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Britain faces huge tax hikes or draconian cuts in health and social spending to pay for the elderly, warns new report

By Ruth Sunderland

Think-tank warning: The UK's 'hidden indebtedness' for pensions and old-age care has hit 'staggering' levels

Britain is facing a stark choice between ‘crippling’ tax rises or draconian cuts in health and social spending in order to meet the cost of an ageing population, according to a report.

The country’s ‘hidden indebtedness’ for pensions and old-age care has reached ‘staggering’ levels, says the study for the Institute of Economic Affairs think-tank.

It claims politicians are keeping taxpayers in the dark over the true scale of the debt burden, because official figures take no account of future commitments such as paying for pensions or healthcare for the elderly.

To bridge the gap over the next 60 years, the Government’s total take from income tax, corporate taxes and VAT would have to rise from 37 per cent of national income to 50 per cent – equivalent to around £800billion. It would equate to an increase in employees’ National Insurance contributions from 12 per cent to around 37 per cent.

Professor Philip Booth, of the IEA, said: ‘That would be an unprecedented level and would be impossible, as it would choke off activity and paralyse the economy.’

To foot the bill without increasing taxes, there would have to be a cut of more than 25 per cent in total government spending or a reduction of 50 per cent in spending on health and social care.

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Successive governments have made promises to today’s middle-aged people that the country cannot afford to honour from the existing tax base.

The report, entitled The Government Debt Iceberg, was written by American economist Jagadesh Gokhale, of the Cato Institute in Washington DC.

It warns that measures taken to improve the situation, including the planned rise in the state pension age to 68 by 2046, are being implemented too slowly and are inadequate on their own.

Booth said: ‘Without reform, today’s young people are likely to be disappointed, either in terms of higher tax rates or in terms of reduced future benefits provided by government.

‘For too long people have voted themselves benefits to be paid for by the next generation, not by sacrifices they will make themselves.

‘While families leave bequests for their children, the same people vote to leave their children social security and healthcare debts.’

Tom McPhail, of financial advice firm Hargreaves Lansdown, said: ‘There is mounting pressure to accelerate the planned increases in the state pension age. We also need to get people to stay in work longer and save more at a younger age.’