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INSTITUTE FOR YOUTH POLICY

Five Pillars of Asset Ownership

We believe that regulatory reform in five key areas will unlock the economic potential of a generation of young people.

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Context

With rising levels of personal debt, high living costs and insurmountable barriers to home ownership, young people are under significant financial strain. With ownership of assets a crucial facet of wealth creation, young people are increasingly turning toward radical alternatives.

With a majority of young voters now favouring socialism over capitalism, the very future of British economic liberalism is at stake.[i] This 'slide to the far left' is not the result of youthful naivety, but of understandable disillusion with an economic system that they see as having failed them. In reality, this failure is due to a combination of misguided government policy, overregulation and miseducation.

Fostering asset ownership amongst young people is a 'win-win' for every segment of society. As well as enfranchising young people from all over the country and lifting thousands out of poverty, greater access to wealth amongst young people creates a virtuous circle where spending drives economic growth, and vice versa. For the purposes of this white paper, 'young adults' and 'young people' are defined as those between the ages of 18 and 35.

What are the Five Pillars?

The 'Five Pillars' is our term for the five critical areas impacting young adults in their ability to acquire assets, build their wealth and achieve financial security. When functioning as they should, these pillars should support wealth creation amongst both our target demographic and across the wider population as a whole. When they fail to do so, asset ownership becomes nigh-on impossible for all but the highest earners in society. Young people in the United Kingdom are increasingly finding the latter to be true.

The Institute for Youth Policy (IYP) has found that these Five Pillars are:

- Debt
- Household Costs
- Tax Reform
- Home Ownership
- Transport

This white paper seeks to address the balance by exploring the system's current failings and advocating a variety of policies aimed at alleviating them, within an economically liberalist framework.

Pillar 1: Debt

Not all debt is created equal. Whilst carefully managed debt like mortgages and business loans can be beneficial to the debt holder, so-called 'bad debt' can be a major barrier to asset ownership. This latter form of debt poses major problems due to both the financial strain caused by repayments, and the consequent poor credit score.

Young people in the United Kingdom shoulder a disproportionate amount of the country's unsecured personal debt. Whilst under-35s make up only around 29 percent of the population as a whole, they hold nearly 48 percent of the debt.[ii] It is therefore unsurprising that amongst the 18- to 30-year old age bracket, almost 23 percent of men and 25 percent of women are 'constantly in debt', with one-in-five reliant on their overdraft simply to make ends meet.[iii] Whilst the cyclical nature of indebtedness throughout the course of adulthood has been well established, in recent years the rate of debt accumulation amongst young people has grown at an alarming rate – almost ten times faster than the national average.[iv]

The Institute for Youth Policy (IYP) has found that this 'decupling' of personal debt amongst young people has been largely due to two factors; namely lack of understanding around and ready availability of 'High Cost Credit', and the grossly unfair impact of student loan reorganisation in 2012. Urgent regulatory intervention on both counts is required to rectify the situation.

High Cost Credit

Several years ago, payday lenders (such as the now infamous 'Wonga') came under fire when it was revealed they were charging their customers interest rates of up to 2000 percent for short term loans. In October 2014, The Guardian reported that young people were more likely to turn to payday loan companies than they were to approach a bank, building society or credit card provider, and therefore far more likely to burden themselves 'bad debt'. [v] Since then, the Financial Conduct Authority (FCA) has acted admirably in the interest of consumers against unscrupulous lenders by capping the cost of consumer credit in 2015. The benefits of this regulation have been clear to see, with savings to consumers of payday loans of around £150m, with further benefits to credit card customers and overdraft users.[vi]

Whilst the IYP commends the FCA in its action against these 'bad faith' actors, there is still work to be done to protect young people. In recent years, there has been a worrying increase in demand for other destructive products, such as logbook and guarantor loans.

A large part of the problem stems from a lack of education around what constitutes 'bad' debt.

Considering the devastating impact that mismanagement of debt can have upon the lives of people of all ages, it is shocking that this subject is not a part of the core educational curriculum. To rectify this problem, the IYP advocates that 'Financial Literacy' should be introduced as a core subject at GCSE Level in England, Wales and Northern Ireland and at N5 Level in Scotland.

Student Loan Interest Rate Hikes

When it comes to higher education, it is important to make the distinction between tuition fees and student debt. Free education at degree level is unsustainable without students making a contribution to the cost, and the United Kingdom has arguably one of the most reasonable approaches to tuition fees in the developed world. In England, fees are capped at £9,250 a year, no money is required upfront and repayment depends on earning at least £25,725 a year.[vii]

Importantly, tuition fees liberate English universities from dependence on government handouts, and the limited resources that come with them. So long as these institutions can remain competitive and continue to accommodate students, there is no cap on the number of undergraduates they can admit. Furthermore, far from fee increases putting off prospective applicants, 2019 saw a record number of students apply to university, with a 6 percent increase in the number applying from the most deprived areas of England.[viii]

Whilst there is much to be applauded about Britain's approach to funding higher education, the system by which student loans are repaid is not only fundamentally flawed but grossly unfair. Prior to 2012, there was no real 'cost' to borrowing money via student loans, as the interest rate was set at the rate of inflation, as measured by the Retail Price Index (RPI). Since 2012, the situation has changed to one where the interest rate is equivalent to RPI with an additional 3 per cent depending on how much one is earning.

This figure - 5.4 percent as of 1st September 2019 – is grotesquely high for what is essentially government-backed debt. To put this in perspective, that interest rate is higher than most mortgages, personal loans and even new car financing. It is also substantially higher than rates paid by previous cohorts of graduates.[ix]

A graduate who joined university in 2013 and has been out of university for three years on a 'Plan 2' loan repayment plan will have roughly £41,000 in student debt. If they are earning above a certain threshold, they will repay just under £3000 over the course of a tax year. Due to the extortionately high interest rate now being charged on these loans, the interest applied during this same period will be around £2500. This means the net contribution to repayment of the loan stands at merely £500, with the remaining £2500 spent simply on furnishing the cost of the debt at time where every penny saved can have an enormous impact. The end result is that some successful graduates can expect to repay two or three times the original amount borrowed over the course of their working lives.[x]

With interest rates on student loans increasing on a sliding scale alongside earnings, the current

system disincentivises upward social mobility whilst encouraging tax avoidance. Furthermore, it incentivises the proliferation of profiteering vocational courses that could be taught equally well outside of university.

The Institute for Youth Policy (IYP) advocates immediate action on the part of the British Government to overhaul the current system, by capping interest rates for student loans at the current rate of inflation. Furthermore, the IYP advocates measuring inflation in line with the Consumer Price Index (CPI), the Bank of England's official measure, as opposed to generally higher Retail Prices Index (RPI).[xi]

Pillar 2: Household Costs

With under-34s making up the largest proportional of the rental market, high rental fees represent the single biggest barrier to asset ownership for young people.[xii] With over a third of renters reporting they have nothing left over each month after paying for essentials, and key young workers in London (teachers, nurses, police etc) reportedly spending more than half their take home pay on rent, the prospect of ever owning a home seems like a pipe dream for many young people.[xiii] [xiv] This problem is further compounded by the fact that high rents limit young people's job mobility, further reducing their pay and career prospects.[xv] This situation has led to an unprecedented phenomenon, in that over a quarter of adults under the age of 35 are living in their childhood bedroom.[xvi]

When people on ordinary incomes are effectively blocked from owning property or renting high quality homes, the housing supply system is clearly not functioning as it should. As a result, the Institute for Youth Policy (IYP) advocates the introduction of several measures designed to reduce strain on renters whilst also protecting the financial interests of landlords. Importantly, we believe this can be achieved without resorting to rent controls. As well as currently reviewing the cost of utilities, the IYP also supports the abolition of the 'license fee' as an unjust drain on young people's financial resources.

High Rents

With high house prices and a lack of available credit since the Global Financial Crisis in 2008, first-time buyers have been increasingly shut out of the market, at a rate of as many as 200,000 a year since 2013.[xvii] With supplies of new housing failing to keep up with demand, many have turned to the private rental sector.[xviii] This has created a 'vicious cycle' where increased demand for private rentals has led to soaring rents. This situation has meant that increasing numbers of young people are caught in the 'rent trap', with nothing left at the end of each month to save towards a deposit on a home of their own.[xix] As a result, they remain reliant on the rental sector, maintaining demand and keeping prices high.

For today's young people, who have entered the workplace in an era of high house prices, rising rents and a lack of credit, the age most can expect to first get on the property ladder is now estimated to be in their late thirties.[xx] For those on lower incomes, the situation looks even gloomier; with over a third expected to rent privately for their entire lives.[xxi]

Urgent intervention is needed to level the playing field in a way that protects tenants whilst still encouraging investment from landlords. Whilst the Institute for Youth Policy (IYP) commends the government for banning the charging of 'letting fees' as of 1st June 2019, these fees form only the tip of the iceberg.[xxii] Alongside advocating robust action to increase the housing supply (of which more later), the IYP suggests that young people would be better served if rental incomes for landlords were taxed as Capital Gains Tax (CGT) as opposed to being subject to

Income Tax, as is currently the case. By reducing their tax bill owed from 40 percent to 20 percent (for higher rate taxpayers) on rental incomes, private landlords will be able to reduce the rent charged to their tenants whilst still receiving the same net yield from their rental properties. In order to prevent abuse of this system, this new taxation system would be available only to landlords charging a certain percentage above the mortgage value of their rental property.

Licence Fee

In the UK, it is a legal requirement for any household watching or recording live television to hold a television licence. Since April 2019, the annual cost of this licence is £154.50 (a charge known as the 'licence fee') with the bulk of the total collected used to fund the British Broadcasting Corporation (BBC). In total, the licence fee makes up the bulk (76 percent) of the BBC's total income.[xxiii]

Whilst there can be little doubt that the BBC is a cherished institution, the method by which it is financed is in need of urgent reform. In an era where over 200 television channels are available for free and streaming services like Netflix, Amazon Video and YouTube are increasingly becoming the platform of choice for consumers, it is inconceivable that the British public be forced by-law to pay a fee that funds a service they may never use. Furthermore, considering the BBC is funded through a compulsory charge levied on the public, the fact that many of its most famous faces are paid well into the six and seven figures has rightly caused outrage.[xxiv] This injustice is particularly pertinent for young people, with Ofcom reporting that 16- to 34-year olds spend less time than consuming BBC content than any other age group, with one-in-eight consuming none at all.[xxv]

These trends, combined with the fact that other public broadcasters like Channel 4 and ITV have succeeded in funding themselves without reliance on the taxpayer, mean that the continued existence of the licence fee as a mechanism of funding the BBC is unjustifiable.[xxvixxvii] As a result, the IYP advocates abolishing the licence fee in its entirety on or before the expiry of the BBC's current Royal Charter on 31st December 2027.

Pillar 3: Tax Reform

There are few topics more controversial in politics than tax reform, with both tax cuts and tax increases violently derided by the opposition of the day. For many young people at the start of the 'accumulation' phase of their financial lives, current tax rates represent yet another barrier to asset ownership. With a significant proportion of earned income being spent on rent, travel and other household costs, many young people – particularly lower earners – have little left to either save or spend at the end of the month.

As emotionally charged as the issue is, most economists agree that high tax rates suppress economic activity by reducing incentives to work, trade, save and invest.[xxviii] In particular, many economists have identified levies on income as the most destructive form of taxation, because they stifle economic output, innovation and risk-taking – all of which are key contributors to economic growth.[xxix]

Far from proving a fiscal burden on the state, there is evidence to suggest that a tax cut for lower earners could actually prove to spur for economic growth. In the United States, a 25-year study by the Bureau of Labor Statistics founds that low-income earners spend far more for every tax dollar saved than is the case for high income earners; at a rate of 86 cents vs. 49 cents respectively.[xxx] With more money in their pockets, lower earners will be able to spend, save and invest a greater proportion of their income. The end result will be both economic stimulation, poverty reduction and enhanced levels of asset ownership amongst this demographic.

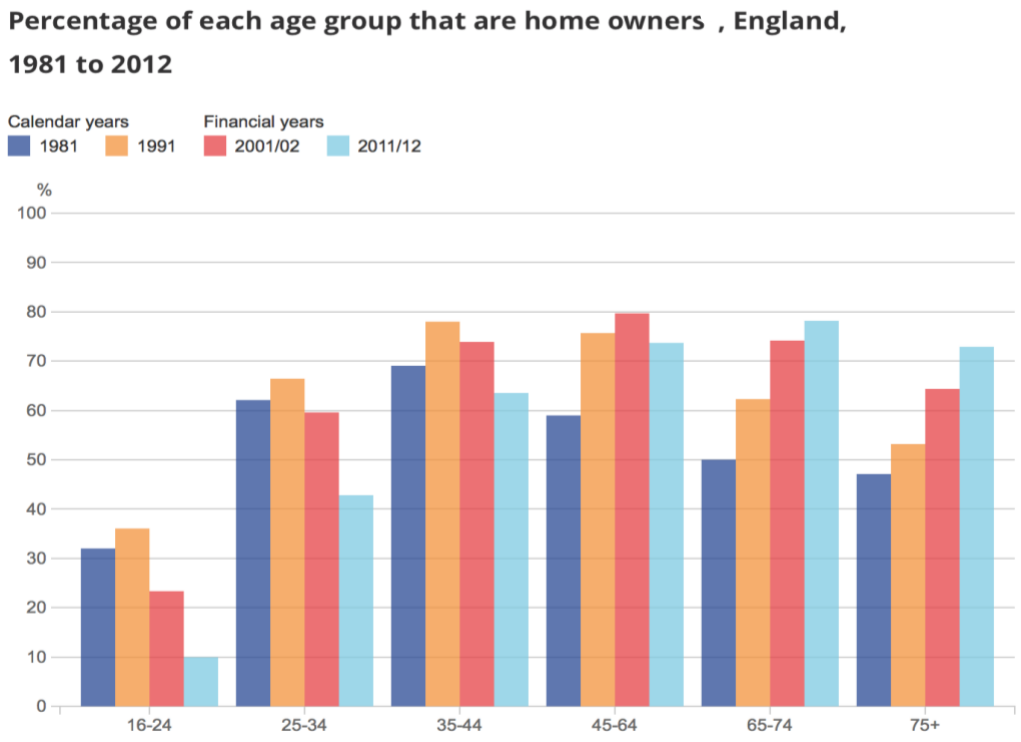
To facilitate this, the IYP advocates raising the Personal Allowance from £12,500 to £24,000, excluding national insurance and pension contributions. As well as improving the lives of thousands of young people, this measure will also give a much-needed boost to people in essential but underpaid professions, such as nurses, carers and teaching assistants. In order to make up any tax shortfall caused by such a measure, the IYP suggests broadening the base of Value Added Tax (VAT) to eliminate all exemptions and rate reductions. According to the Adam Smith Institute, such a measure could bring in £30bn, thereby more than compensating any loss in tax revenues resulting from a raise in the personal allowance limit.[xxxi]

Pillar 4: Home Ownership

For an institution whose raison d'etre is to help encourage asset ownership amongst young people, asset prices seems like an obvious issue to address. The term 'assets' incorporates a broad spectrum of both tangible and intangible assets, and so for simplicity this paper will focus on how government policy can facilitate ownership of residential property (that is to say, housing). Affordable housing represents the most immediate concern for young people.

House Building

When you have an entire generation of young people known as 'Generation Rent', something is clearly wrong with the housing system. As already discussed, high rents and other necessary costs have put a serious dent in the ability of young people to save for a deposit, and this fact is compounded by sky-high property prices in Britain's major cities. The end result is clear to see, with young people under the age of 35 having a lower rate of home ownership in recent years than at any time since records began in 1981.[xxxii]



It has often been said that 'an Englishman's home is his castle', but the advantages of home ownership run far deeper than mere sentimentality. Owning a home is a crucial facet of financial stability, allowing the owner to benefit from increasing property values as well as other possibilities such as re-mortgaging and landlordship. Crucially, it can also work out

considerably cheaper than renting, with renters spending an average of 41 percent of their income on rent compared to 19 percent for mortgage holders.[xxxiii]

The solution to the current housing crisis is glaringly obvious, given the basic economic principles of supply and demand. More houses need to be built, on a large scale.[xxxiv] The House of Lords Economic Affairs Committee report on the state of Britain's housing market estimated that some 300,000 new homes a year are needed to satisfy the demand for affordable housing.[xxxv]

The IYP advocates increasing the housing supply by permitting limited development on greenfield land. According to the Adam Smith Institute, a million new homes could be built on just 3.7 percent of London's green belt within walking distance of an underground station.[xxxvi] This development on greenfield sites should be strictly limited, with the shortfall made up by making more productive use of 'brownfield' sites by increasing the density of houses in these areas without resorting to high-rise developments.

At the same time, the government should take steps to encourage commercial development in Britain's 'second cities' - notably Bristol, Manchester, Birmingham, Edinburgh, Glasgow and Cardiff. The current affordability crisis is largely centred around London and is due in part to an influx of young people drawn by the enhanced career prospects that that city offers. By making regional cities more attractive from a financial and cultural standpoint, it seems reasonable to suggest that increased demand for housing in these areas would reduce demand for London housing.

Stamp Duty

Stamp duty is already the second most unpopular levy after inheritance tax, with the Centre for Policy Studies (CPS) calling it a 'tax on mobility and aspiration'. For young people, stamp duty represents a final hurdle to getting a foot on a property ladder. The CPS estimate that even a one percent cut in stamp duty rates would increase housing transactions by roughly 20 percent, whilst also leading to a subsequent uptick in housebuilding. current stamp duty rates seem indefensible.

The IYP fully supports the CPS in their recent proposals, which include raising the threshold for stamp duty from £125,000 to £500,000, imposing a new three percent levy on foreign buyers purchasing property in the UK and maintaining stamp duty on commercial and buy-to-let properties.[xxxvii]

Pillar 5: Transport

In recent years, the cost of transport in the United Kingdom has skyrocketed. Since 2007, rail fares have increased by roughly 50 percent, motoring costs by 30 percent and bus fares by 70 percent, in relative terms.[xxxviii] This is a major concern, particularly given that cheaper transportation fosters commercial activity and leaves young people with more money in their pockets. The increased financial viability of commuting will help to reduce the sky-high demand for housing in major cities, whilst boosting local economies outside urban areas.[xxxix] The Institute for Youth Policy (IYP) commends the introduction of 16-25 and now 26-30 railcards as steps in the right direction, but their impact has been significantly limited due to restrictions around peak travel and the purchase of a 'season ticket'. As most young workers have little choice in what time they travel to and from the workplace, the impact of railcards have been limited at best. Further measures are needed to bring down the cost of travel to and from the workplace, encompassing both private and public transport, on both rail and road.

The Case for Cheaper Rail

Between 1995 and 2017, rail fares in the UK have gone up an average of 121 percent, with the cost of peak and anytime rail fares amongst the highest in Europe.[xl] With the average commuter already paying £786 for their annual season ticket, fees look only set to further increase in the short and medium term.[xli]

This situation is perplexing, given that recent studies have found that the cost of rail fares should (in theory) be 20-30 percent lower than they were in 2008/09. Instead, rail fares are some 50 percent higher, due to a number of inefficiencies within the rail system.[xlii] High costs of travel and comparatively high living costs in 'commuter towns' mean that young commuters are caught between a rock and a hard place; facing sky high rents in urban areas, or similar costs for living further afield once travel is factored in.

As the British government (via the taxpayer) subsidise the rail system to the tune of £6bn a year, the IYP calls upon the government to apply pressure to National Rail to ensure existing inefficiencies are addressed. A positive first step would be to address the reduce the power of the 'Rail, Maritime and Transport Union', by classifying rail as an essential service. Further measures could include the compulsory re-investment of profits into new rolling stock, increasing capacity in the face of continued demand.

The Case for Cheaper Motoring

The United Kingdom charges a higher fuel duty on its citizens than any other major economy. Taxes on commercial use are particularly high, over 50 percent higher than in France and

Germany, and over 500 percent higher than in the United States. Many young people, particularly in rural and suburban areas, are dependent on private motor transport as the only feasible method of transportation. As often constituting the poorest demographic in society, young people are hit particularly hard by fuel duty, with road fuel accounting for almost ten percent of spending by car-owning households.[xliii]

A high fuel duty, as is the case in the UK, reduces economic output by lowering labour mobility, hindering competition and preventing economies of scale.[xliv] Current levels of fuel duty are far beyond what constitutes the social cost of carbon. Whilst UK fuel duty is charged at 57.95p per litre for petrol and diesel, the social cost of carbon is by upper estimates around $312 per tonne of carbon.[xlv] In theory, this should constitute a fuel duty of 12p per litre. Admittedly, this number does not factor in inflation and external costs, but even when taking these into account the figure is considerably lower than the current 57.95p a litre.

The IYP advocates gradually halving fuel duty to 29p per litre, currently the EU-imposed minimum price, and maintaining fuel duty at this level (adjusted for inflation) following Britain's exit from the European Union. Whilst the IYP firmly supports the proliferation of electric vehicles on Britain's roads, and hopes this growth may long continue, electric cars remain unfeasible for many due to cost or charging station inaccessibility. Furthermore, the IYP rejects the assertion that a lower fuel duty would increase demand for traditional motor vehicles at the expense of electric ones, as the cost of powering the latter is still significantly cheaper.

The Case for Cheaper Buses

Whilst travel by bus is currently one of the cheaper options available for young people, there is a realistic possibility that the cost of this method could be lowered further.

The main case study for cheaper busses comes from Tallin in Estonia, where free bus travel has helped to reduce congestion and foster commercial activity. Far from being a drain on the city's financial resources, the local government claims to have turned a 20 million euro profit a year since the introduction of the scheme in 2013.[xlvi]

Further research is required to assess the feasibility of this idea in the United Kingdom, and the IYP encourages the British government to remain open minded on this idea. Some local precedent exists in Wales, which is currently experimenting with free buses on weekends with the hope of boosting visitor numbers and stimulating local economies. The IYP looks forward to assessing the outcome of this scheme.[xlvii]

Conclusion

Reforming the Five Pillars guarantees a higher quality of life for young people in the UK without penalising other demographics. The policies explored in this white paper seek to address many of the regulatory missteps that have proved detrimental to young people's economic wellbeing.

The ten policies advocated are as follows:

- Introduce Financial Literacy as a compulsory ('core') subject at GCSE and N5 level.
- Cap interest rates on student loan repayments in line with inflation, as measured by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).
- Abolish the licence fee and encourage the BBC to fund itself via methods used by other public broadcasters.
- Lower residential rents (by taxing income from private rental properties as capital gains rather than income, subject to landlords meeting certain conditions).
- Raise the personal allowance from £12,500 to £24,000, making up for the shortfall by broadening the base of VAT.
- Lower the cost of housing by allowing limited development on greenfield land, making more productive use of brownfield land and increasing the attractiveness of regional cities.
- Reform stamp duty by raising the threshold from £125,000 to £500,000 and imposing a new three percent levy on foreign buyers purchasing property in the UK.
- Lower the cost of public transport by classifying rail as an 'essential service', improving inefficiencies and investing in new rolling stock.
- Gradually halve fuel duty to 29p per litre, the EU imposed minimum price.
- Commission research into the feasibility of lower cost bus travel.

These policies have been designed to be symbiotic in nature, creating a virtuous cycle in which one policy increases the impact of another, and vice versa. Cheaper public transport makes travelling for work a more viable option, increasing the mobility of the labour force and reducing demand for housing in overpopulated areas, reducing rent whilst also making property more affordable.

Undoubtedly, they represent a win-win for young people, the government and the wider public. As well as lifting thousands out of poverty, fostering a new generation of responsible capitalists and correcting many inefficiencies and injustices, the policies advocated by the IYP will have the added benefit of fuelling economic growth. Importantly, these policies seek to achieve the above within a liberal economic framework, without relying on government subsidies and punitive taxes on either businesses or individuals.

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