**UK's aging population is a bigger economic threat than the financial crisis**

Just when you thought it was safe to come out into the open. As if it weren't enough that the euro is crumbling, that the banking sector is still vulnerable; that Britain is steeling itself for its biggest spending squeeze in living memory, along comes Barclays Capital with some really bad news.

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Having slid its slide rule over Britain's demographics, it is warning that the real threat to the economy is not the fallout from the current financial mess, but the weight our ageing population will impose on the budget.

It is hardly a new warning: economists were getting hot under the collar about this decades ago. Back in the early 1990s it was all the OECD and IMF ever talked about. In a few years, they said, the baby boomers will retire and before you know it Britain, and for that matter most of the Western world, will see the proportion of its population in a retirement balloon.

The consequences are depressingly predictable: the budget deficit will climb higher and higher as those pensioners collect their retirement and medical benefits – all to be paid by a shrinking core of taxpayers.

The difference between then and now is that the squeeze is finally starting – this year, according to Tim Bond of Barclays. The bank forecasts that in a relatively short space of time, the interest rate on long-dated gilts – which in turn determine interest rates throughout the economy – will rise from around 4pc to well over 10pc. It is hard to overemphasise the significance of this sea change. Put simply, for the next decade, life will become increasingly expensive for the average household, squeezing ever deeper into their incomes. Standards of living will diminish.

The analogies with the financial crisis are plain to see: for years, Britons have lived beyond their means, financing it by, in effect, borrowing off future generations, whether through debt, by creating unrealistic pension obligations or social welfare systems that simply cannot be funded without an ever-greater contribution from the working population. Demographics is destiny, they say, and the statistics suggest the UK is destined for a major squeeze.

As if evidence were needed, it was provided in graphic form yesterday by BT, which admitted its pension deficit has now risen to a staggering £9bn. Shocking as this is, it is only a microcosmic example of what has happened across the UK and other Western nations over past decades. Once the financial crisis is well and truly over, the time will soon come for Governments to work out how on earth they intend to honour these unwise contracts without consigning vast numbers of their population to economic stagnation.