

Tullett Prebon Research, a blog by Dr Tim Morgan

The Grand Larceny of generational theft

by Tim Morgan on June 21, 2012

In this morning's superb first instalment of the 2012 Reith Lectures, Prof. Niall Ferguson presented a masterful analysis of our economic malaise. Perhaps his single most telling point concerns the breakdown of the inter-generational compact, something that I, too, have highlighted. I have gone so far as to call this "generational theft" (see [Strategy Notes 001, The Dick Turpin Generation](#)).

To an extent unparalleled in Western economic history, the current generation is engaged in the systematic plundering of the young people of today and tomorrow. Governments and individuals alike have conspired to pile huge debt burdens onto future generations and, as Prof. Ferguson points out, these are compounded by vast quasi-debts (such as commitments to future pension payments) which are kept off-balance-sheet in a manner reminiscent of Enron..

Young people are already finding things tough enough. Youth unemployment is high and rising across much of Europe. The greed of the existing generation has priced housing out of the reach of most young people. Today's students are wallowing in debt taken on to fund not just living expenses but tuition fees of up to £9,000 per year as well.

The young may be aware of this, but they may not be equally conscious of the sheer scale of the debts and quasi-debts that are being foisted upon them as the workers, consumers and taxpayers of tomorrow.

The current generation blithely assumes that its successors will happily shoulder the burden imposed by the healthcare and pension aspirations of the boomers. The way in which pensions (in particular) are funded – or, rather, are not funded – is a giant ponzi scheme – and we know what ultimately happens to all such schemes. Part of the challenge now lies in demographic shifts which could strain support systems to breaking point.

Part of the problem here is a dramatic swing from investment towards consumption. The huge rise in government spending has, overwhelmingly, been used to fund current consumption rather than investment in social assets such as housing and infrastructure.

Redressing the balance between the generations, and re-emphasising investment over consumption, might be part of the solution to our economic woes. My next blog will look at how some such solutions might be crafted.