The EEAG Report on the European Economy

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Main contribution of chapter two

- Comprehensive analysis, raises important points and invites to further reflections on the topic

- Generational contract is under threat:
  - as the age of the median voter increase, politicians become more biased towards the elderly
  - The young voters might opt out (through migration they exit the national scheme)
Those not in employment or education are those who are so discouraged that they opt out of the formal labour market and training altogether.

- The interpretation of this indicator should be handled with care, equating NEETs with discouragement is overstated.
- We talk about youth which can either be unemployed or inactive and not involved in education or training.
- See example of Spanish NEETs.
PAYG systems are under threat due to fading productivity and increased longevity.

→ As a solution, switch from defined benefits to defined contribution

- **defined benefits**: the cost will fall on the YOUNG, as contribution rates increase to sustain the defined benefits
- **defined contribution**: the cost will fall on the ELDERLY, as fewer contributions are paid in, reducing the benefits paid out.

→ On the extreme, both are ‘unsustainable’

- Better: we identify a stable and equitable intergenerational contract that assures both old and young
- **The Musgrave rule**: both contributions and benefits are set as to maintain a constant benefit rate (which is defined as average pensions divided by average wage) as an alternative
A more positive outlook

Thinking about the future public welfare system in your country, how important should the following aims be? Diagrammed is only the "Extremely important"-option.

- Education
- Health care
- Care for elderly people
- Income/living standards
- Child care

Vision Europe Survey, 2015
Thank you for your attention

References:
