Intergenerational Fairness
The intergenerational contract – the welfare state

- Strong age dependencies - benefits and contributions

- Similar pattern across countries – amplitude depends on the extent of the welfare state

- Economic implications:
  - Distribution and insurance
  - Efficiency gains – front loaded – investing in the young
Intergenerational conflict

• Changing demographics
  • Fertility decline – implicit return falls
  • Mortality/Longevity – changing balance between contributions and benefits
  • Migration – adverse selection

• Transition
  • Delayed reform shifts adjustments burdens on future generations

• Who gains and who losses?

• Intergenerational
  • Current elderly: high return, increasing longevity, unchanged/falling retirement ages
  • The young: falling return; debt; reduced investment in the young

• Intragenerational
  • Social gradient in education, health, longevity – in a life-time perspective the model the model is less redistributive
Entry – the young

- Increasing divide; insiders vs outsiders

- Marginalized youth – neither in job or education

- Job possibilities – short-term/temporary jobs (gigs)

- Risk of long-term unemployment and marginalization

- The financial viability of the social contract depends on a high employment rate
Housing and family formation

• Access to housing
  - short supply; expensive

• Involuntary “staying at home”
  - Implications for family formation, fertility

• Inefficient housing allocation
  - Locking-in (failure to adjust housing size to family size)
  - Lenient taxation (capitalized)
  - Bequests reinforce inequalities
Exit – the young and the educated

- Adverse selection in the social contract
- Exit: The young educated
- Human capital = Mobile capital – social return to education falls
- Vicious circle: “double” ageing effect: worsens the long-run sustainability of the contract

2/3 holds a college degree
Pensions and medical care

- Demographic burden on public budgets – for unchanged welfare arrangements!

- Longevity (healthy ageing) – individual gain; adjusting retirement age to keep share of life on work unchanged

- Pension reforms: Defined contribution schemes (double-burden)

- Delayed reforms have increased the burden and shifted costs to future generations
Health care

Expenditure drivers:

• Demographics (even allowing for healthy ageing)

• Demand: high income elasticity

• Opportunities: New and better treatments

• Cost: Care is intensive in human input (Baumol’s costs disease)
Financial sustainability of the intergenerational contract

- Large pressure – even with pension reforms
- In some countries – also high debt levels
- Environmental “debt” left to future generations
Conclusions

• Youth at a disadvantage

• The social contract not as favourable as to previous generations

• Failure to adjust have significant effect on intergenerational distribution

• Intergenerational distributional conflict - social cohesion

• Political balance is shifting in favour of older voters (gerontocracy)