

Telegraph article on ageing populations

They are at it again. The UK economic establishment drips pessimism on so many fronts as it makes wild and wrong forecasts which deter investors, frighten entrepreneurs and damages confidence needlessly. This time we are told an ageing population means ever rising costs of pensions and healthcare which will require ever rising tax rates. It will, they suggest, eventually prove unaffordable.

As always you should query their understanding of the numbers and doubt their long range predictions. In a table of 127 countries the UK is well down the list of ageing populations in 43rd place, close to the USA at 50. The current average age of the UK is 40.6 compared to 48.6 in Japan, 47.8 in Germany and 46 in Hong Kong and Italy. The proportion of the population under 20 is a lowly 15.6% in Hong Kong and 16.1% in Japan compared to 23.2% in the UK. They seem to forget that last year alone the UK invited in 1.2 million new people, many of them young. Quite a lot of more elderly people leave the UK to retire in warmer countries. The UK's fertility rate, the number of babies per woman, is below replacement, but is considerably higher at 1.63 than Italy at 1.24, Hong Kong at 1.23 and South Korea at 1.11.

The UK is better than many advanced countries at raising the retirement age and pension entitlement date as longevity increases. It is important going forward that we continue to do this so that people pay in for pensions sufficiently to cover the costs of their retirement. The UK public sector has failed to reform its pensions as the private sector did, leaving taxpayers with large bills for index linked pensions that were unfunded or inadequately funded. This should be reformed for new entrants.

The key to granting realistic pensions and meeting the bills lies with achieving decent economic growth. With growth tax revenue expands more rapidly than the economy, as every additional pound of activity is taxed more highly. As individual and company incomes rise so higher rates of income tax are paid and more items attracting VAT are bought. The problem so far this decade is threefold. There has been too little overall growth thanks to high tax rates, lockdowns and wars. There has been a productivity slump in the public sector with more spending and less output. There has been a big inflation driving up public sector costs and above all the interest burden on the state debt. We cannot go on like this. It is not the fault of any ageing in the population but the result of a public sector whose costs are out of control and whose output has fallen. The UK put up corporation tax whilst our neighbour Ireland kept it low. Ireland collects four times as much company tax per head as the UK as a result. What a stupid self inflicted wound.

Indeed, the elderly are part of the solution, rather than being the main problem. There are many in their 60s and 70s with energy and abilities, and some with savings who can return to the workforce, or set up their own businesses and self employment at times of their choosing, or offer help to their children to free them for more working hours. Many already do this, but there are hundreds of thousands who might like to do more if the tax system was friendlier and the support more easily obtainable. The slump in self employment with a loss of 800,000 self employed since February 2020 includes

a lot of older people. If the government changed the IR 35 rules to make it easier to win contracts more might return to do some jobs for people and for reward. If the VAT threshold for registration was raised more small businesses might expand and offer part time employment to older people. If the rules on childcare and childcare taxation were amended more grandparents might help more to boost the working age workforce. None of these imply compulsion or conditionality. They offer people better choices and the chance to increase their incomes if they wish.

The economic establishment has created the problems of high public spending and high borrowings. The Bank forecast inflation of 2%, gave us inflation of 11% and still denies all their money printing had anything to do with it. Now they seem to want a recession as they lurch to too little money and credit. The OBR regularly overstates the deficit by £100 bn or more, usually underestimating tax revenues, yet presumes to tell Chancellors they must raise taxes to tackle the deficit of their imaginings. The very well paid senior management of HS 2 runs with large delays and more than 3 times budget but offer no explanation of why they were so wrong and no hope they might be able to put it right. The civil service recruits tens of thousands more staff but cannot explain why its productivity has fallen so far.

If we run the public sector better, control inflation and use tax cuts to expand work and capacity we can afford decent pensions and health care. So banish the establishment pessimism, improve its forecasts and pep up its management.