

BOOMER AND BUST

Realigning Incentives to Reduce Intergenerational Inequality

By John Macdonald, James Sean Dickson and Dr. Michael Turner

BRIEFING PAPER

EXECUTIVE SUMMARY

- Intergenerational inequality is not just an issue of fairness between the young and the elderly. The ways in which it is expressed are a drag anchor on the productivity and economic growth that Britain desperately needs;
- Drastic reforms to planning, tax, welfare and education are needed to boost productivity, wages and prosperity, and lower taxes from a postwar high;
- In September 2021, research for the ASI showed that 38% of Britons supported building more homes in their local area, while 33% opposed it. Today, support is up 14pts to 52%, and opposition is down 8pts to 25%;
- The paper recommends the following policies:
 - **See through Street Votes;**
 - Street Votes would allow local communities to set design rules to ensure high quality and, if they choose, graceful densification. By giving residents a financial and amenity incentive to vote for densification, this will ensure building can be a win-win for residents, helping to address the housing supply shortage;
 - **Replace the triple lock on pensions with a smoothed earnings link;**
 - A smoothed earnings link would enable the state pension to be hiked to deal with significant inflation shocks, but minimises situations in which it will continue to substantially outstrip earnings, or where the Government has to temporarily suspend the lock;
 - **Unfreeze income tax thresholds;**
 - Our polling finds substantial support for indexing income tax thresholds via inflation. The Government should take the poorest workers out of tax altogether by pegging the Personal Allowance and National Insurance threshold to the National Minimum Wage rate, and begin pulling higher rates in line with inflation;
 - **Abolish Stamp Duty;**
 - Stamp Duty is an incredibly damaging tax. It disincentives people from making improvements and moving out of large properties when they might otherwise want to. It also destroys 75p of wealth per £1 raised;
 - **Offer personal development loans to school leavers;**
 - The student loan system should be reformed towards neutrality for school leavers, removing any bias towards the university system. This could be achieved by offering a £6,000 per annum income contingent loan over 3 years to all school leavers who do not attend university.

ABOUT THE AUTHORS

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METHODOLOGY

RESEARCH LEAD

Prepared by Dr Michael Turner, Director at Freshwater Strategy, and Fellow of the Adam Smith Institute.

FIELDWORK DATES

21-25 September 2022.

DATA COLLECTION METHOD

The survey was conducted via an online panel approach. Invitations to complete the survey were sent to members of online panels at random.

POPULATION SAMPLED

Adult residents living in Great Britain.

SAMPLE SIZE

n = 1,001 in Great Britain.

WEIGHTING

Data are weighted to match the profile of the adult population living in Great Britain. Weighting targets for the results include; age-sex interlocking, region and nation, level of qualification, 2019 General Election vote, and 2016 EU Referendum vote. Targets were derived from statistics collected by the Office for National Statistics (ONS), as well as the final results of the 2019 General Election and 2016 EU Referendum.

MARGIN OF ERROR

After calibration weighting is taken into account, the maximum margin of error for this poll at the 50% estimate, is +/- 3.4% when analysing topline results.

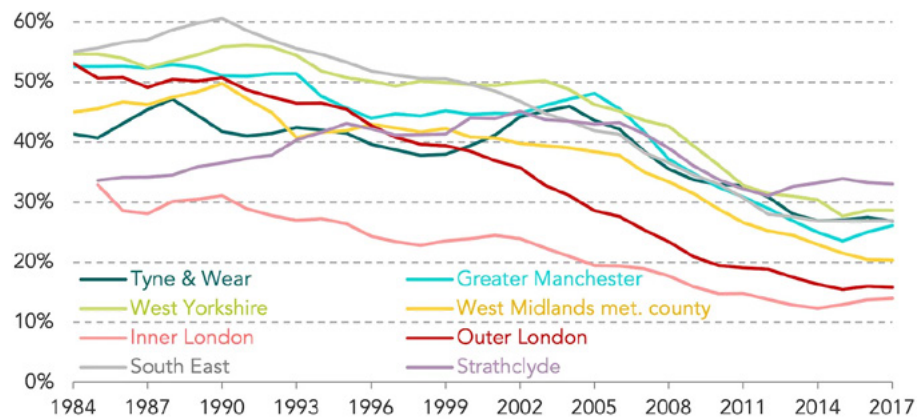
Please note: Caution should be taken when analysing subsamples, as these figures will be subject to significantly higher margins of error. In particular, inferences drawn from small subsamples (n<=50) should be treated with caution.

An increasingly large divide has opened up in British society between generations in which the young lose out, while the elderly benefit. This divide is reflected across diverse policy areas with profound implications for society, covering access to asset wealth and housing affordability, benefit and pension spending, the national debt, Covid-19 lockdowns, and the cost of education.¹

The Office for National Statistics (ONS) projects that more than 24% of people living in the UK will be aged 65 or older by 2042, up from 18% in 2016. This means a rise from 305 people of pension age per 1000 people in 2016, to 367 per 1000 by 2042.² In practical terms, this makes reducing welfare spending and corresponding taxation difficult. This is because there is a large cohort of dependents with significant demand for welfare and public spending, which is currently funded by taxes levied on an ever-smaller in-work cohort and higher government borrowing to be paid for by future generations.

Wages have been stagnant for nearly two decades, which is without precedent in the postwar era, and the proportion of post-tax income paid by the young on housing is now at an all-time high.³ Despite spending more on housing, homeownership among younger cohorts has plummeted, not just in London and the South East, but across the country. In the '80s and '90s, it would have taken the average thirty-year-old first time buyer three years to save enough for a mortgage deposit; today it takes nearly 20. House prices and house price-to-earnings ratios have climbed in lockstep to a sustained peak not seen since the Victorian era.⁴

Figure 1: Home ownership rates for families headed by 25-34-year-olds, by region⁵



1 Resolution Foundation, 'An Intergenerational Audit for the UK', October 2021: <https://www.resolutionfoundation.org/publications/an-intergenerational-audit-for-the-uk-2021/>

2 Office for National Statistics, 'How would you support our ageing population?', 2019

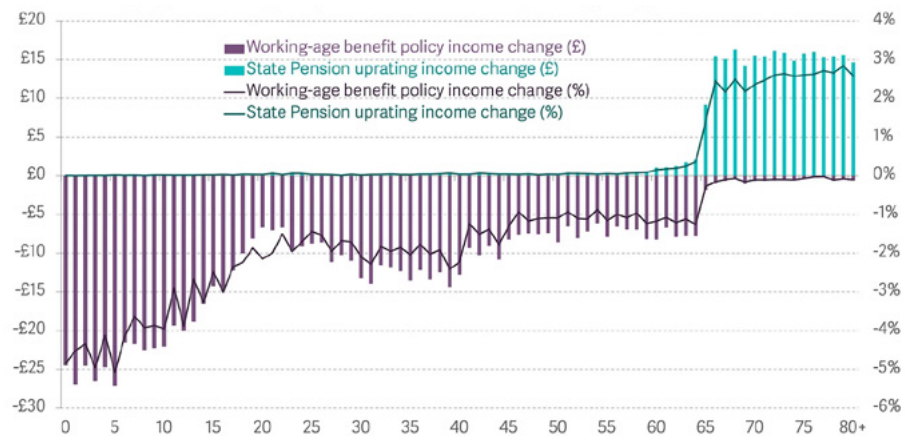
3 Resolution Found, 'A New Generational Contract' May 2018: <https://www.resolutionfoundation.org/app/uploads/2018/05/A-New-Generational-Contract-Full-PDF.pdf>

4 This is Money, 'What happened to house prices over the past 174 years - and why did they once spend 70 years getting cheaper?', January 2020: <https://www.thisismoney.co.uk/money/mortgageshome/article-7943741/House-prices-174-years-70-year-period-got-cheaper.html>

5 Resolution Foundation, 'An Intergenerational Audit for the UK', October 2021: <https://www.resolutionfoundation.org/publications/an-intergenerational-audit-for-the-uk-2021/>

These trends have not been offset by public spending to redress the balance – in fact the opposite is true. Since 2010, pensioners have been the net beneficiaries of changes to benefits and pension spending.⁶ Much of this spending has been funded not by taxation, but by debt financing – passing on the cost of current spending commitments to future generations. Each of these trends were well established before Covid-19, which despite the pandemic posing comparatively minimal health risk to the young, saw civil society locked down to save the lives of the elderly. The youngest cohorts then went on to face a significant and permanent cost to education, spanning from interrupted early-years schooling to unsatisfactory and low-engagement ‘Zoom’ lectures at universities. This may have similar effects to that of graduating in a recession: greater long-term unemployment and reduced lifetime earnings.⁷

Figure 2: Change in average weekly family income, split by age, as a result of changes to working-age benefits policy and State Pension uprating policy since 2010



These outcomes raise fundamental questions about more than just intergenerational equity and fairness. The sustainability of the social contract between young and old is in doubt, while many of the root causes of intergenerational inequality are intimately linked to Britain’s lacklustre productivity growth. The incentive structures that drive this inequality have led to an unacceptably low standard of living and forced the country to pay higher taxes for worsening public services. This has to change.

WIDER COSTS OF INTERGENERATIONAL INEQUALITY

A central theme among the causes of intergenerational inequality is the concept of economic rent. Economic rent – distinct from money paid by a housing tenant to a landlord – is the accumulation of ‘excess profit’. This is not a moralisation – though there are moral implications – this is a term used by economists to describe additional profit facilitated by political or functional control of supply of a good or

⁶ Resolution Foundation, ‘A New Generational Contract’, May 2018: <https://www.resolutionfoundation.org/app/uploads/2018/05/A-New-Generational-Contract-Full-PDF.pdf>

⁷ IFS, ‘The Curse of Graduating During a Recession’, November 2021: <https://ifs.org.uk/publications/curse-graduating-during-recession>

service. Economic rent is accumulated in the form of higher prices for a good or service, not because of product improvements or the innovations and inventions of a great mind, but where existing industry stakeholders are able to restrict supply or erect barriers to market entry. Expressed simply, where there is no competition to keep prices low for consumers, because competition is severely restricted, rents can rise with ease.

This is demonstrated most clearly in the UK's housing market, where the dysfunctional planning system – which gives pensioners that already own their own home extensive influence – is the main barrier to the supply of new accommodation that could lower our extremely high housing costs. As Adam Smith said in the *Wealth of Nations*: “As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed and demand a rent even for its natural produce.”⁸ Homeowners – of which 61.7% who own outright are over 65⁹ – have not contributed to the growth or betterment of the country through the mere fact of their homeownership, yet they enjoy the benefits of higher house prices and rents while the young pay them for these privileges.

The immediate negative consequences of this are clear. The implications for wider society go much deeper. For economic rent accrual incurs deadweight loss: the net economic loss to society as a whole from inefficient, distorted markets. This could be expressed in the housing market by a bright young mind choosing not to move to a university city because rents are pushed too high as a result of limited housing supply. This locks them out from the country's most productive jobs, lowers their standard of living, and reduces tax revenue. Conversely, another example would be a young family moving away from a city and their existing, high productivity jobs, because it is not affordable to have an extra bedroom for their child within a commutable distance. Collectively, these decisions – which are made as a result of policy choices – make Britain significantly poorer.

Our planning system does not just limit the supply of houses, it also limits the supply of civil infrastructure. This increases the cost of everything from water and electricity to transport and hospitals. Britain has not built a major new reservoir in over 30 years.¹⁰ Planning disputes and party politics have jeopardised onshore solar and wind, blocking green energy developments.¹¹ Proposals to link Oxford and Cambridge – our greatest university cities – with housing, laboratory space, and road and rail infrastructure have hit a brick wall.¹²

8 Adam Smith, 'The Wealth of Nations', Book I, Chapter 6

9 Statista, 'Distribution of Homeowners in England in 2021, by Type of Home Financing and Age', November 2022: <https://www.statista.com/statistics/321097/distribution-of-home-owners-in-england-uk-by-type-of-home-financing-and-age/>

10 CIWEM, 'Policy Position Statement', August 2015: <https://www.ciwem.org/assets/pdf/Policy/Policy%20Position%20Statement/New-public-water-supply-reservoirs.pdf>

11 Reuters, 'UK Government to Ease Ban on Onshore Wind Farms to Head off Revolt', December 2022: <https://www.reuters.com/world/uk/uk-government-launches-consultation-approval-onshore-wind-farms-2022-12-06/>

12 BBC, 'East-West Rail Link: Oxford-Cambridge Proposals Shown to Public', October 2022: <https://www.bbc.com/news/uk-england-cambridgeshire-63216578>

Deadweight loss can be caused by limited civil infrastructure too. For example, the marginal consumer may choose not to fly as a result of higher air fares, pushed up by Heathrow being unable to build a third runway to facilitate increased demand. The examples of deadweight loss we have outlined exist because the British planning system chokes off infrastructure and housing supply.

In addition to economic deadweight loss, there is also strong evidence that under-housed populations suffer from greater inequality, obesity, lower fertility and family formation and have a larger contribution to climate change.¹³

THE PRESSING NEED FOR REFORM

Despite the wide-reaching and deleterious effects of the drivers of intergenerational inequality, acknowledged by many key political figures and changemakers in Westminster, reform has been difficult, slow and continually watered-down¹⁴¹⁵¹⁶ by what former Prime Minister Liz Truss labelled an “anti-growth coalition”.

In light of the manifest political difficulties, the purpose of this paper is to explore politically feasible ways to shift policy and incentives away from rentier interests and towards a more productive, better paid, less taxed, and more intergenerationally equal society, with better standards of living.

Notwithstanding the implications for productivity, economic growth and intergenerational equity, Britain’s population is ageing, and the dependency ratio is rising. There will be an increased demand for pensionable age health and social care, and welfare spending relative to the number of productive workers able to fund this spending through taxation.

Either some of this demand will have to go unserved, or it will have to be funded via increased tax revenue, or more borrowing. So far, demand for spending on the elderly has been serviced through rationing (in the form of longer NHS waiting times), leveraging a higher tax burden on the working age population and long term borrowing. All of this has happened without significant improvements to outcomes for public service users, or substantive efficiency gains. On the current trajectory, Britons are set for a future without growth and innovation. Instead, they are set to face higher taxes, worsening public services and growing intergenerational resentment.

¹³ Works in Progress, ‘The Housing Theory of Everything - issue 5’, September 2021: <https://www.worksinprogress.co/issue/the-housing-theory-of-everything/>

¹⁴ Local Government Chronicle, ‘Gove: Planning Reform Is Not Dead’, November 2022: <https://www.lgcplus.com/services/regeneration-and-planning/gove-planning-reform-is-not-dead-14-11-2022/>

¹⁵ Building, ‘Gove Pulls Key Planning Reform Vote as Rebellion Grows’, November 2022: <https://www.building.co.uk/news/gove-pulls-key-planning-reform-vote-as-rebellion-grows/5120610.article>

¹⁶ Independent, ‘Michael Gove’s Planning Reforms Will ‘Erode’ Public’s Ability to Object to Developments, Legal Advice Warns’, June 2022: <https://www.independent.co.uk/news/uk/politics/gove-planning-reforms-object-housing-b2098425.html>

It is not the case that “boomers have stolen the future” from their children and grandchildren with dastardly ill intent. They have simply benefited from more favourable economic conditions and the unintended consequences of our current political incentive structures. The answer to some of these challenges therefore lies not in intergenerational conflict, but in a realignment of incentives that allow the ‘invisible hand’ to move our society further towards mutually beneficial outcomes. Only by aligning more closely the incentives of both the young and elderly today, can Britain resolve its current low growth, low productivity, high tax, poor public service malaise.

A NOTE ON THE POLLING

Our polling aims to gauge which economic rents are politically viable to close off. Current incentive structures are poorly aligned to benefit society. The need for greater housing supply for the young is ignored. Instead, politics caters primarily to older homeowners, who prioritise preserving the amenities, culture and character of the area in which they live. It is important to recognise that these are legitimate interests, even if this has wider implications.

Meanwhile, the tax burden on the working age population and government borrowing is increased to fund the expansion of benefits for the pensionable age population, including the state pension. Post-school education is also less effective than it could be at providing people with the skills and qualifications they need to be more productive, and earn higher wages.

Our polling finds that there is viable political support to re-engineer many of these incentive structures.

On planning and housing, a slim majority (52%) of people support more development in their area, at least in principle. Our polling also finds that a majority of people understand it is now much harder to get on the property ladder, suggesting facile and inflammatory “avocado toast” narratives about younger people being financially irresponsible are far from mainstream.

It also finds that the majority of people would prefer to see changes in the tax burden, shifting away from heavily taxed incomes, and towards taxing economic rents like inflated property values.

On education, there is significant public support for greater flexibility in the way post-school education is accessed and financed. Specifically, broadening out income contingent loans for personal development, as opposed to being tied to enrolling at university, was highly popular.

Overall, we find a clear case for extensive political reform. It suggests that the public are broadly supportive of pursuing policies that reduce economic rents. Rather than pursue a political strategy that heavily targets the interests of particular age

demographics, both Conservatives and Labour would be better served in the long term by pursuing an agenda of boosting house building and property ownership, expanding educational opportunities and reducing the tax burden on the working age population.

PLANNING AND HOUSING

It's clear that while a majority of people understand the need to build more houses, and even support doing so *in principle*, the planning system facilitates veto power for existing, predominantly pension age homeowners. This is a large cohort of voters who have no direct need for additional housing units, and do not want to see disruption to their settled lives in the form of changing views, construction noise, increased traffic or more competition for local amenities, such as GP surgeries.

Rather than trying to struggle against their legitimate interests, or cut them out of the planning process, solutions should look to *shift the incentives* of this voter coalition to facilitate more development with local consent. This requires much more careful policy implementation, but will likely yield better long term results.

The 2020 Planning Bill did not do this – while it was well motivated and would have enabled desperately needed development, it was seen as stripping out local input, rather than reworking it. It failed because it misunderstood the politics, not because its aims were fundamentally incorrect. As Adam Smith may have put it: “It is not from the benevolence of the homeowner that we expect our planning permission, but from their regard to their own interest.”

Our polling finds:

- Housing and accommodation is a top three national priority for around one in six Britons (16%); and for almost one third of 18-34s (29%).
- Overwhelming acceptance (84%), across generations, that it is much harder today for young people to buy a home than it was for their parents, albeit a majority (58%), again across all generations, agree that young people today have a much higher standard of living.
- More than half of 18-34s (52%) say that they would like to own a home, but are unsure (26%), or do not believe that they can afford to (26%).

POLICY RECOMMENDATIONS

SEE THROUGH STREET VOTES

As proposed in the Levelling Up and Regeneration Bill, Street Votes would allow neighbourhoods to vote on planning rules in their area. Street or block residents should be able to set design rules to ensure high quality and, if they choose, gentle densification. If a street opts for greater density, all the homeowners can benefit from a capital gain in the value of their property. While *individuals* will benefit from capital gains in the short run, in the long run, this will increase the supply of hous-

ing, reducing the cost of housing paid by *society* in economic rents and associated deadweight losses.

If owners are worried about changing neighbourhood character under this policy, they could, for instance, ensure densification is only permitted in a Georgian, or Edwardian style. This consultative approach prevents the feeling of “imposed” development on communities that value what makes their community distinct. Implementing Street Votes would ensure building is a win-win for residents, aligning incentives in favour of building. By conservative assumptions, Street Votes could create a further 110,000 homes each year for the next 15 years.¹⁷

The contents of the Levelling Up and Regeneration Bill are currently under intense debate in Parliament. It represents an opportunity for the Conservatives to introduce policies that both gain local buy-in and facilitate more development, of which Street Votes is a key component, and commands support from both supporters of the anti-housing target amendment, and pro development on-shore wind and solar amendment.

ADOPT A LIGHTER TOUCH PLANNING REGIME IN PROPOSED REGENERATION ZONES

Planning rules are a major barrier to growth and investment in Britain, both by directly blocking high value uses of land, and by discouraging investment through the uncertainty they inject into firms’ decision-making processes. Property developers are often accused of “land banking” – not building on land for which they already have planning permission, for a long period of time. This is fundamentally rational behaviour in such an uncertain and expensive planning system. Having a guaranteed feedstock of land with planning permission is a sensible strategy for smoothing out the planning risks of a property development business, and is a symptom, not a cause, of high property prices and a complex planning system.¹⁸¹⁹

This deterrence of investment in business properties, factories and research facilities obviously results in lost growth. But the planning system also brings about significant misallocation of labour, because it prevents sufficient housing supply in high-demand areas. The scale of this should not be underestimated; one study in the United States estimates that overly restrictive housing supply lowered aggregate growth by more than 50% from 1964 to 2009.²⁰

Investment zones offer an opportunity to circumvent these blocks to growth via a lighter touch regime. This could be accomplished by re-establishing urban development corporations, with the power to purchase land, build infrastructure, and

¹⁷ Policy Exchange, ‘Strong Suburbs’, February 2021: <https://policyexchange.org.uk/publication/strong-suburbs/>

¹⁸ Shelter, ‘Land Banking: What’s the Story? (Part 1)’, December 2016: <https://blog.shelter.org.uk/2016/12/land-banking-whats-the-story-part-1/>

¹⁹ Shelter, ‘Land Banking: What’s The Story? (part 2)’, December 2016: <https://blog.shelter.org.uk/2016/12/land-banking-whats-the-story-part-2/>

²⁰ NBER Working Paper Series, “Housing Constraints and Spatial Misallocation”, May 2017: https://www.nber.org/system/files/working_papers/w21154/w21154.pdf

take over planning approval from local authorities. This could be directed in the same way as a rationalised Community Infrastructure Levy (CIL).

OFFER PACKAGES OF LOCAL INVESTMENT IN AREAS WITH LIBERALISED PLANNING REGIMES

Residents within areas that have lighter planning regimes will be understandably concerned. An influx of new jobs and spending in local businesses should be a boon, but residents often worry that this will place extra strain on local roads, public transport, GP surgeries, hospitals and schools, leading to their deterioration.

There are currently no effective mechanisms to compensate local residents for the costs that they face as a result of new development. Sums that councils extract from developers are often spent on things that do not benefit residents affected by the developers, or are not packaged in a marketable way such that residents actually believe that they will benefit, even if they actually do benefit.

Providing a package for local investment could help alleviate some of these concerns and tie into the Government's levelling up agenda. Directing some of these funds through local authorities with a mandate to spend them on broadly defined categories of investment — rather than dispersing the money into other budget areas — would assist with meeting local needs.²¹

USE LAND VALUE UPLIFT TO FUND NEW INFRASTRUCTURE

In and around London, and other prosperous, growing cities like Leeds and Manchester, there is a demand both for new infrastructure and new housing. New infrastructure opens places up to more development — the areas along either end of the Elizabeth line are now much more attractive to people who work in central London.

At present, uplift in land value is captured through two existing mechanisms: the CIL and Section 106 (S106). Both of these mechanisms have drawn criticism. S106 has been criticised for being too burdensome for developers and local councils, given its need for bespoke negotiations per new development.²² This is why CILs were introduced in the Planning Act 2008.

However, CILs have not worked entirely as intended, with both instruments running parallel. This is a messy and inefficient way to collect land value uplift and direct it towards developments local communities actually want and benefit from. The Levelling Up and Regeneration Bill (LURB) intends to rationalise S106 and CILs into a simplified Infrastructure Levy (IL). This has the scope for improving the way land value uplift is used, but it also runs the same risks as previous S106 agreements and the CIL.

²¹ ASI, 'Seeing It Through: A Plan for 'Full Fat' Freeports', September 2022: <https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/632c3384f748090f60fe5e43/1663841157376/Seeing+It+Through+Version+2.pdf>

²² Hogan Lovells, 'UK Levelling-Up and Regeneration Bill: IL, CIL and our old friend Section 106', May 2022: <https://www.engage.hoganlovells.com/knowledgeservices/news/uk-levelling-up-and-regeneration-bill-il-cil-and-our-old-friend-section-106>

The new IL must make sure levies clearly and directly benefit nearby residents and not pet council projects that feel distant to voters. This could be achieved by giving neighbourhood forums the power to direct 50% of spending (currently they are limited to offering “advice”) and to restrict the area within which the remaining 50% of it can be spent. This would allow discussions to be based around simple yes or no decisions, with the community being able to decide whether or not they accept development in exchange for funding for schools, roads, hospital facilities *etc.*

SCRAP STAMP DUTY LAND TAX (SDLT)

Stamp Duty is a transaction tax, costing the UK house sellers £12 billion a year and resulting in decreased turnover of homes.²³ This means that homeowners face a large, off-putting cost when considering moving to a property more suitable for their needs, particularly regarding downsizing in old age. This leaves childhood bedrooms underutilised, with elderly couples under-occupying large family homes that could be otherwise better utilised by young families.²⁴

It also increases the overall costs of buying and selling homes, which is especially harmful when housing supply is as tight as it is in the UK. This prevents people from moving closer to better jobs or family and friends. It also keeps older couples or individuals from moving into more convenient homes they can afford to heat and maintain, or might be closer to family able to provide care services. Punishing housing transactions directly discourages people from relocating to the places where they would be happiest and most productive.

Figure 3: *Different estimates of the impact of 1pp higher housing transaction tax on the volume of transactions.*²⁵

Paper	Drop in transaction volume from 1pp higher housing transactions tax at current margins
Best & Kleven (2013)	20%
Davidoff & Leigh (2013)	8%
van Ommeren & van Leuvensteijn (2005)	8%
Dachis et al. (2012)	14%
Hilber & Lytikainen (2012)	20%

Stamp Duty also punishes investment in property improvements, since doing so raises the taxable value of the property, incentivising people to avoid making improvements and moving when they might otherwise want to.

²³ ASI, ‘Beyond the Call of Duty - Why We Should Abolish Stamp Duty Land Tax’, October 2017: <https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/59f35a84f9619a618714a5df/1509120655818/Beyond+the+Call+of+Duty+.pdf>

²⁴ IFS, ‘Stamp Duty Is an Economic Nonsense’, November 2016: <https://ifs.org.uk/articles/stamp-duty-economic-nonsense>

²⁵ ASI, ‘Beyond the Call of Duty - Why We Should Abolish Stamp Duty Land Tax’, October 2017: <https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/59f35a84f9619a618714a5df/1509120655818/Beyond+the+Call+of+Duty+.pdf>

More broadly, transaction taxes are widely seen as especially damaging levies by economists: a representative Australian government review found their Stamp Duty destroyed 75p of wealth per £1 raised.²⁶ This makes Stamp Duty Land Tax around 4x more harmful per pound than income tax and 8x more harmful than VAT.²⁷ Scrapping it should be a top priority, regardless of whether the Government can find the revenue elsewhere.

The UK's housing policy is the worst of both worlds: extremely strict housing regulations so new properties cannot be built to service growing demand, *and* large transfer taxes, so properties cannot be shifted between owners to accommodate changing demand and changing, age-stratified needs. Boosting housing supply to service demand is absolutely necessary to increasing home ownership, but we can at least begin to address demand side frictions by abolishing Stamp Duty.

Eventually the UK should rationalise its property taxation system by abolishing Stamp Duty altogether, and then rolling council tax, and business rates into one system, based on a flat rate set at roughly 20% of imputed rental income, comparable to extending VAT to property services. This would be roughly fiscally neutral on a static analysis, but may lead to large increases in revenue over time, which could be used to reduce other taxes.²⁸

END SDLT FOR RENTERS

It is also a common misconception that Stamp Duty is only paid by property owners. Under current legislation, rental tenants become liable for paying Stamp Duty when their cumulative rent exceeds £125,000.²⁹ While this is unlikely to affect the majority of Britons, the likelihood of reaching this threshold is rapidly increasing in the capital, adding further pressure to young people attempting to live and work in our country's most productive city.

For example, in Westminster, the average annual cost of renting is £30,336, meaning the threshold would be reached in 4.1 years and the subsequent tax bill would be £303.³⁰ Given the average age of buying a house in London is 35, a recent graduate living in Westminster could thus end up paying more than £4,000 in Stamp Duty as a renter, before paying more again if they purchase a property.

²⁶ Davidoff, I., & Leigh, A. (2013). How do stamp duties affect the housing market?. *Economic Record*, 89(286), 396-410.

²⁷ *ibid.*

²⁸ ASI, 'Beyond the Call of Duty - Why We Should Abolish Stamp Duty Land Tax', October 2017: <https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/59f35a84f9619a618714a5df/1509120655818/Beyond+the+Call+of+Duty+.pdf>

²⁹ Bowling & Co Solicitors, 'Tenant Stamp Duty Charge', March 2022: <https://www.bowlinglaw.co.uk/tenant-stamp-duty-charge/>

³⁰ Letting Agent Today, 'HMRC Shock for Tenants - Some May Have to Pay Stamp Duty', January 2022: <https://www.lettingagenttoday.co.uk/breaking-news/2022/1/hmrc-shock-for-tenants--some-may-have-to-pay-stamp-duty>

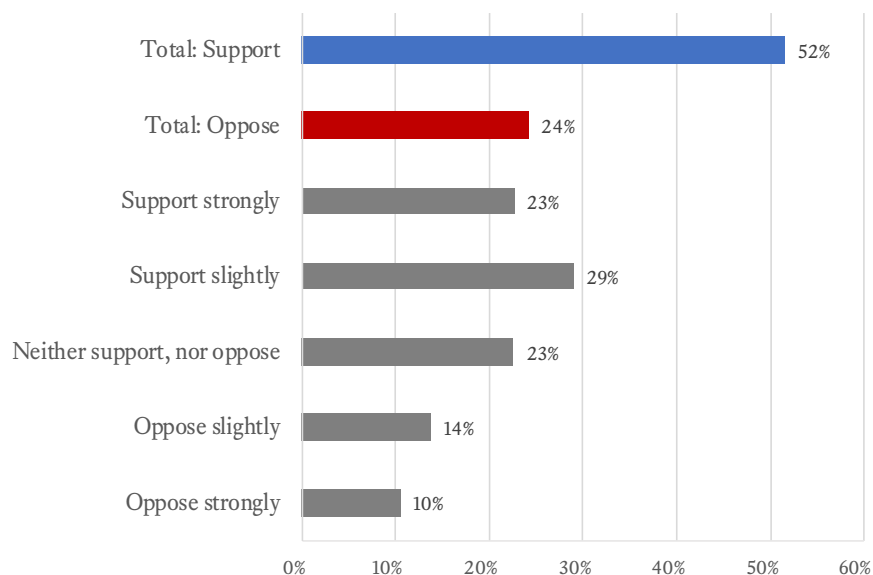
The Secretary of State for Levelling Up, Housing and Communities already has significant powers at their disposal, such as reviewing and approving large planning applications. This should be used in instances of vital national interest, particularly where public support for doing so is strong.

There is strong precedent for this based on past successes. The Urban Development Corporation (UDC) established by the Thatcher government to develop Canary Wharf was handed the power to purchase land, build infrastructure, and take over planning approval from local authorities. These could be established much more extensively than they are currently to oversee development in regeneration zones and in cities struggling with high rents, lack of office space and in need of infrastructure improvements.

Our polling finds:

- Support for more house building in people’s local area is up on last year. In September 2021, research for the ASI showed that 38% of Britons supported building more homes in their local area, while 33% opposed it. Today support is up 14pts to 52%, and opposition is down 8pts to 25%.³¹

Figure 4: “Do you support, or oppose, more homes being built in your local area?” (Freshwater Strategy/ASI polling)

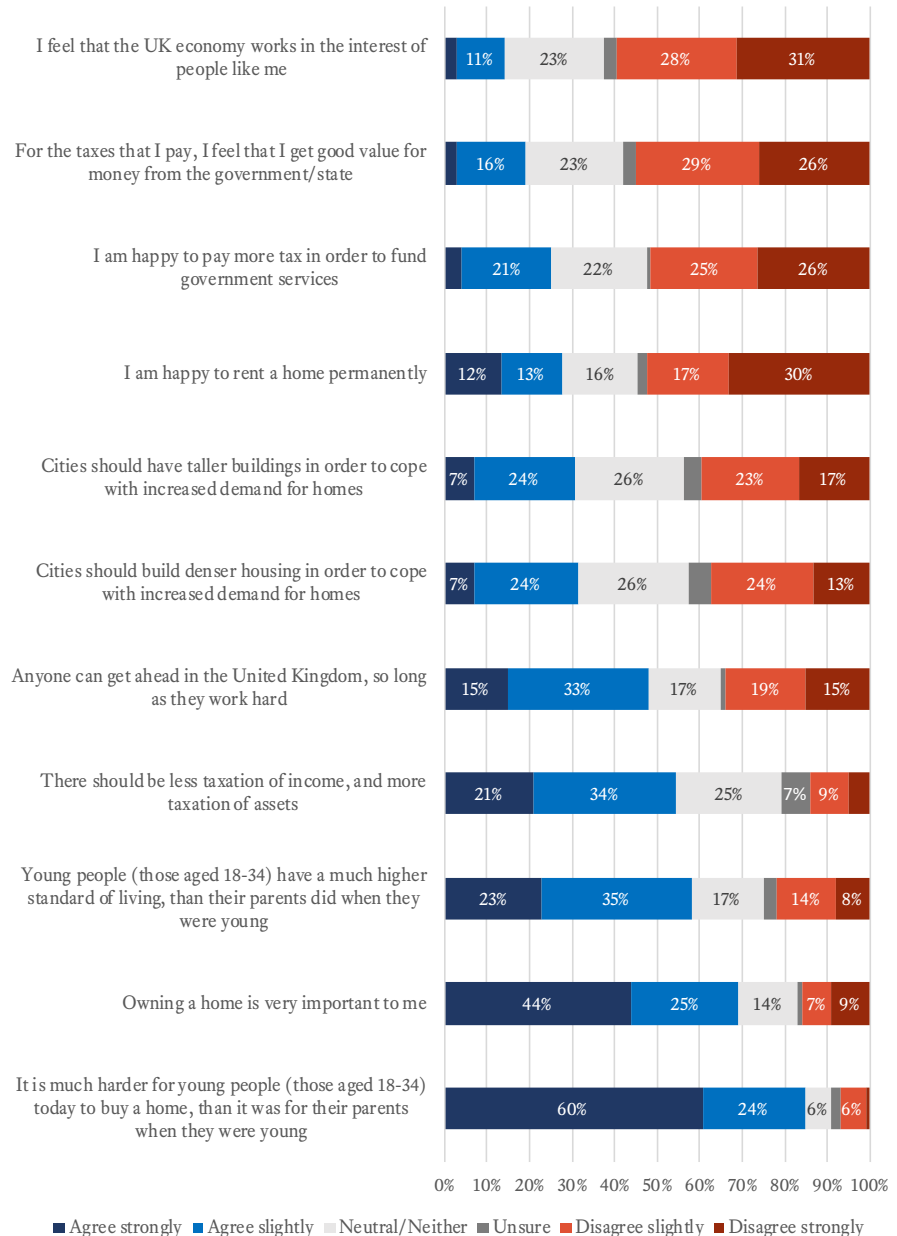


³¹ ASI, ‘Build Me up, Level Me up: Popular Housebuilding While Boosting Local Communities’, September 2021: <https://www.adamsmith.org/research/build-me-up-level-up>

Furthermore:

- The proportion of people who believe that their area would be positively affected if more homes were built has also increased 5pts from 39% in 2021 to 44% today.
- Owning a home is felt to be very important to the vast majority of Britons (69%), but particularly those aged 18-34 (79%). More than nine in every ten people who own a home already agree that it is very important to them to do so, while a majority (51%) of private renters also agree. And similar proportions oppose renting a home permanently.
- Although there is not majority support nationwide (32%) for denser housing, among Londoners some 47% agree, just 27% disagree.

Figure 5: “Do you agree, or disagree with the following statements?” (Freshwater Strategy/ASI polling)



Much of the UK's political economy is oriented around income redistribution towards pensioners, while moating their housing and general asset wealth. Of course, after a lifetime of earning and saving, the elderly are far more likely to have larger asset wealth than the young. However, the current cohort of pensioners hold a disproportionately large amount of wealth, compared to previous elderly cohorts. They also have, for the first time in history, higher incomes than working age Britons after housing costs.³²

If wealth, particularly in the form of housing, is becoming inaccessible to younger cohorts, income redistribution towards the wealthy will become increasingly unjustifiable, even if it is politically advantageous in the short run.

It is therefore important to work out how tax and welfare policy might be reimaged to address some intergenerational inequalities, particularly as the young are exposed to “stealth taxation,” while the elderly benefit from upwards ratchet mechanisms, such as the Triple Lock.

POLICY RECOMMENDATIONS

STOP STEALTH TAXING YOUNG PEOPLE THROUGH FROZEN INCOME TAX THRESHOLDS

Our polling finds 70% support for unfreezing income tax thresholds. This suggests that it deserves its moniker as a “stealth tax”; the vast majority of people do not support the policy when it is made clear how it works and how it affects them. Unfreezing them is not only a practical matter of reducing the tax burden of working people. It should be a point of principle that the Government levies taxes in a transparent way.

The current first income tax threshold is £12,500, which is what the full time minimum wage per annum was back in 2010/11. On that basis, the personal allowance should now be £17,374.50 a year, the equivalent of 37.5 hours a week on the minimum wage of £8.91. Instead, it has remained frozen for the last 10 years. With wages increasing in line with inflation and thresholds frozen, individuals find themselves in higher marginal tax brackets, paying higher rates on their income.

Unfreezing the personal allowance threshold and indexing it for inflation would effectively exempt the average 18-21 year old from income tax, and would significantly reduce the burden on those under 30. For the average 18-29 year old, we calculate an annual saving of £250 if both income and NI thresholds were indexed by inflation.

Both the personal allowance and the higher rate threshold of income tax are frozen until the tax year 2027/28. A refusal to index thresholds in line with inflation effectively drags more and more people into higher tax brackets, increasing the tax

32 Resolution Foundation, ‘My Generation, Baby: The Politics of Age in Brexit Britain’, March 2019: <https://www.resolutionfoundation.org/comment/my-generation-baby-the-politics-of-age-in-brexit-britain/>

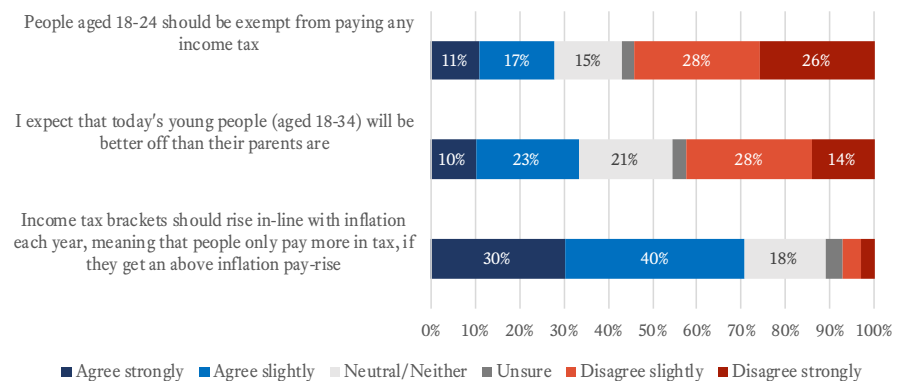
burden without actively putting up rates. These freezes are forecast to raise an estimated £2.9 billion in 2022/23 for the Treasury, which will rise to £19 billion in 2025/26.

Furthermore, the freeze in personal allowance may mean that, in 2022/23, 600,000 more people will pay income tax, whilst 400,000 may be brought into the higher rate of income tax.³³ For context, roughly 6.1 million taxpayers are projected to be paying income tax rates at the higher rate of 40 per cent or the additional rate of 45 per cent in 2022-23. In 2019-20, the total number of higher rate and additional rate taxpayers combined was approaching 4.3 million.

Put simply, millions more working people are being pulled into higher income tax bands without a corresponding rise in wages, imposing a higher tax burden on stagnant pay.

Given current spending commitments, unfreezing income tax thresholds should take place over a number of years. A 10% rise in the personal allowance from £12,570 to around £13,700 would cost roughly £9 billion a year. The cost of this could be met through removing VAT exemptions, shifting taxation from income to consumption.³⁴ Our calculations suggest this is a roughly revenue neutral way to reduce the burden on those who feel it the most while giving individuals more control over how much tax they pay.

Figure 6: “Do you agree, or disagree with the following statements?” (Freshwater Strategy/ASI polling)



Although a majority of Britons (54%) do not believe that 18-24s should be exempt from paying income tax, a majority of voters are looking for taxes to be reduced in general. A majority of Britons indicate that they do not want to pay any more tax to fund government services (52%), a clear majority do not believe that they are getting good value for money from the government on the taxes they already pay (56%), a majority would prefer smaller government that costs Britons less in tax and

³³ UK Parliament, ‘Rising Cost of Living in the UK’, November 2022: <https://commonslibrary.parliament.uk/research-briefings/cbp-9428/>

³⁴ ASI, ‘Pro-Growth Tax Reform’: <https://www.adamsmith.org/progrowth-tax-reform>

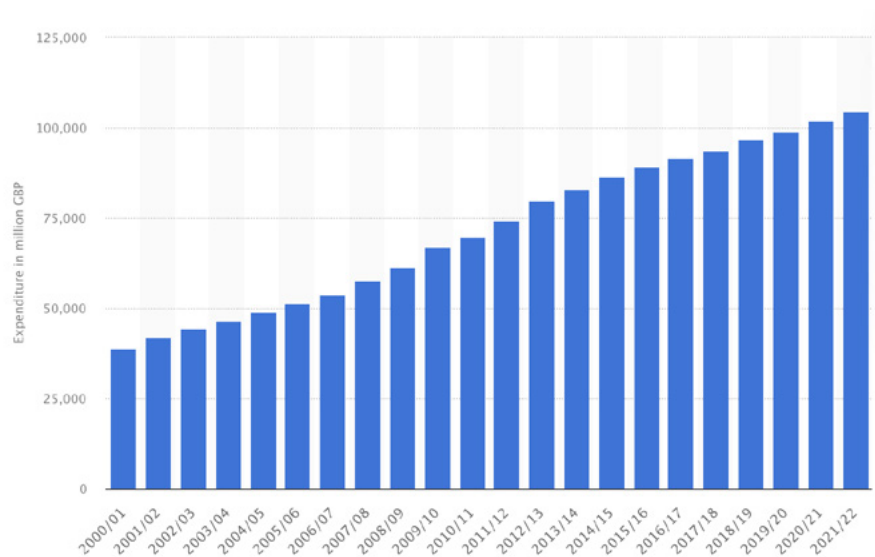
provides fewer services (51%), and most (46%) believe that the government should be looking to reduce taxes where possible.

REFORM THE TRIPLE LOCK TO PREVENT ABOVE-EARNINGS RATCHETING WHILST RETAINING INFLATION PROTECTION

The pensions triple lock is inflexible by design. Ensuring that pensions are uprated by the highest measure of inflation of the three used, has resulted in a significant boost to pensioner benefits over working age benefits.

For context, the UK spent approximately £115.78 billion on pensions in the tax year 2021/22³⁵, representing 54% of the total £216 billion welfare spend.³⁶ The triple lock means that we will spend £15 billion extra in long term costs over using a double lock or single guarantee. While this may have meant some marginal overspend during times of economic stability, the pandemic (average earnings) and recent inflation (CPI) have demonstrated the triple lock is unfit for purpose.

Figure 7: *Government expenditure on state pension, in nominal terms, in the United Kingdom*³⁷



Because the lock ensures the highest increase out of average earnings, inflation or 2.5% is used for uprating, pensions will rise faster than all three over time. This ratchet spending is becoming unsustainable and unjustifiable, and exposes the Government to large state pension payouts which outstrip the growth of the economy that underwrites them.

³⁵ Statista, 'Government Expenditure on State Pension in Nominal Terms in the United Kingdom From 2000/01 to 2021/22', November 2022: <https://www.statista.com/statistics/283917/uk-state-pension-costs>

³⁶ Statista, Government expenditure on benefits in nominal terms in the United Kingdom from 2000/01 to 2021/22: <https://www.statista.com/statistics/283954/benefit-expenditure-in-the-uk/>

³⁷ *ibid.*

For example, as we came out of the pandemic, the state pension was in line for a huge increase solely because wage growth numbers were artificially boosted by a big recovery from their lockdown collapse. The then-Chancellor, Rishi Sunak, acknowledged this and suspended the triple lock for 2022-2023;

“This legislation temporarily suspended the earnings element of the Triple Lock for one year only, following distortions to the earnings statistics. In taking this decision, the government carefully considered the fairest approach for both pensioners and younger taxpayers, many of whom have been hardest hit by the financial impacts of the pandemic.”³⁸

The disparities in benefits between those of working age and pension age has been made stark this year. While nominal wages have risen over the past year, in real terms workers’ purchasing power has fallen as inflation outpaced this pay growth by roughly four percentage points.

REPLACE THE TRIPLE LOCK ON PENSIONS WITH A SMOOTHED EARNINGS LINK

As both the Resolution Foundation³⁹ and Institute for Fiscal Studies (IFS)⁴⁰ have recommended, a smoothed earnings link, as opposed to a continued triple lock or revised double lock should replace the triple lock. This would preserve the mechanism by which pensions can be ratcheted up to deal with significant inflation shocks, but minimises situations in which they will be adjusted higher than necessary or where the Government has to temporarily suspend the lock.

“The state pension would be uprated with earnings, but with temporary price-indexation when inflation exceeded wage growth. Price indexation would continue once earnings growth again exceeded inflation, but only for as long as the value of the state pension remained above [an] original fixed minimum proportion of average earnings. Indexation would then revert to earnings.”⁴¹

This would satisfy the primary purpose of the pensions triple lock; ensuring the state pension continues to rise in line with earnings over the long term, with a mechanism in place to ensure pensioners do not experience an income cut on the occasional year that real incomes fall. This will reduce the long term cost of the state pension, putting the UK on a more stable fiscal footing, even if not reducing spending in the immediate future.

³⁸ Gov.uk, ‘State Pension and Benefit Rates for 2022 to 2023 Confirmed’, November 2021: <https://www.gov.uk/government/news/state-pension-and-benefit-rates-for-2022-to-2023-confirmed>

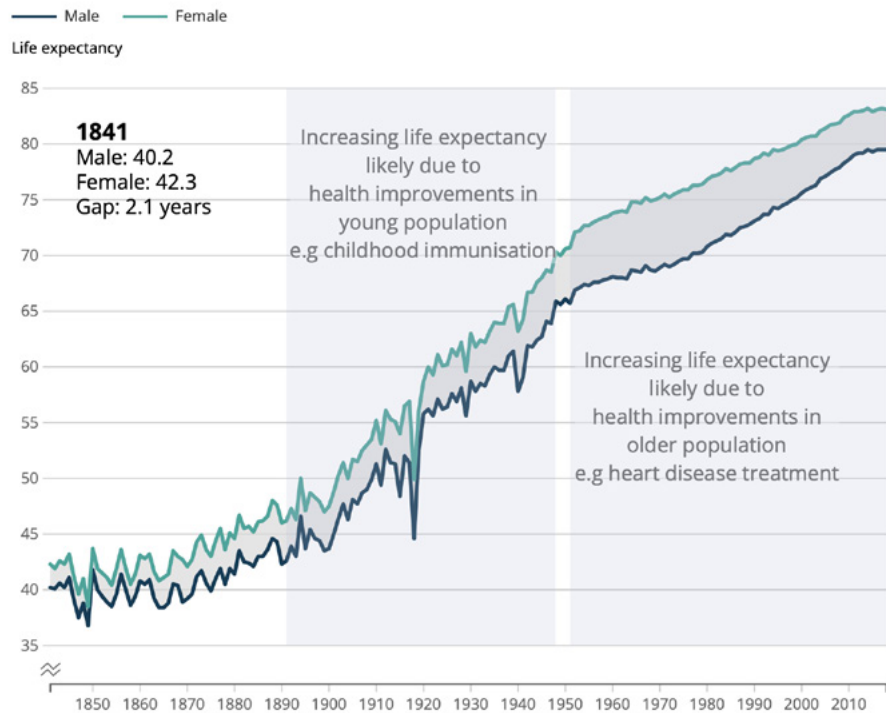
³⁹ Resolution Foundation, ‘Locked In? The Triple Lock on the State Pension in Light of the Coronavirus Crisis’, June 2020: <https://www.resolutionfoundation.org/publications/locked-in/>

⁴⁰ IFS, ‘A ‘Double Lock’ on the State Pension Would Still Be a Bad Idea’, April 2017: <https://ifs.org.uk/articles/double-lock-state-pension-would-still-be-bad-idea>

⁴¹ Parliament.uk, ‘Intergenerational Fairness - The State Pension Triple Lock’, November 2016: https://www.publications.parliament.uk/pa/cm201617/cmselect/cmworpen/59/5906.htm#_idTextAnchor045

Britons are, on average, living far longer than they used to in the past. Life expectancy has increased rapidly since the mid-19th century, nearly doubling from how long someone might expect to live in the early Victorian era.⁴² A longer life in retirement requires the state pension to be paid out over a longer period, increasing the state pension liability to the government – the equivalent purchasing an annuity earlier in retirement being more expensive, because of a higher expected future cost.

Figure 8: Life expectancy from birth, 1841 to 2018⁴³

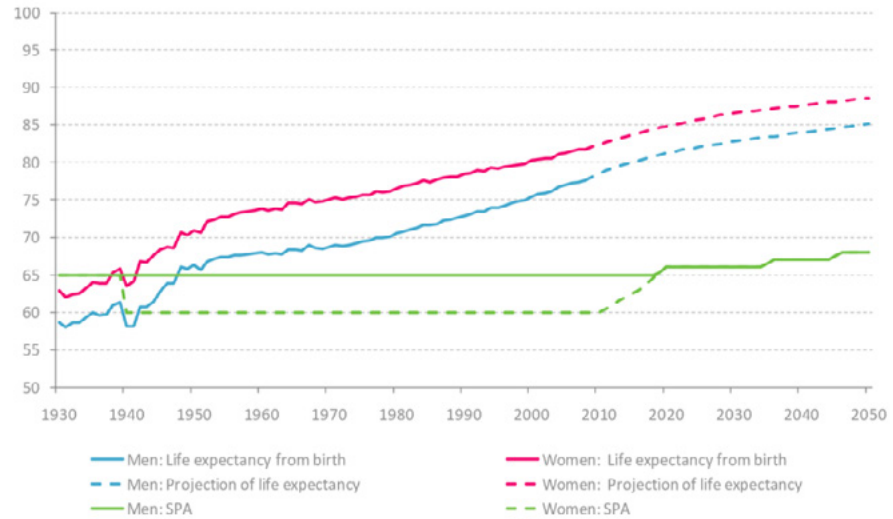


This increased cost has traditionally – and controversially – been met by raising the state pension age. Most controversially, this involved raising the age at which women receive the state pension to equalise it with male entitlement in the 1995 and 2011 Pensions Acts.

⁴² ONS, 'Our Population – Where Are We? How Did We Get Here? Where Are We Going?', March 2020: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/ourpopulationwherearewehowdidwegetherewherearewegoing/2020-03-27>

⁴³ *ibid.*

Figure 9: Life expectancy from birth, 1930 to 2050⁴⁴



However, raising the state pension age to reduce the liability is highly regressive, given the richest decile have a nearly ten-year higher life expectancy than the poorest decile. A state pension age of 69 would result in the wealthiest receiving a state pension for 40% longer than the poorest.⁴⁵ It would therefore be more equitable to begin means testing the state pension instead of further raising the state pension entitlement threshold.

Figure 10: Mean UK household incomes after housing costs, working age and pensioner households, 2016-17 prices



Given post-housing pensioner household incomes are higher than working-age incomes, and many working age households are unable to access pensionable age housing and asset wealth, this may become a more politically feasible solution in the long run than raising the state pension age faster and higher.

⁴⁴ Steven Baxter, 'Living Longer and Prospering', January 2011: https://www.researchgate.net/publication/328145824_Living_Longer_and_Prospiring

⁴⁵ University of Kent, 'Means-testing state pension might be only way to fairness', June 2017: <https://www.kent.ac.uk/news/society/14286/means-testing-state-pension-might-be-only-way-to-fairness>

On average, working households with children have seen their net income fall by an average of £375 a year due to welfare changes since 2010, while pensioners have seen theirs rise by £510. For context, 18% of pensioners live in poverty, lower than the national average of 22%, and much lower than child poverty, at 31%.⁴⁶ Those over 65 own over a third of the country's total wealth, being the second wealthiest age cohort, with more than four times the wealth of people under 34. One in four pensioners live in millionaire households, but will still receive the full state pension.⁴⁷

This is not to suggest that pensioners can't be in poverty, or in need of welfare, however, the average pensioner has had comparatively generous welfare adjustments over the last 10 years. The state pension is effectively a universal benefit, funded out of general taxation and applied to almost all pensioners. Where most other benefits are targeted towards those who need it the most and adjusted as those needs fluctuate, the state pension applies equally to those in multi-million pound homes with generous final salary private pensions, as it does for the poorest pensioners, who might face a choice between heating and eating.

Implementing a means test would likely be controversial, because voters associate National Insurance contributions with a "pot I paid into all my life." That this is a misconception – National Insurance is effectively general income taxation on workers, and the state pension is paid from current spending, not based on an investment portfolio – does not avoid the difficult politics. This was neatly demonstrated in the Autumn fiscal statement, when Chancellor Jeremy Hunt announced a non-means tested £300 payment to an estimated 8 million pensioners,⁴⁸ at the cost of £2.61 billion, despite higher levels of working-age poverty.⁴⁹

The state pension should be transitioned from being a near universal benefit, to one that functions primarily as a support for those that are on lower private pension income. There are a number of options that could be reviewed, although in strict revenue raising terms, simply offering a state pension only to those with assets under £1 million would be fairly straightforward to administer, and would save the taxpayer roughly £25 billion a year.

Alternatively, means testing could be implemented at a high income threshold – at the higher rate tax band threshold, to simplify and limit the extent of the difficult politics. This was the suggestion of a University of Kent study on the future of the state pension.⁵⁰

⁴⁶ JRF, 'Overall UK Poverty', January 2022: <https://www.jrf.org.uk/data/overall-uk-poverty-rates>

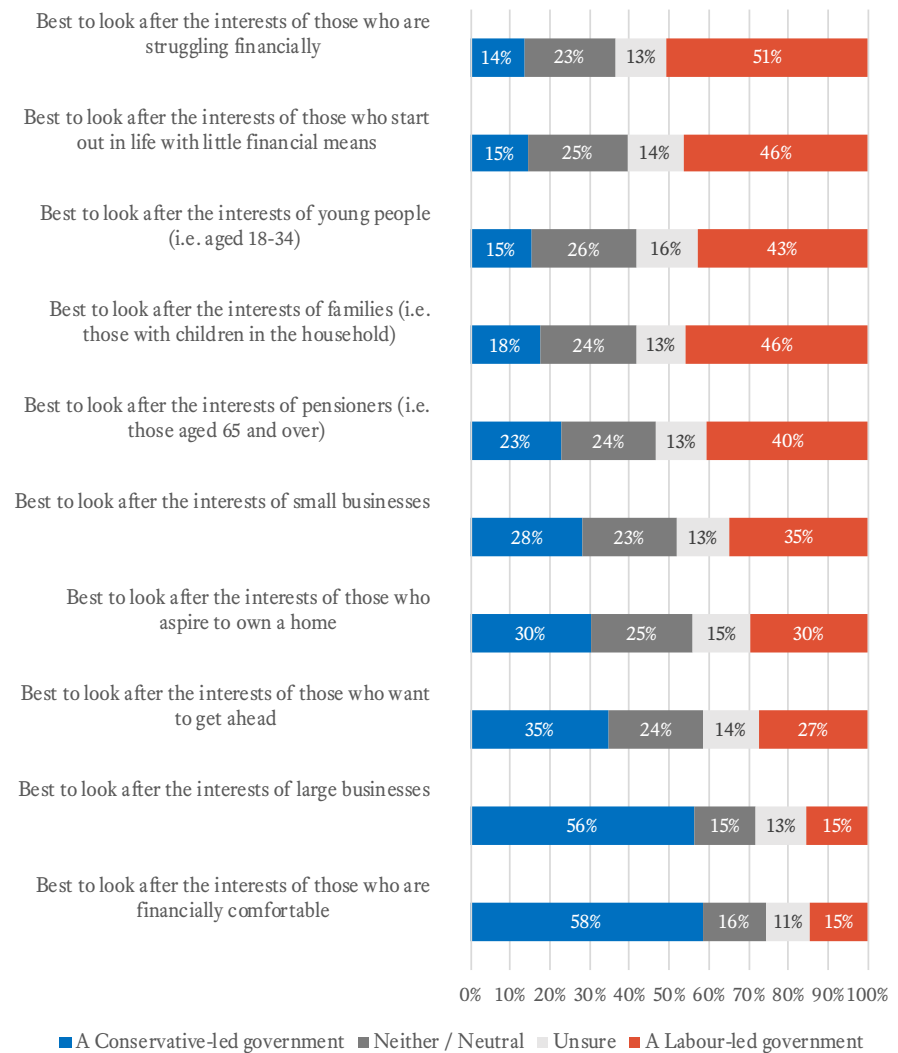
⁴⁷ ONS, 'Household Total Wealth in Great Britain: April 2018 to March 2020', January 2022: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020#wealth-by-characteristics>

⁴⁸ Independent, 'How to Get the £300 Cost of Living Payment for Pensioners', November 2022: <https://www.independent.co.uk/news/uk/home-news/300-pound-cost-of-living-payment-b2214952.html>

⁴⁹ HM Treasury, 'Autumn Statement 2022', November 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118364/Autumn_Statement_2022_Policy_Costings_.pdf

⁵⁰ University of Kent, 'Means-testing state pension might be only way to fairness', June 2017: <https://>

Figure 11: “Below is a list of differently defined groups in the UK. For each, can you say which type of government you feel is best to look after their interests.” (Freshwater Strategy/ASI polling)



EDUCATION AND PERSONAL DEVELOPMENT

Both education policy and modern social expectations push young people heavily towards universities for further education. Student finance offers access to an income contingent loan, to fund moving away from home, facilitate learning, and to meet new people. Paired with the prestige and higher salary expectations of university attendance, it is clear that post-school university education is heavily incentivised.

While it may have once been the case that a university degree almost always led to a more prosperous life, the current reality is very different for many university students. Soaring house prices have pushed young people towards living at home,

including while studying at university, with one third of 18-34 year olds now living at home with their parents.⁵¹ This has steadily been increasing since at least 1996.⁵²

The Institute for Fiscal Studies estimates that one in five undergrads⁵³ end up worse off for going to university. Around a third of graduates are in non-graduate jobs five to 10 years after leaving university, with taxpayers making up the shortfall in lower-earning subjects and courses.

This means that there is a surplus of students going to university without having acquired the specialisation or skills necessary to demand stronger wages, meaning they cannot meet high rents in more productive areas. Rather than having a pathway to fulfilling employment and higher wages, some students leave university with debt, higher taxation, and little else.

POLICY RECOMMENDATIONS

SEED CAPITAL FOR SCHOOL LEAVERS, OR A PROFESSIONAL DEVELOPMENT LOAN

The student loan system should be reformed towards neutrality for school leavers, removing any bias towards the university system.⁵⁴ Germany, for example, has a dual route academic/vocational education system, and much higher productivity than the UK. If we are to offer support to school leavers, why should university education be prioritised over vocations, or even support to start a business?

A personal development loan of £6,000 a year could be offered on the same repayment terms as a student loan. This would allow greater flexibility over study and the development of skills, alongside leisure activities and personal interests. The beneficiary of the loan would be strongly incentivised to maximise their post-learning earnings, seeing it as an investment in their future, given they will be taxed going forwards for taking it out.

The strongest argument against this proposal is in the risk sharing element. But with 20% of graduates worse off for having gone to university,⁵⁵ it is clear that university does not always offer more of a return on investment than a broader purpose, income contingent loan and as such shouldn't maintain its rentier status as the default option in pursuing a more prosperous life. It is probably true that some would direct an income contingent loan towards leisure and social activities, but

51 ONS, 'Young Adults Living With Their Parents', March 2022: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/datasets/youngadultslivingwiththeirparents>

52 Statista, 'Percentage of Young Adults Living With Their Parents in the United Kingdom From 1996 to 2021', April 2022: <https://www.statista.com/statistics/285339/percentage-of-young-adults-living-with-parents-uk/>

53 IFS, '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', February 2020: <https://ifs.org.uk/news/most-students-get-big-pay-going-university-some-would-be-better-financially-if-they-hadnt-done>

54 Consumer Surplus, 'Student Loans for Everyone', January 2021: <https://sambowman.substack.com/p/student-loans-for-everyone>

55 IFS, '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', February 2020: <https://ifs.org.uk/news/most-students-get-big-pay-going-university-some-would-be-better-financially-if-they-hadnt-done>

these also form a large, dominantly middle class perk of the university student experience, being where the most money is spent after rent, groceries and bills.⁵⁶

The purpose of this policy is not to reduce student numbers. It is to reduce the bias towards going to university and to allow school leavers greater flexibility and productive use of their time. While this may have the end result of a reduction in numbers, it might also bring some competitive pressure to universities, compelling them to focus on student outcomes and offer better value for money.

HELP BRITISH UNIVERSITIES GO GLOBAL: PROVIDE FINANCIAL SUPPORT FOR UNIVERSITIES THAT ALLOW NON-ATTENDEES TO TAKE COURSES/OFFER ONLINE COURSE CONTENT TO ALL

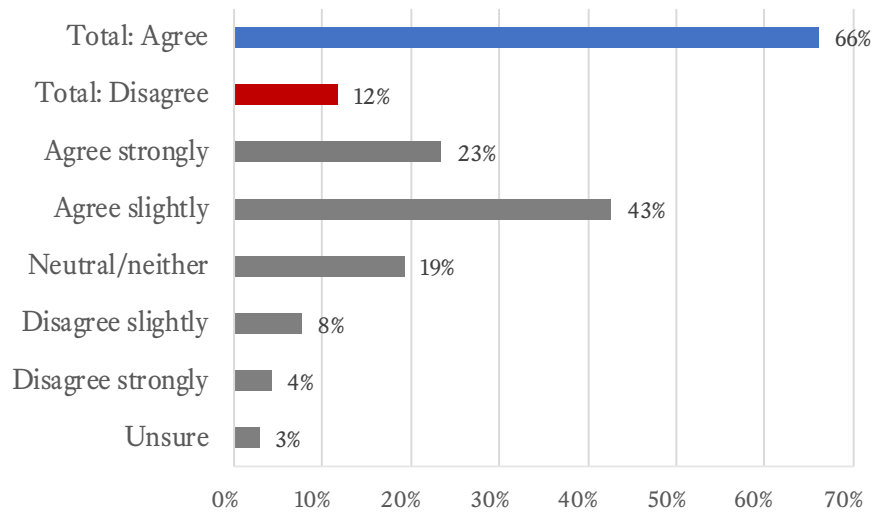
People from all age ranges should be able to access core course content and take university exams. Given the logistical challenges of opening content and administering more exam candidates, a significant financial benefit should be included. Top universities could be paid a significant bulk sum to open up exams to external candidates. This scheme could be initially trialled with Russell Group universities, with a 10% additional increase in endowment.

Those who pass examinations should be awarded with the same qualifications as those who are fully paid up students. This will allow more people to formally demonstrate their understanding of a field, and provide an objective standard from which to measure university performance by. It will also assist universities in understanding which courses actually *require* direct contact hours, seminars and assignments, and which do not.

This is a win for both students and universities; people who can pass relevant skill and knowledge thresholds will be accredited for doing so, and will provide feedback as to whether course content needs to be adjusted. Much of the value of going to university is signalling; demonstrating a certain level of competency and ability to complete work to potential employers. For some, this might not need a full three years of restrictive study and associated financing, giving back time for more productive endeavours.

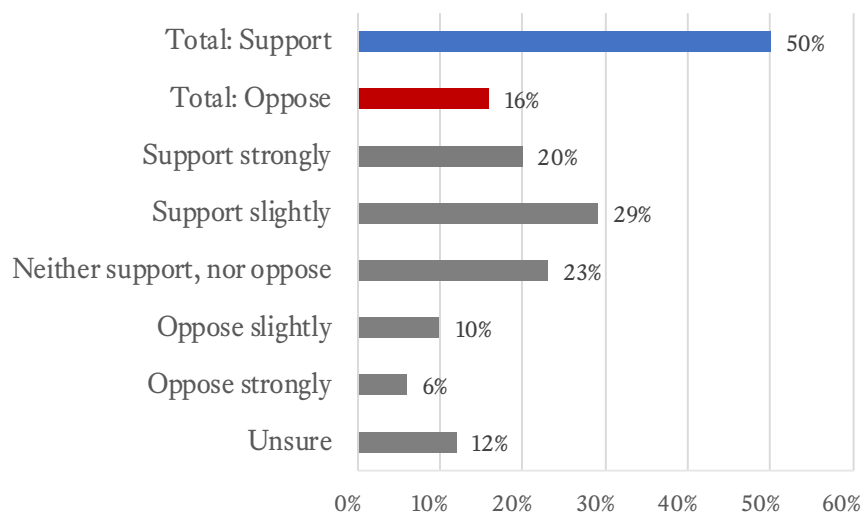
⁵⁶ Save the Students, 'Student Money Survey 2022 – Results', September 2022: <https://www.savethestudent.org/money/surveys/student-money-survey-2022-results.html>

Figure 12: “Do you agree or disagree with the following statement? ‘School leavers should have access to a competitive professional development loan, to set themselves up for a career, without having to go to university (i.e. to buy tools, a vehicle, tech/hardware, or go on relevant professional courses?’” (Freshwater Strategy/ASI polling)



- There is very strong support (66%) for school leavers who do not go onto university to get access to a similarly sized loan, to help with professional development and setting themselves up for a career, without having to go to university (i.e. to buy tools, tech, courses, or a vehicle etc.)
- There is majority support (50%) for a specific proposal of up to £6,000 per year, for three years (total £18,000) being loaned to school leavers who do not go on to university.

Figure 13: “Currently university students can get a loan from the government (student loans company) at a competitive rate, to help pay for their tuition fees and living expenses. The loan starts to be paid off, once they earn an income in excess of £20,184 per year. Do you support or oppose the establishment of a professional development loan for non-university school leavers, of approximately £6,000 per year for 3 years (£18,000 in total)?” (Freshwater Strategy/ASI polling)



Childcare costs in the UK are among the highest in the developed world, nearly doubling since 2005,⁵⁷ and costing around 30% of an average couple's wages, even accounting for government support.⁵⁸

The high cost of childcare forces many new parents to exit the labour force for full or part-time childcare duties, an expectation most often imposed on the mother, rather than shared equally with the father.⁵⁹ Women are far more likely to give up paid work, or cut working hours following childbirth, even if they earned more than their partner during and before pregnancy.⁶⁰

The largest contributor to the cost of childcare provision is the cost of labour, despite low wages.⁶¹ This is partially because the UK has a comparatively high childcare staff to child ratio, possibly well in excess of what is necessary for strong cognitive and social development.⁶² The Adam Smith Institute has previously called for a relaxation of staff:child ratios to reduce childcare costs.⁶³

This effect is compounded by high marginal tax rates for many parents seeking to re-enter work, and by the high cost of housing often pushing young families further from grandparents and other family members that might otherwise be able to provide informal childcare.

THE ELECTORAL OPPORTUNITY

The results of the polling illustrate significant challenges, but also significant opportunities for any political party that moves to address intergenerational inequality.

The nature of the political problem is that while short term incentives all point in one direction, that direction is to the long term detriment of the country, and indeed, the primary beneficiaries of this short termism. There is likely a short term electoral cost to the political party that realigns many of these incentives, given that

57 The Entrepreneurs Network, 'What I Said About Childcare at the Work and Pensions Select Committee', March 2022: <https://www.tenentrepreneurs.org/blog/what-i-said-about-childcare-at-the-work-and-pensions-select-committee>

58 OECD, 'Net Childcare Costs': <https://data.oecd.org/benwage/net-childcare-costs.htm>

59 ONS, 'Women Shoulder the Responsibility of 'Unpaid Work'', November 2016: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/womenshouldtheresponsibilityofunpaidwork/2016-11-10>

60 IFS, 'Women Much More Likely Than Men to Give up Paid Work or Cut Hours After Childbirth Even When They Earn More', March 2021: <https://ifs.org.uk/news/women-much-more-likely-men-give-paid-work-or-cut-hours-after-childbirth-even-when-they-earn>

61 EPI, 'The Early Years Workforce in England', January 2019: <https://epi.org.uk/publications-and-research/the-early-years-workforce-in-england/>

62 IEA, 'Getting the State out of Pre-School & Childcare', February 2017: <https://iea.org.uk/publications/getting-the-state-out-of-pre-school-childcare/>

63 ASI, 'How the Government Can Go for Growth and Cut the Cost of Living', March 2022: <https://www.adamsmith.org/news/go-for-growth-and-cut-taxes-to-ease-the-cost-of-living>

doing so requires prioritising the preferences of those unlikely to change their vote accordingly in the next general election. This is why win-win policies like Street Votes are so important. But the longer-term political opportunities are clear. As previous polling conducted by the Adam Smith Institute has shown, young people are willing to change their vote to a party that boosts home ownership.⁶⁴

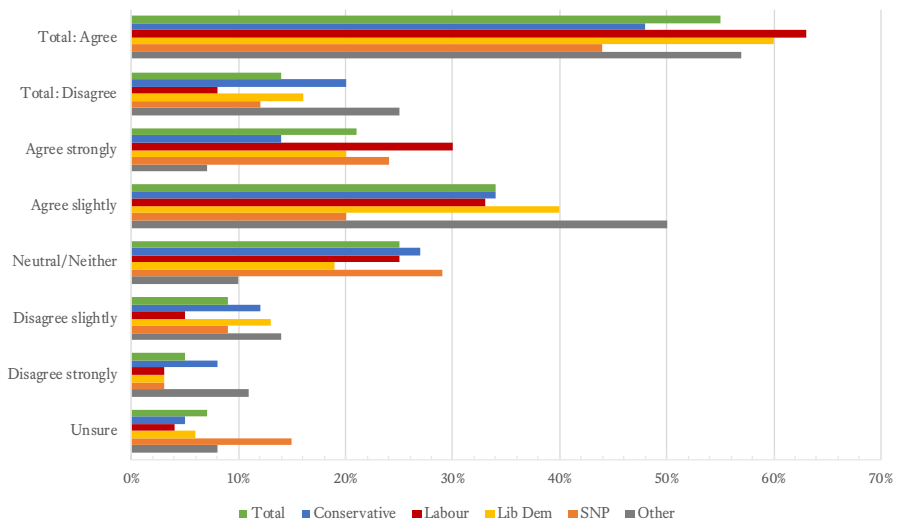
A British future defined by continued suppression of housing supply, wage stagnation, weak productivity growth and protection of economic rents will not help the young. But equally, it will not help the short run beneficiaries – the elderly – who rely on public spending for pension benefits, and health and social care provision, and who want the best for their children and grandchildren. It is only by facilitating a growing economy with higher wages, that voters across the age spectrum can truly be satisfied.

Driven by short-run political incentives, monetary, fiscal and planning policy has inflated housing and asset prices in recent decades. However, these gains, caused primarily by policy, not by savvy investment, remain untaxed as primary residences. This stands in stark contrast to income taxation on working age people, which has grown through frozen thresholds, rendering access to these inflated asset prices even harder.

Our polling has found that there is strong support for adjusting existing political incentives. In particular, voters across the political spectrum are strongly in favour of shifting the tax burden away from incomes, and towards taxing housing wealth (see figure 14, below), with majority support for ending frozen income tax thresholds, and shifting the tax burden towards asset owners. In practical terms, this means taxing additional increases in property value that have occurred due to political circumstances – in this case the failure to build enough housing – rather than through improvement or innovation.

⁶⁴ ASI, 'Build Me Up, Level Up' September 2021: <https://www.adamsmith.org/research/build-me-up-level-up>

Figure 14: “Do you agree, or disagree, with the following statement: There should be less taxation of income, and more taxation of assets.” (Freshwater Strategy/ASI polling)



There are also large opportunities to shift the incentive structures that currently only allow nearby residents to lose out from local development, actually giving them a quid-pro-quo for building that helps their area, and the country at large. We should not be surprised that people act in their self interest, and vote heavily against changes that threaten the things they value. The solution is therefore obvious – shift the incentives and let water flow downhill, instead of pushing water uphill, against the powerful voting coalition.

There is also strong support indicated by our polling for changes to education and personal development that puts choice and power in the hands of school leavers, not the self-justifying university system. This represents control and responsibility for one’s own life; it should not be a surprise that this is a popular proposal.

The changes suggested by this paper are important for addressing the growing generational divide, and the future prosperity and happiness of the country. But they are also politically necessary. For the Conservative Party, the challenge is existential. Almost half (45%) of homeowners vote Conservative, while less than one-third (28%) support Labour. By contrast, a majority of those who would like to purchase a home in the next five years but cannot afford to (50%) say that they would vote for Labour today.⁶⁵

Many political commentators put declining Conservative voting intention among the young mostly down to newly emerging social values associated with a degree education⁶⁶, citing the experience of attending, and socialisation at higher educational establishments as a driving force towards more liberal values among younger

⁶⁵ *ibid.*

⁶⁶ The Times, ‘Watch out Tories, the Graduates Are Coming’, May 2022: <https://www.thetimes.co.uk/article/watch-out-tories-graduates-voting-labour-comment-matthew-goodwin-5cts0t5sz>

generational cohorts⁶⁷⁶⁸⁶⁹, and the generally more socially liberal politics of young people today.

“We now live in a country where close to 80 per cent of young graduates plan to vote for parties on the liberal left.”

- Professor Matthew Goodwin

However, this commentary ignores that, after over a decade of Conservative government, access to the fruits of a productive society that were readily available to previous generations is now difficult, or even impossible, without access to familial wealth. As recently as 1992, even while much more socially conservative, the Conservative Party took the 18-54 vote by a substantial margin⁷⁰, in part because it could credibly make the argument that it was the party of aspiration and home ownership. This argument is now substantially lacking.

Imagine a couple in their early thirties, unable to afford an extra bedroom for a child in a house that they don't even own (leaving aside the cost of childcare). Approaching the end of their fertile years, they may even continue to live under the roof of their parents; perhaps they fear that their time to establish a family is running out. Their wages have not risen in two decades. Homeownership is a fantasy to them, and retirement with a limited asset base is unlikely to be comfortable. What incentive is there for this couple to vote Conservative? The message of this paper is simple: give them something to vote for. Our polling shows that there is strong support, across the political spectrum for homebuilding in the local area, if it allows young people to move out of their parents home (see figure 15, below).

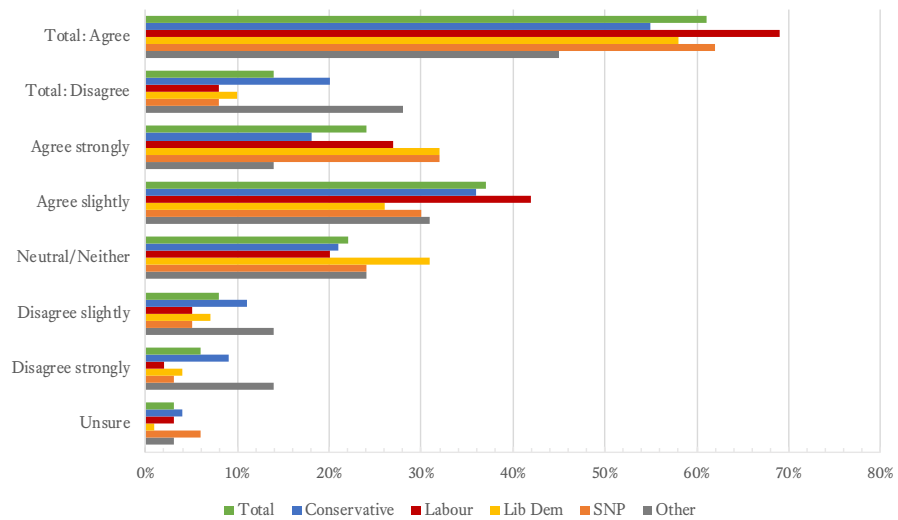
67 LSE, 'Do Universities Liberalise Students? Why Education Should Be Taken Seriously in Political Analysis', October 2018: <https://blogs.lse.ac.uk/politicsandpolicy/the-education-effect/>

68 Paula Surridge, 'Education and liberalism: pursuing the link', March 2016: <https://www.tandfonline.com/doi/abs/10.1080/03054985.2016.1151408>

69 Electoral Studies, 'Does university make you more liberal? Estimating the within-individual effects of higher education on political values', June 2022: <https://www.sciencedirect.com/science/article/pii/S0261379422000312>

70 Ipsos, 'How Britain voted in 1992': <https://www.ipsos.com/en-uk/how-britain-voted-1992>

Figure 15: “Do you agree, or disagree, with the following statement: I would support building more homes in my local area if it allowed more young people to move out of their parents’ homes.” (Freshwater Strategy/ASI polling)



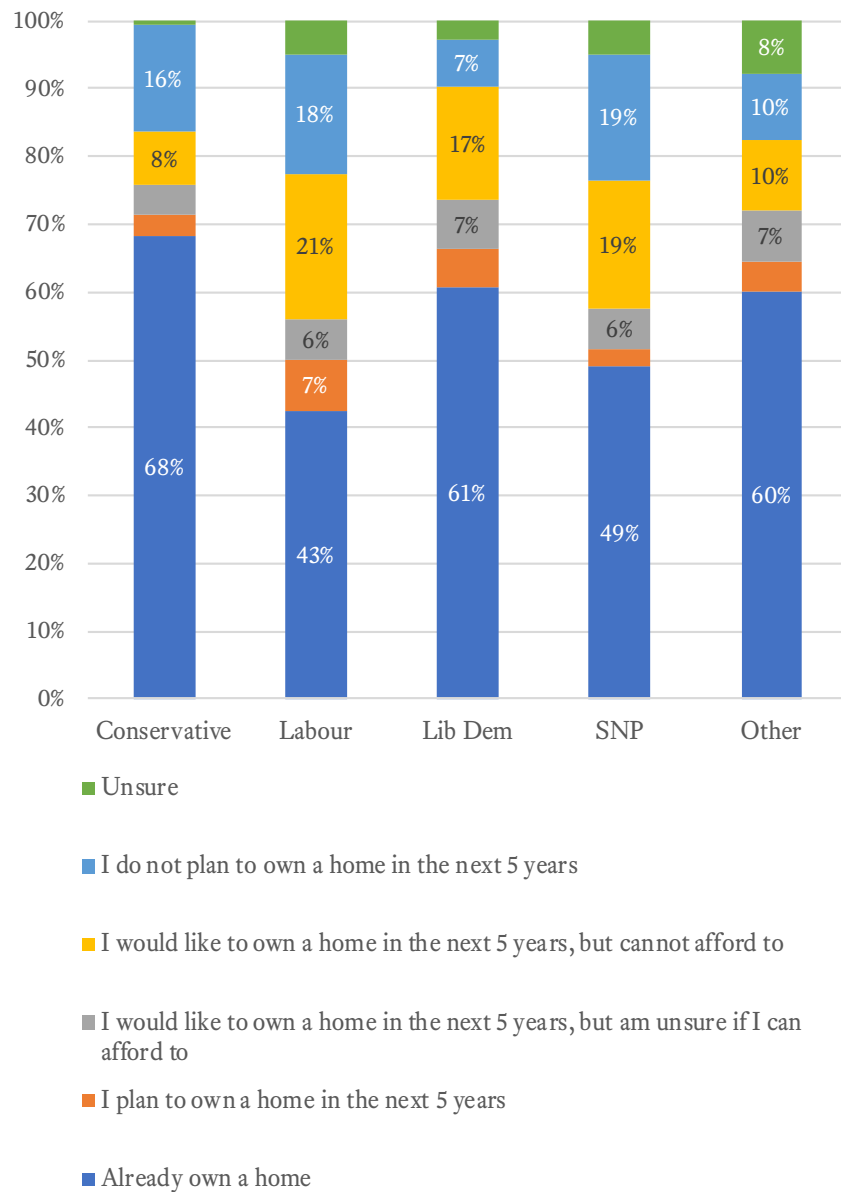
The Conservative party cannot rely any longer on people becoming more conservative as they get older. Many of the reasons this truism exists is that so many of the things that people accumulate through life make them more conservative, like having children, owning a home, and finding a settled sense of place in their community. Priced out of having a family, transiently renting from one community to another and lacking wealth-creating opportunities, there is little incentive for young people to vote for a party that owns policy that leads to these outcomes.

The opportunity for the Conservatives is perhaps clearest, insofar that a higher proportion of those who aspire to own a home but do not believe they can afford to, currently place their support with parties on the left; with Labour, the Lib Dems and the nationalists.

As figure 16 below details, just 43% of Labour supporters own their home, and the proportion of Labour voters who say that they want to own a home but either cannot afford to, or are unsure if they can afford to (28%), is more than twice that of Conservative supporters (12%). So the majority of those who are not being served by the current system side with the Conservative Party’s political opponents.

These results may well be a reflection of the differing age profiles of Conservative and Labour voters, but it is still a political reality. Doing nothing will only help to compound the divide in voting patterns across age groups.

Figure 16: “Which of the following statements best describes your home ownership plans?” (Sorted by voting in 2019, Freshwater Strategy/ASI polling)



Indeed, the political age divide is becoming so stark that the definition of “young people” is being stretched. It is common to see not just under-30s leaning heavily against the Conservatives, but under-50s too. Recent polling has indicated the only groups with a net positive vote for Conservatives are 55–64s and voters over the age of 65.⁷¹ As the existing cohort of elderly homeowners inevitably become a smaller source of Conservative voters over time, this represents an existential strategic threat to one of the historically most successful political parties in the world.

⁷¹ UK Onward, ‘The age profile of Conservative voting intention’, November 2018: <https://www.ukonward.com/data/age-profile-voting-intention/>

The political opportunity for Labour is to own a narrative of national renewal and improvements in living standards, should they enact a bold programme of reforms to get the economy growing, increase productivity and take-home pay – by finally taking on and adjusting these flawed incentive structures. An agenda of unfreezing income tax thresholds, putting money back into the wallets of working people, redressing the accumulation of economic rent in property prices and providing new educational opportunities to the young are all natural priorities for the Labour Party. They now have a chance to take the mantle of aspirational politics and secure longer term political success.

Naturally more predisposed to higher state spending, the Labour Party will need to find a way to pay for its intentions. Again, challenging these incentive structures is the only sustainable route forward. There is also the opportunity for the Labour Party to ensure the Conservative Party owns the failure to remove damaging economic rents and deadweight losses. We have seen how damaging a narrative of Labour “crashing the economy” has been during recent parliaments, contributing to Labour exiting power after a worldwide recession, caused by the Global Financial Crisis. The Labour Party has the opportunity of nailing our current slow-motion crisis to the Conservative Party, with the added benefit of the criticism actually being true.

CONCLUSION

Most voters would not associate objecting to a new development near their home with longer NHS waiting times, stagnant wages, higher taxes and worse public services. But replicate this small supply constraining action thousands of times across the country, and the sum effect is an economy starved of productive workers in its most productive regions.

The knock on effects are lower productivity, lower wages, lower living standards, and higher taxes. Those higher taxes represent a larger slice of a smaller economic pie, which provides less funding for strained public services. It would be unfair to expect voters to make the vital link between concepts that feel so distant from each other. But we should expect it of our politicians.

However, Britain’s current political economy is aligned heavily towards supporting the interests of the elderly, as the winning voter coalition, even if this stretches the intergenerational social contract to breaking point. We find with our polling that there are, however, many politically feasible policy changes that could realign these incentive structures, without going against entrenched interests head-on.

Turkeys do not vote for Christmas – and we should not expect them to. They might be convinced by a nut roast, however, and the best policy solutions, like Street Votes, buy the unconvinced in, by offering a *quid pro quo*, and aligning policy with the long term interests of the country.

Britain is entering the winter of 2022 facing myriad issues, all of which can be linked back to squeezed wages and limited productivity growth. The only sustainable, long term solution is economic growth, and the route to this is through realigning these incentive structures to align with the country's long term prosperity.

A 1979 moment lies ahead for the country, in which existing political interests that damage the country can be challenged.⁷²

It is incumbent on all political parties to prioritise realigning intergenerational incentives. Freshwater Strategy/ASI polling has found that support for local house building is up 14pts to 52%, and opposition is down 8pts to 25% over one year, suggesting the political precedent to build more is growing. Failing to increase housing supply, build infrastructure or enable workers to gain from their employment offers little, and what it does offer is unsustainable. For both Conservatives and Labour, it represents both a significant, immediate challenge and the opportunity for long term political gain. The party that owns this agenda has the opportunity to go down in the history books as the master of one the great, reforming governments.

⁷² Himbonomics, 'The Triumph of Janet', April 2022: <https://himbonomics.substack.com/p/-the-triumph-of-janet->