UK's 10 warmest years on record (dating back to 1884) have occurred since 2002'**

While not every individual weather event is directly linked to climate change, the trends are undeniable. According to the Met Office, all of the UK's 10 warmest years on record (dating back to 1884) have occurred since 2002.[4] Summer heatwaves are now 30 times more likely to happen due to climate change.[5] As our planet warms, we should expect warmer and wetter winters, hotter and drier summers and more frequent and intense weather extremes, as the below table from the Met Office shows.

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2 *The Guardian*, 'Heatwave 'melts runway' at Luton airport and hundreds of trains cancelled' (18 July 2022).
The Guardian, 'Why do Britain's roads melt and its rails buckle in heat?' (19 July 2022).
Reuters, 'England's heatwaves see highest ever excess deaths among elderly' (7 October 2022). Note this refers to excess mortality across all of the heatwaves in England during the summer of 2022.

3 Ofgem, 'Storm Arwen Report' (June 2022).

4 Met Office, 'Climate change continues to be evident across UK' (29 July 2021).

5 Met Office, 'Chance of summer heatwaves now thirty times more likely' (6 December 2018).

Changes to the UK's climate and weather events[6]

	Changes in intensity or frequency so far	Is this linked to climate change?	What is expected in the future?
UK warm spells	Increase	Yes	Increase
UK cold spells	Decrease	Yes	Decrease
UK heavy rain	Increase	Inconclusive	Increase
UK dry spells	No trend detected	Inconclusive	Increase (summer)
UK wind storms	No trend detected	Inconclusive	Increase[7]

Source: Met Office

Allowing our climate to change so dramatically – and so quickly, in geological terms – is risky. The precise impacts are inherently difficult to predict, and will differ from place to place. Undoubtedly adaptation will be an important part of the response. But put simply, runaway warming risks mucking up the planet in all sorts of ways (ranging from the unpleasant to the deadly) that future generations will not thank us for.

And beyond the weather, climate change will impact on many areas of our economy. As the most recent Climate Change Committee (CCC) report on UK climate risks showed, major climate hazards such as flooding, water shortages, and increased temperatures will pose risks to crops and livestock, supply chains and distribution networks, the power system and human health.[8]

The magnitude of these impacts will of course depend on how much we can limit global temperature rises. To get a sense for this, take a look at the figure on the next page, taken from the most recent Intergovernmental Panel on Climate Change (IPCC) synthesis report. This shows the projected global temperature rise above pre-industrial levels out to 2100 in a range of emissions scenarios.

6 Met Office, 'Effects of climate change'.

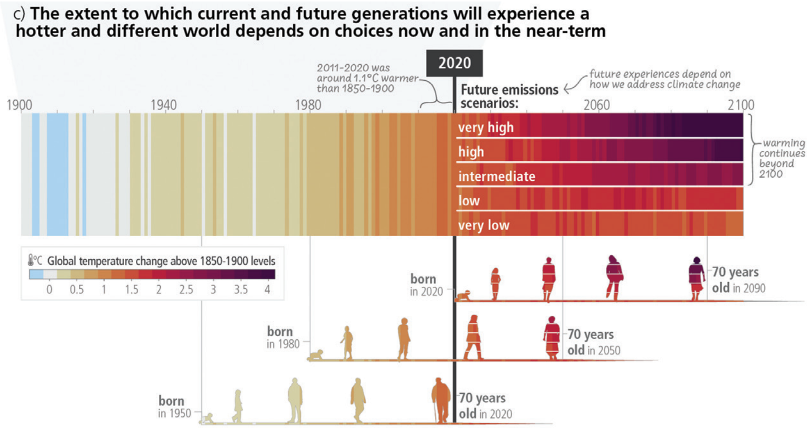
7 Some, but not all, evidence supports an increase.

8 Climate Change Committee, 'Independent Assessment of UK Climate Risk: Advice to Government For the UK's third Climate Change Risk Assessment (CCRA3)' (June 2021).

What is the upshot of this slightly scary sea of reds?

Well, there is a fairly depressing version of this story to tell. This is a global challenge, which will depend on the actions of every country around the world. In fact, the UK currently represents only around 1% of global emissions. So even if we ourselves hit Net Zero by 2050, we will still be hostage to other countries' behaviour. Indeed while we have cut greenhouse gas emissions by almost 50% since 1990 (as Rishi Sunak recently pointed out), global emissions are still rising - and could continue to do so for some time.[9]

Future warming scenarios[10]



Source: IPCC

That means that the effects of climate change could continue to worsen over this century, and beyond (note that even the IPCC's 'intermediate' emissions scenario above has warming continuing beyond 2100). Yet by virtue of demographics, most of today's older voters will not be around to suffer from any heatwaves, floods and droughts that may occur later. Climate change is the ultimate in intergenerational unfairness.

9 Prime Minister's Office, 10 Downing Street and The Rt Hon Rishi Sunak MP, 'PM speech on Net Zero' (20 September 2023).
The Guardian, 'Global greenhouse gas emissions at all-time high, study finds' (8 June 2023).

10 Intergovernmental Panel on Climate Change, 'Climate Change 2023: Synthesis Report: Summary for Policymakers' (March 2023), Figure SPM.1.

There is of course a counter-argument. Wouldn't it be an equal unfairness to cut Britain's growth and increase its deficit in the name of environmental purism, leaving debts higher and the economy smaller in order to reach a target that much of the rest of the world may not match? Isn't this China, India and America's problem, not ours?

There is indeed an appeal to this argument, and a basic sense. We absolutely cannot and should not switch off the modern economy in the name of Net Zero, or adopt burdens on businesses and consumers that are not matched elsewhere (as Rishi Sunak has recently pointed out). In particular, we need our policy mix to deliver energy that is abundant, secure and cheap, not just carbon-free – a point that many in Whitehall have failed to appreciate in recent decades.

> 'Climate change is the ultimate in intergenerational unfairness'

But a U-turn on the principle of decarbonisation itself would be the wrong move for Britain – environmentally, electorally, economically and generationally.

The demographic divide

Let us start with the electoral picture. Young people definitely appear to care most about climate and the environment – to the point where 73% of 16- to 24-year-olds reported that the issue was having a negative effect on their mental health.[11] In a recent edition of YouGov's regular polling on the most important issues facing the country, 33% of those aged 18-24 cited the environment – a sizeable proportion, although still behind such issues as the economy (55%) and health (40%). By contrast, among those aged over 65, only 20% cited the environment, with the economy, immigration & asylum and health far higher on the list.[12]

Of course, it's not as if older voters don't care about climate and the environment. But they're certainly not as keen to do much about the former. Look at the graph below (taken from recent opinion research from Onward/Public First). Among those aged 18-24, the level of concern for the environment is nearly identical to the desire for more action on climate

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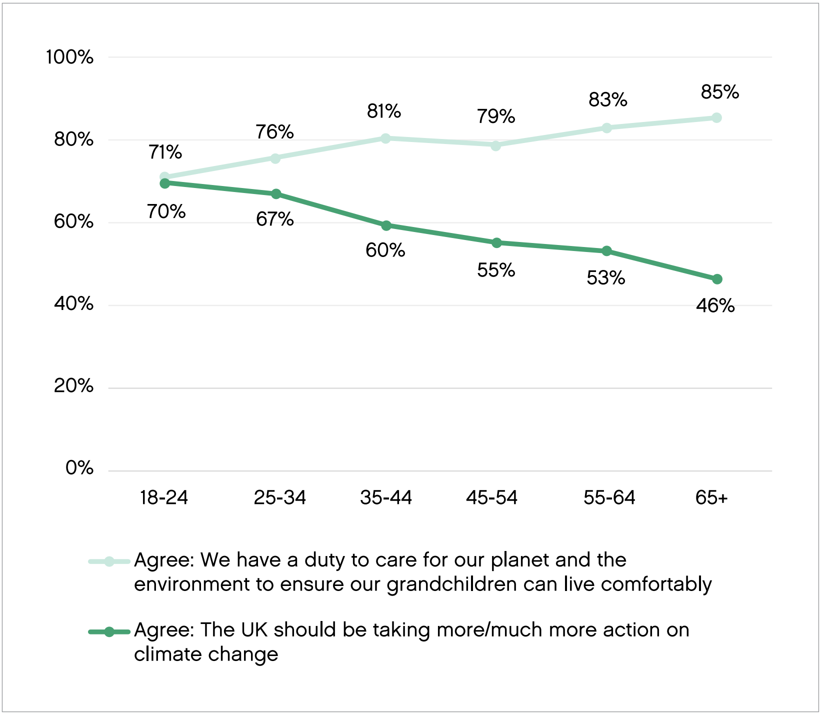
11 The Guardian, "'Terrified for my future': climate crisis takes heavy toll on young people's mental health' (30 March 2023). Original polling here

12 YouGov, 'The most important issues facing the country'.; Accessed 29 September 2023.

change. As you go up the age range, concern for the environment rises. But desire to take action on climate change falls sharply. While the framing of these issues of course matters, there does also seem to be an 'action gap' among older generations.

Environmental concerns by age bracket[13]



Source: Onward/Public First

In a strictly self-interested sense this is perhaps understandable – older voters won't be around for the worst effects of climate change, and thus may be more reluctant for the Government to spend time and resources cleaning up the mess. Indeed, these are last of the generations who have enjoyed the benefits of carbon emissions while bearing few of the costs. Younger generations will not be so lucky. And they will not be very keen on political parties that ignore their concerns.

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13 Onward, 'Taking the Temperature: Scrapping the Net Zero Target would cost Tories 1.3m votes' (April 2022).

The right way to achieve net zero

The next question of course is how best to hit the UK's climate commitments in a way that is fair and brings people along? This question has taken on increased political salience recently, as both main parties grapple with the economics (and politics) of what will undoubtedly be one of the defining issues of the next few decades.

> **'We need a conservative approach that uses market forces and nimble regulation to achieve a more efficient outcome'**

There is one line of thinking that embraces lavish subsidies – essentially the mantra 'maximum carrots and minimum sticks'. The hope is that throwing huge amounts of money at the problem will spur technological innovation, or at a minimum make greener options so cheap that people choose them of their own accord rather than having to be told to do so. Bury the up-front costs in general taxation, or in the debts paid by a future generation, and hope people don't much notice, or at least will accept the much-hyped trade-off of cheaper driving and cheaper power.

For Britain, this approach would be not only unwise but economically unaffordable. Fortunately, there is another way forward – a more conservative approach that uses market forces and nimble regulation to achieve a more efficient outcome. This would involve being honest with voters that hitting Net Zero will require some difficult trade-offs and properly intergenerational thinking. Applying subsidies and grants only where they are needed, and combine them if need be with clear but light-touch regulation to steer the market. Pressing ahead with carbon taxation (ideally in a revenue-neutral fashion) and more generally accepting the principle that the 'polluter pays', and trying to embed it in the economy. Adopting a carbon border adjustment mechanism, both to capture some of these externalities and ensure that British firms are not undercut by more polluting rivals from overseas. Using the invisible hand to guide consumers to greener options, while spurring polluters to innovate to reduce their tax bill.

This approach won't be as politically easy as the subsidy spree approach (not that we have the fiscal headroom anyway). But it will be more efficient, more honest – and more conservative.

There are also economic opportunities at stake. A recent report from the CCC has highlighted that delivering Net Zero has the potential to deliver a net increase in employment of between 135,000 and 725,000 jobs by 2030, in sectors such as building retrofitting, renewable energy generation and electric vehicles (EVs).[14] Note that this is a net figure, and so includes workers that are likely to lose their current jobs in the transition, such as in the oil & gas sector.

This process has already begun – the CCC points out that according to ONS data, the low carbon and renewable energy economy already employs c. 250,000 people.[15] Moreover, analysis from the Energy & Climate Intelligence Unit shows that jobs in the Net Zero economy boast a substantially higher wage (£42,600) relative to the national average (£33,400).[16]

> **‘Jobs in the Net Zero economy boast a substantially higher wage (£42,600) relative to the national average (£33,400)’**

The problem is that the UK is in a race against the rest of the world to secure these jobs. The coming years will be critical to establishing many of the industries that will help shape the 21st century, locking in jobs and prosperity for the winners. We can already see China taking a potentially decisive lead in key technologies such as batteries and solar panels. And Joe Biden’s subsidy bonanza has many CEOs thinking of making their next investment in the US.

Thus particularly post-Brexit the UK has both the opportunity and the urgent need to create a compelling offer for the industries in which we have a competitive advantage – not just with Government cash, but also with nimble and forward-thinking regulation, a skilled workforce, deep capital markets and liberalised planning regimes. If the Government lets complacency creep in, these green opportunities could easily slip through the UK’s fingers. Private companies and investors have a keen sense for where to invest. And if the UK loses its

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14 Climate Change Committee, ‘Net Zero offers real ‘levelling up’, but Government must get behind green jobs’ (24 May 2023).

15 Office for National Statistics, ‘Low carbon and renewable energy economy, UK: 2021’ (16 February 2023).

16 Energy & Climate Intelligence Unit, ‘Mapping the net zero economy: Net zero impacts in national, regional and local economies’ (January 2023).

green industries to overseas competitors, it will be young people who are most affected, since it will limit their opportunities across a lifetime of employment.

> **'The coming years will be critical to establishing many of the industries that will help shape the 21st century, locking in jobs and prosperity for the winners'**

Given the geographical distribution of the industries involved, becoming a laggard on green innovation could also set back the Government's levelling up ambitions, leading to lower living standards, fewer homeowners, and lower growth.

And there is also a global angle here. Given that carbon is a global problem, decarbonisation is a service we can sell around the globe. Indeed, if we turn our backs on Net Zero and rely on other countries to do the heavy lifting, they will be perfectly entitled to ask why they should bother investing the time and money, when they have far less than us of the latter.

The way forward

In the first two essays in this collection, Karl Williams and Tom Clougherty set out the enormous fiscal challenges that the UK will face over the coming decades. Yet many of the supply-side solutions we need to tackle Net Zero are exactly the same as those we need to drive growth and productivity, which as they pointed out are imperative for Britain's future.

Getting on with reforming the planning system to enable new energy projects to get spades in the ground as quickly as possible, with improved compensation mechanisms to appease local NIMBYs. Embracing onshore wind as fully as we've embraced offshore, while ensuring the latter has the support it needs to continue scaling up. Following through on reforming the grid connection process so new projects aren't subject to suffocating delays. Ramping up charging infrastructure as we phase out petrol and diesel vehicles, and being ruthless in tackling the vested interests that are delaying the rollout. Following through on a rigorous Carbon Border Tax to prevent us from simply offshoring our emissions (and many of our jobs).

We should be under no illusions that this will be easy. As politicians on both sides of the House have begun to discover, decarbonisation will require difficult trade-offs and honest conversations with voters. Yet the next generation will not thank today's politicians for lumping them with the impacts of a warming climate they had relatively little hand in creating, or a world in which the best jobs and most exciting companies are being created far from Britain's shores, while we are left to buy in technology created elsewhere. That really would be an injustice for the young.

Centre
for Policy
Studies

57 Tufton Street, London, SW1P 3QL
November 2023
ISBN 978-1-914008-2-9