

Belgisch Instituut voor Openbare Financiën
De kosten van de vergrijzing – welke solidariteit tussen de generaties?

Intergenerational Inequality in Welfare Facts from Belgium

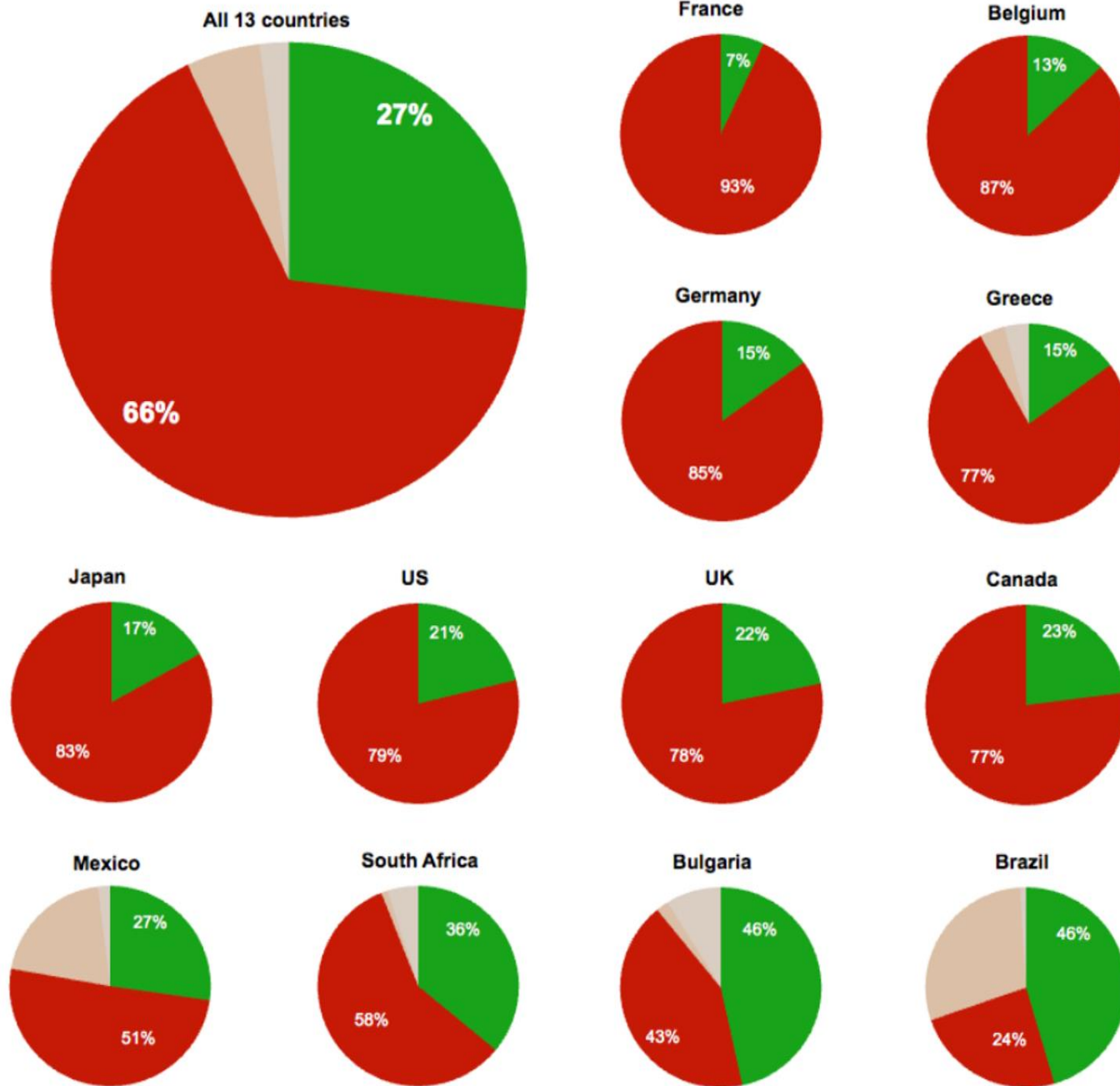
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Introduction

- Growing dissatisfaction:
 - “Younger generations are worse off than their parents”
 - Talk of a lost generation

Figure 3 Future generations better or worse off?



Introduction

- Growing dissatisfaction:
 - “Younger generations are worse off than their parents”
 - Talk of a lost generation
- Is this appropriate? Are younger generations indeed worse off?

Structure

- What is a “generation”?
- Are younger generations worse off?
- Conclusion

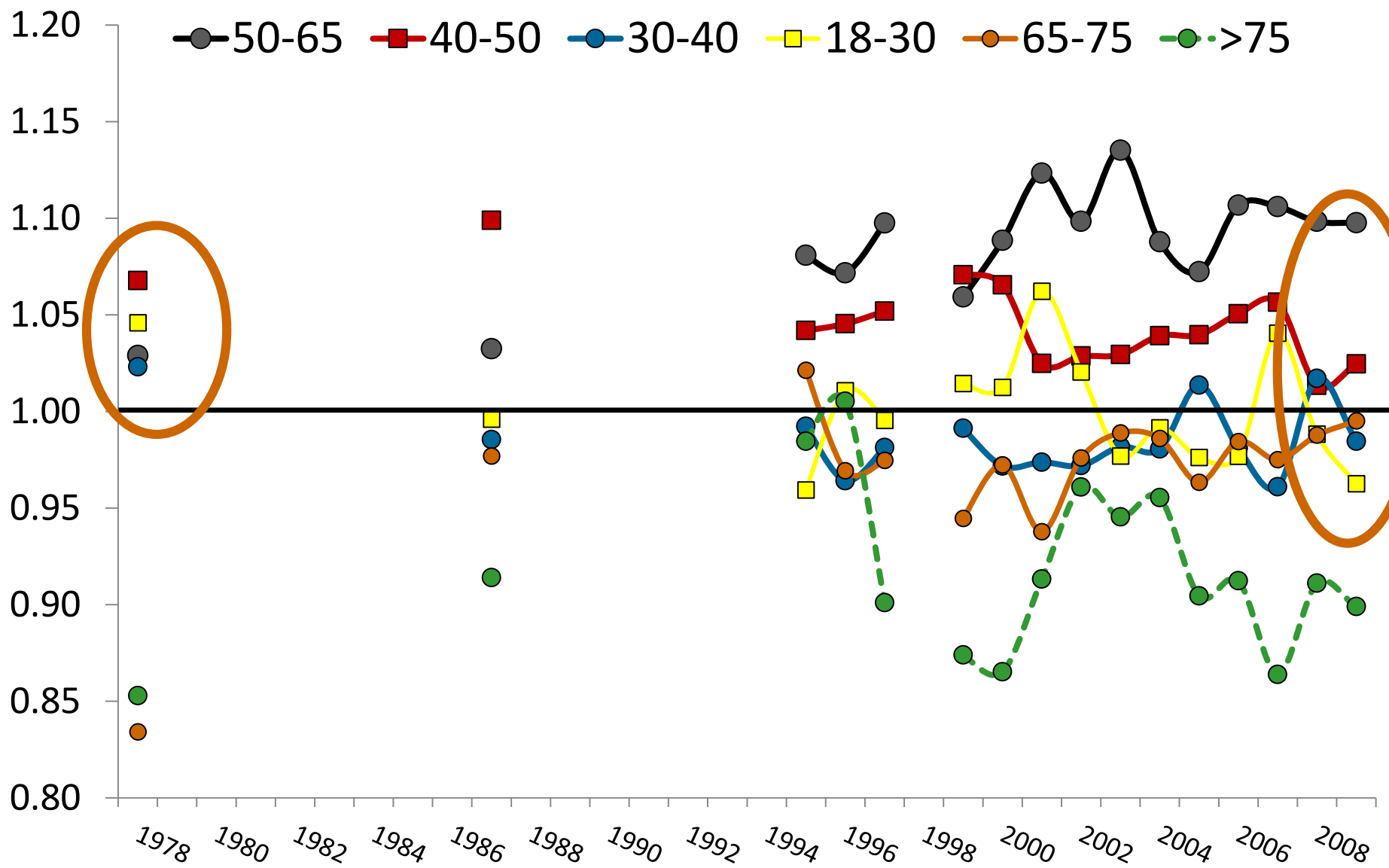
Structure

- What is a “generation”?
- Are younger generations worse off?
- Conclusion

Starting point: consumption by age

- Consumption expenditures
 - in constante prices, excluding durables
 - from Belgian budget survey
 - surveys 1978, 1987, 1995-2009 (time perspective)
 - micro-data
 - => can be grouped by **age group**
 - result for relative consumption level:
(average real consumption each period = 1)

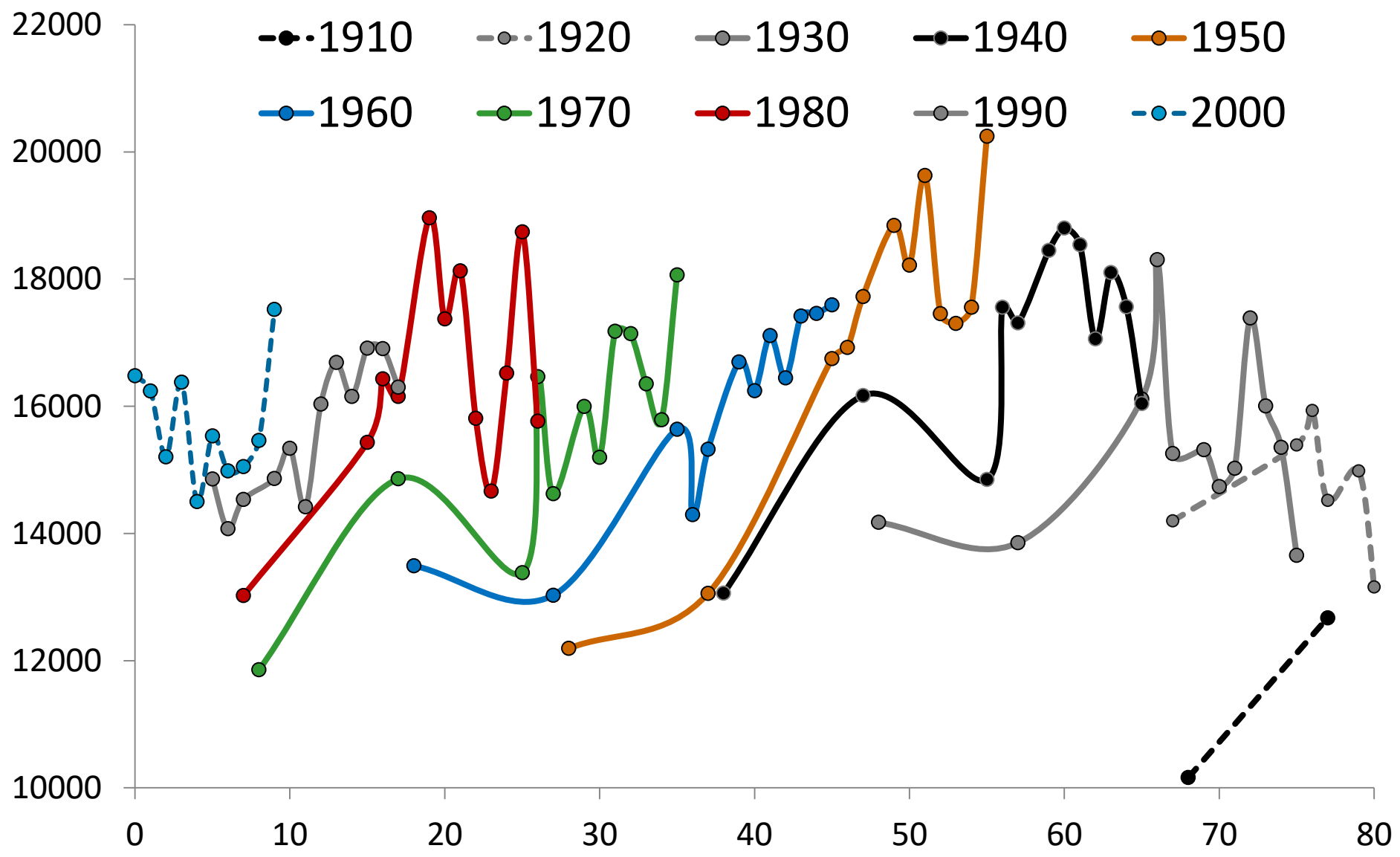
Starting point (1): age groups



A different perspective

- Micro-data allow constructing “generations” or “cohorts” (Deaton)
 - surveys 1978, 1987, 1995-2009 (time perspective)
 - how do we observe the generation born in 1948?
 - trough observation of
 - age group 30 years old in survey 1978
 - age group 39 years old in survey 1987
 - age group 47 years old in survey 1995
 - ...
 - age group 52 years old in survey 2000
 - ...
 - age group 61 years old in survey 2009

Starting point (2): cohorts (generations)



Starting point: cohorts and age groups

- Conclusion: if we assume that welfare must be considered over the entire life cycle,
 1. looking at age groups can be very misleading.
 2. a more thorough analysis is necessary at the cohort level.

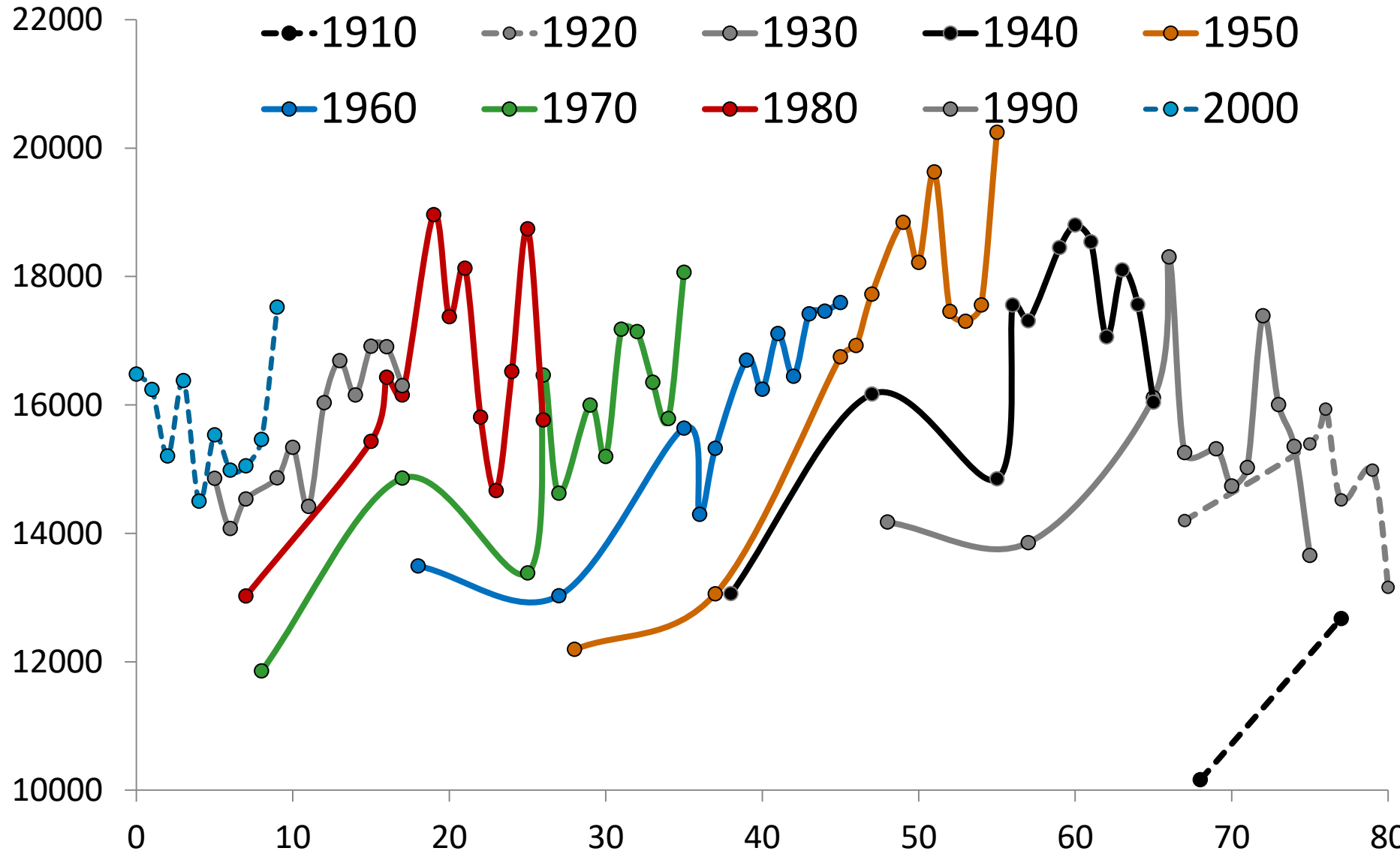
Structure

- What is a “generation”?
- Intergenerational justice?
- Are younger generations worse off?
 - Facts, anno 2013.
 - Prospects.
- Conclusion

Young and old cohorts, anno 2013

- Analys of **micro-datasets**:
 - **Budget surveys** 1978, 1987, 1995-2009
 - (PSBH 1992-2002, SILC 2004-2010)
- **Welbeing of cohorts, different dimensions**:
 - Nondurable consumption
 - Health
 - *subjective health*
 - *suffering from chronical condition*
 - Can one afford to go on holidays?
 - Life expectancy at birth
 - Home ownership

Starting point (2): cohorts (generations)



Young and old cohorts, anno 2013

■ Methodology:

- Using regressions (Deaton-Paxson) discerning between:
 - age effects α_a at age a .
 - cohort-effect γ_c for cohort c .
 - time effect β_t at time t .
- Identification problem: $t \equiv c + a$

• Cannot discern between:

$$C(c, t) = \alpha_a + \beta_t + \gamma_c + \dots$$

$$C(c, t) = \alpha_a + \kappa(a - t_0 + c_0)$$

$$+ \beta_t - \kappa(t - t_0) + \gamma_c + \kappa(c - c_0) + \dots$$

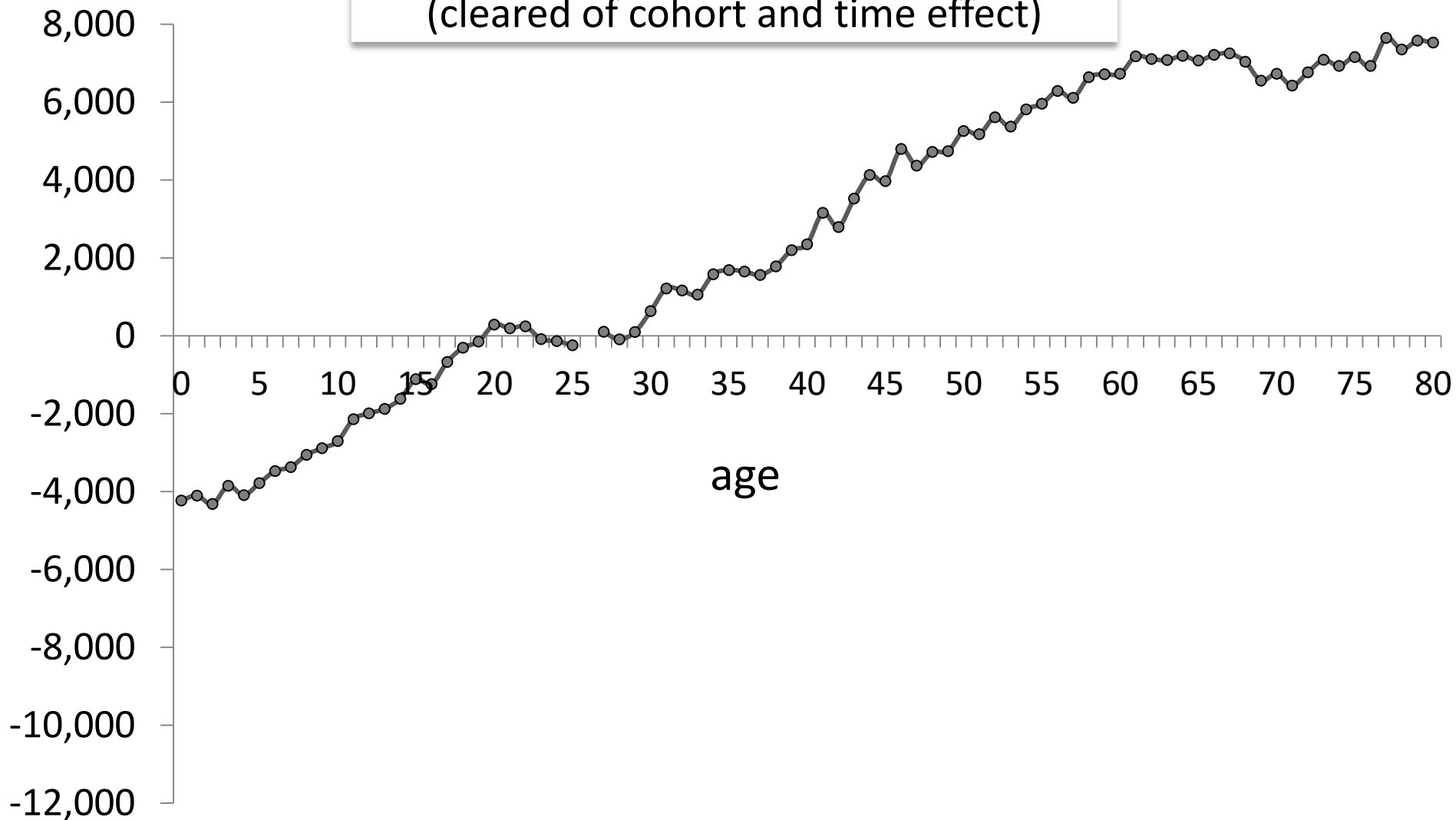
Young and old cohorts, anno 2013

■ Methodology:

- Using regressions (Deaton-Paxson) discerning between:
 - age effect.
 - cohort-effect.
 - time effect.
- **Normalisation** to enable identification of: trendwise evolution are assigned to cohorts, time effects indicate cycles around the trend.
- Interpretation for children requires special care. On the other hand: what you experience as a child, is important for welfare throughout the life cycle

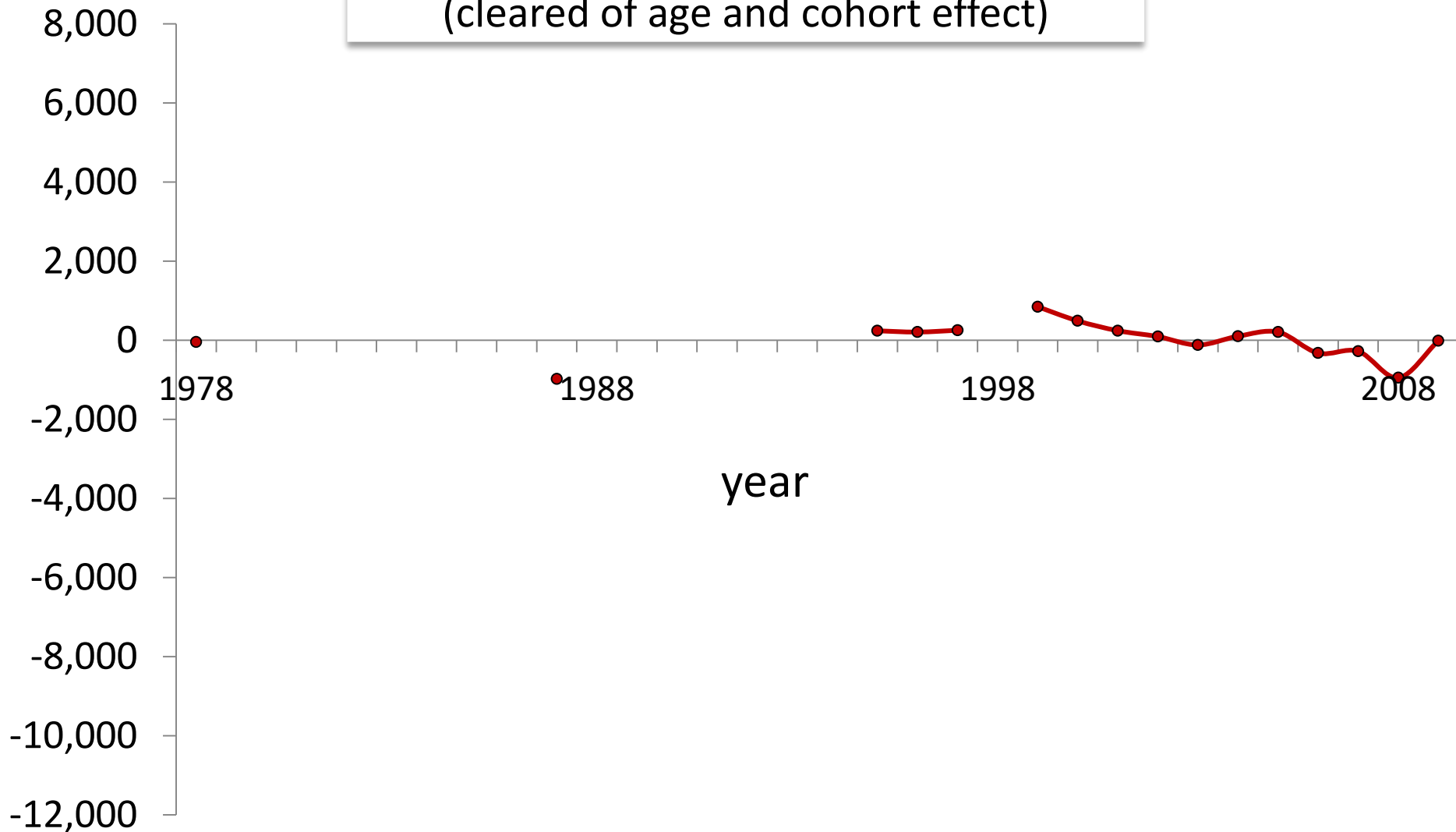
Facts: nondurable consumption

Real consumption: **age effect in € per year**
(cleared of cohort and time effect)



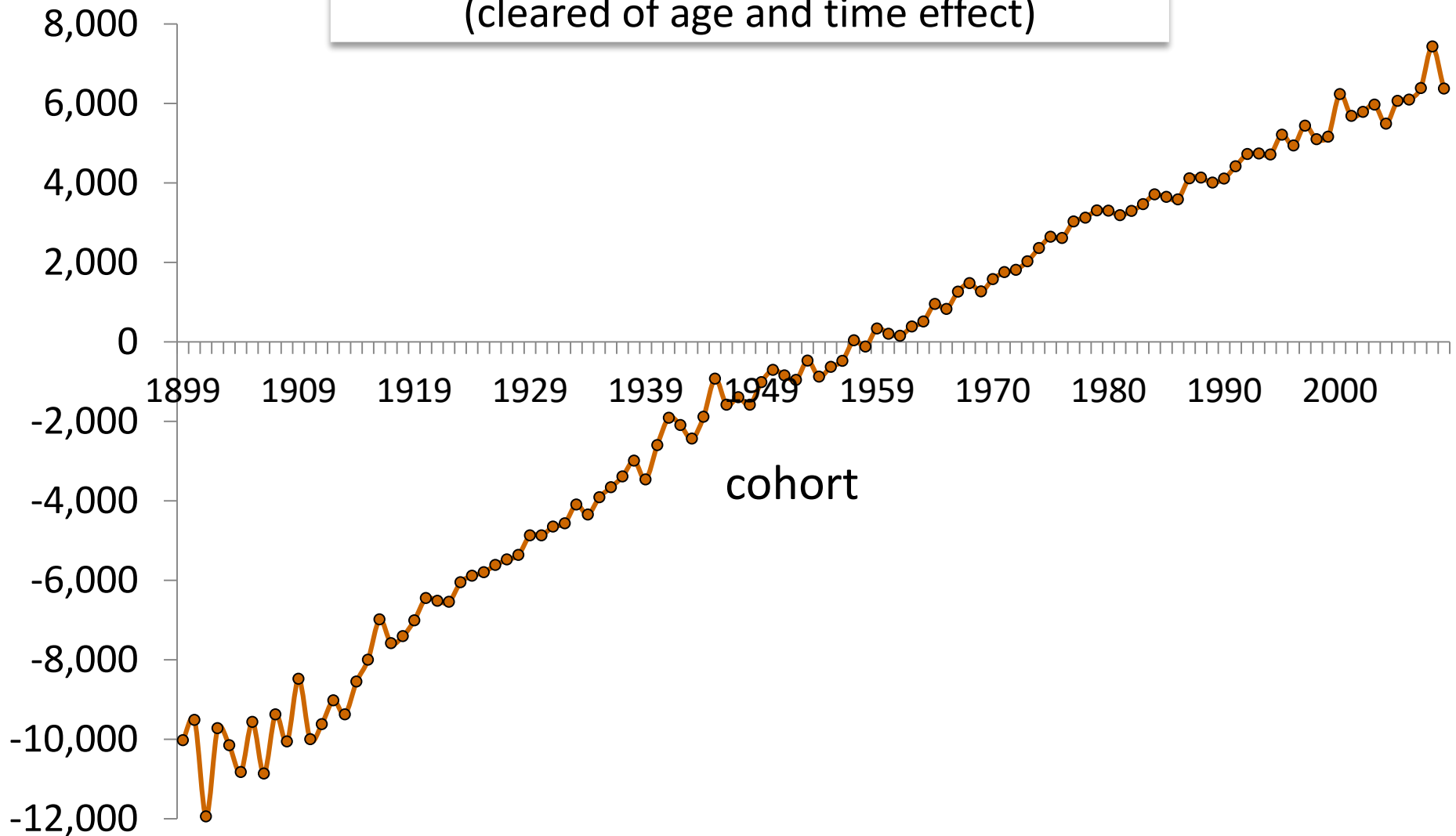
Facts: nondurable consumption

Real consumption: time effect in € per year
(cleared of age and cohort effect)



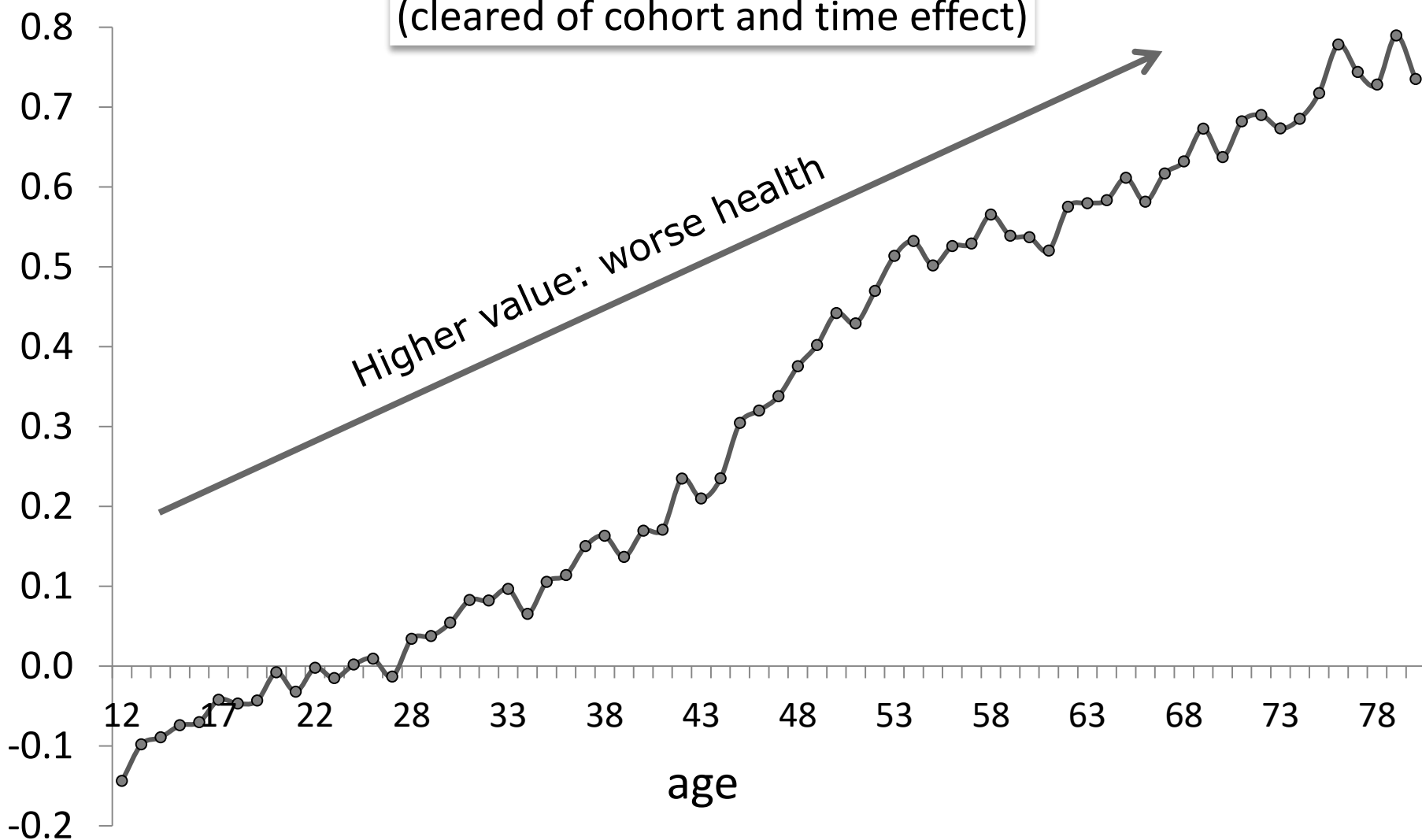
Facts: nondurable consumption

Real consumption: cohort effect in € per year
(cleared of age and time effect)



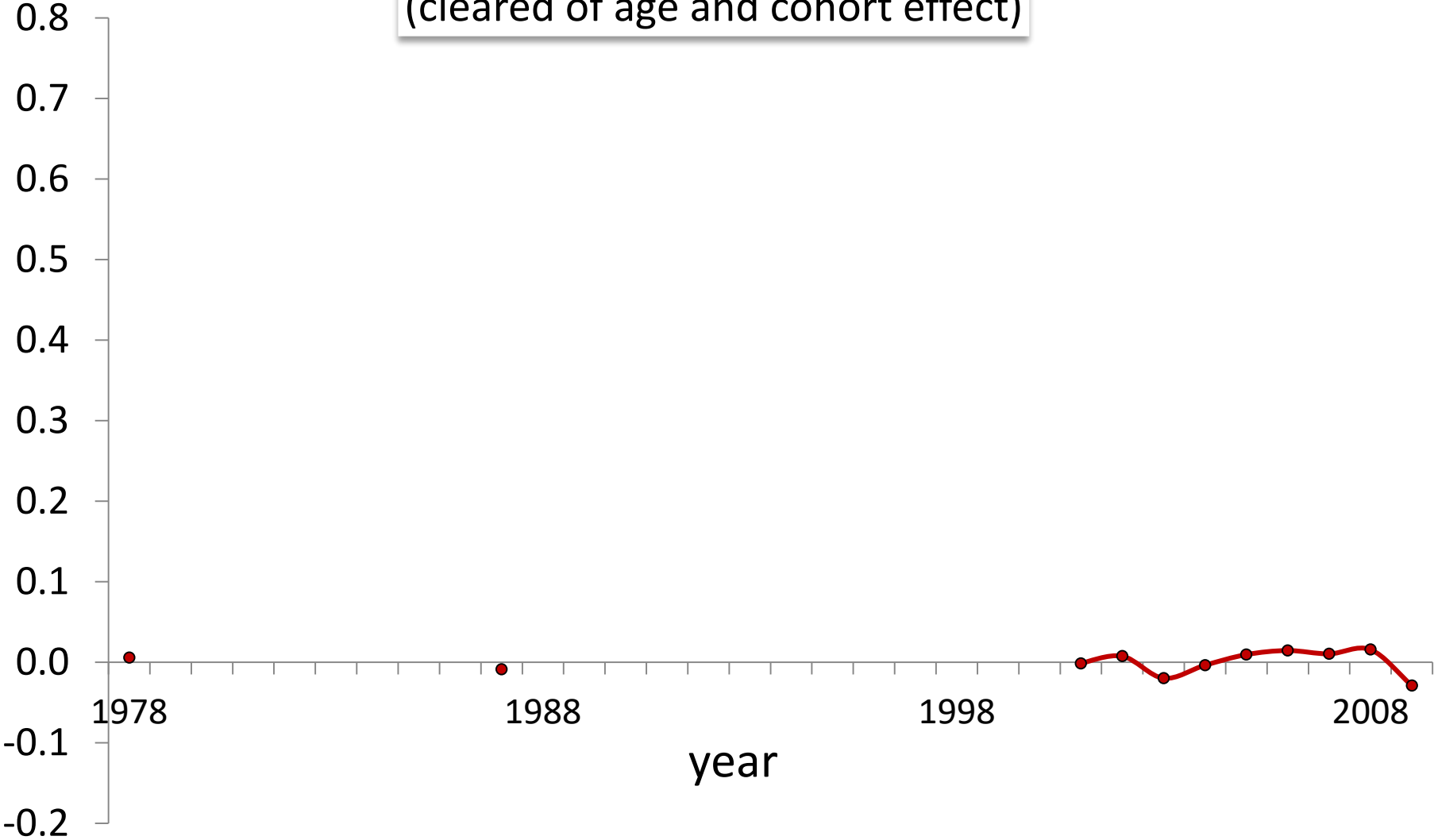
Facts: subjective health

Subjective health: **age effect**
(cleared of cohort and time effect)



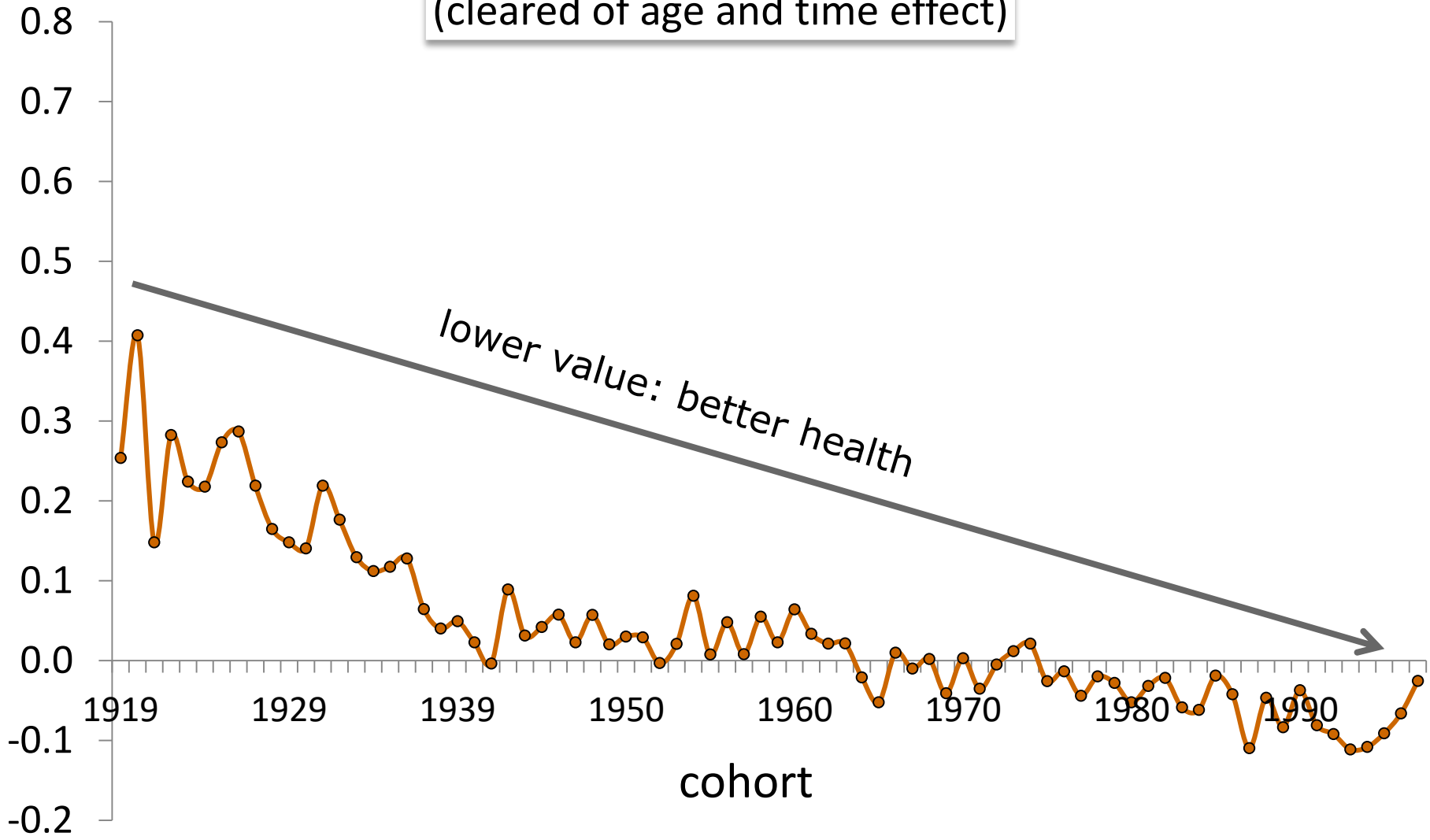
Facts: subjective health

Subjective health: **time effect**
(cleared of age and cohort effect)



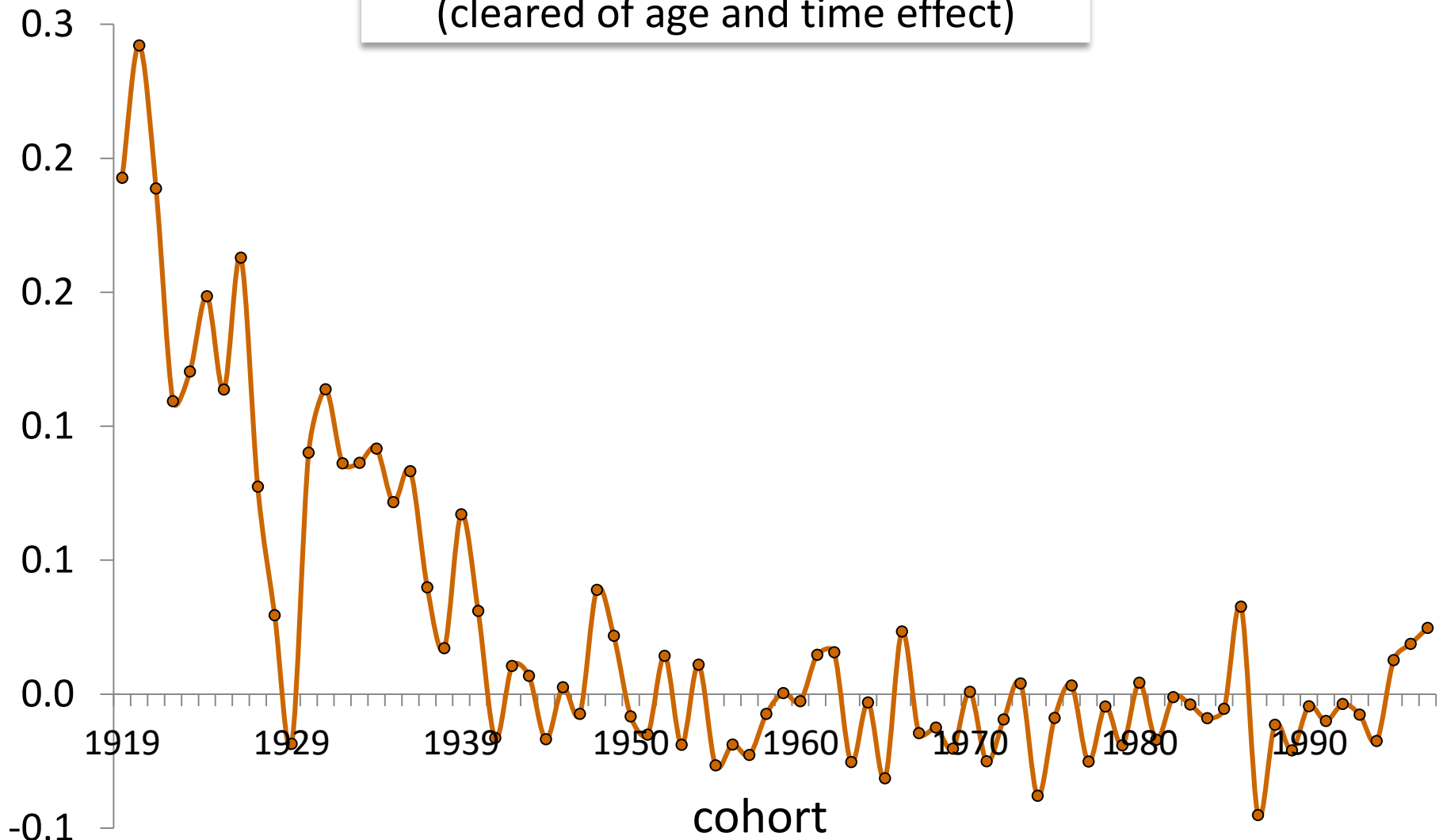
Facts: subjective health

Subjective health: cohort effect
(cleared of age and time effect)



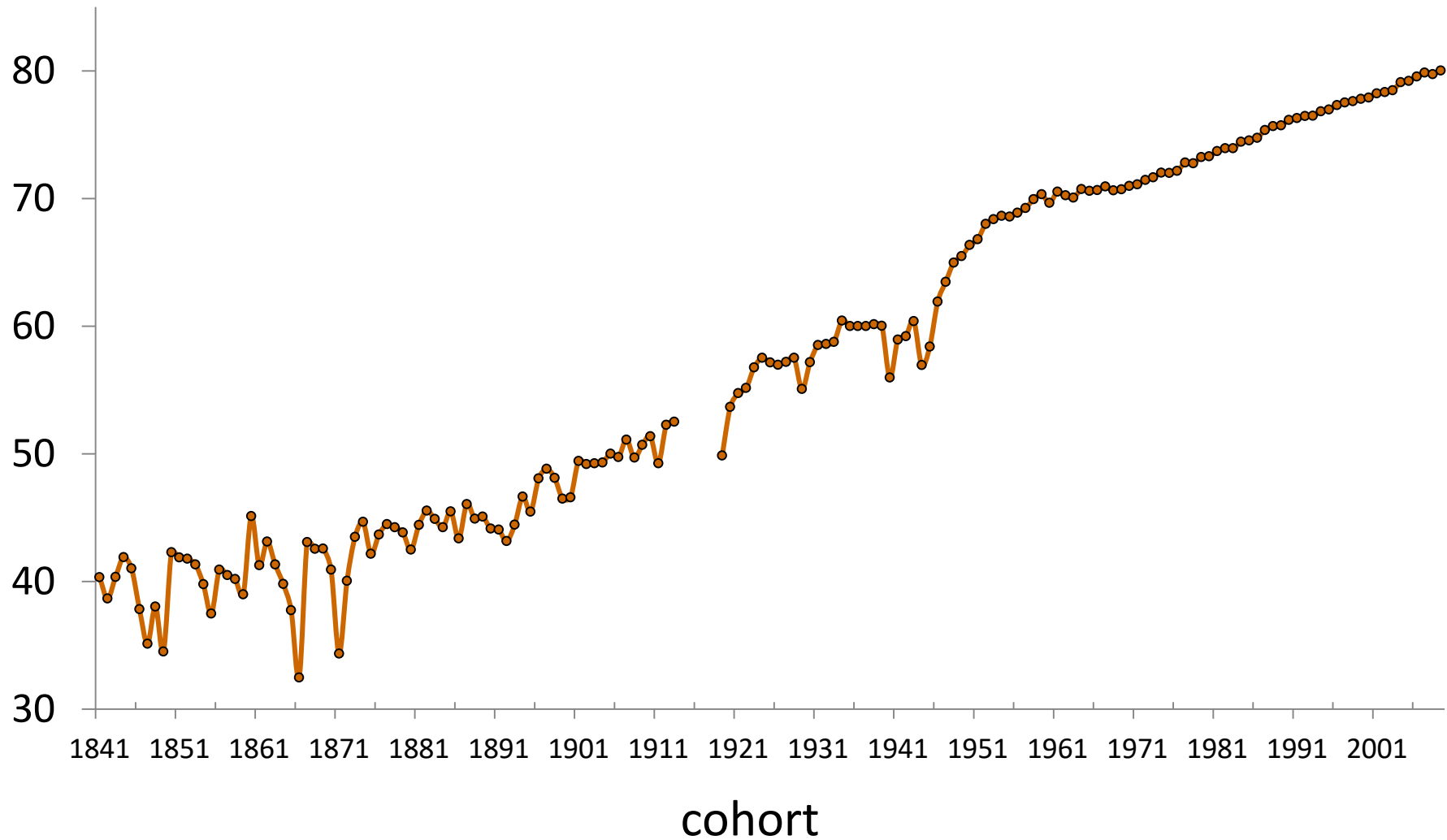
Facts: chronic health problems

Chronic health problems: cohort effect
(cleared of age and time effect)



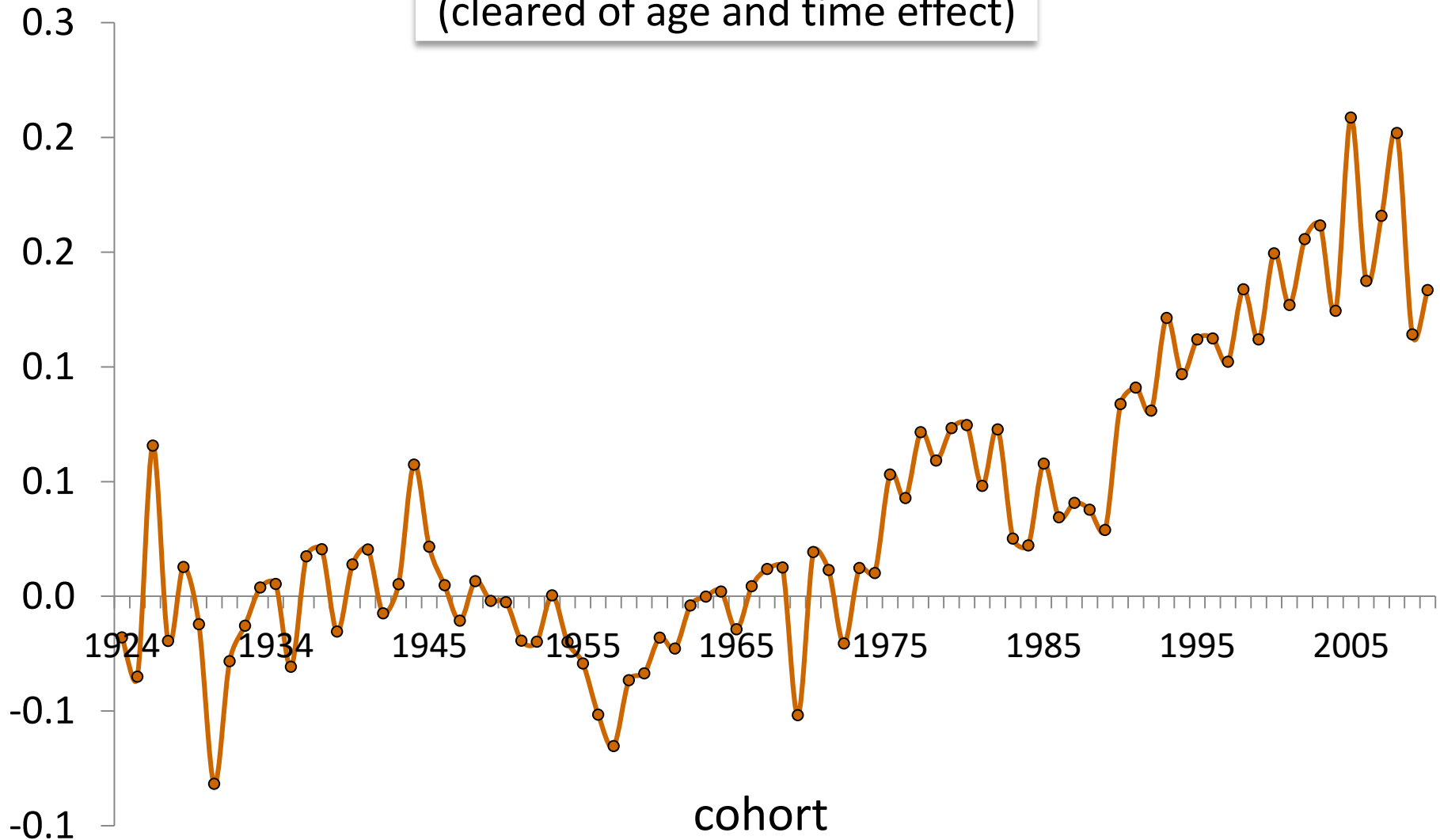
Facts: life expectancy at birth

life expectancy at birth: cohort effect



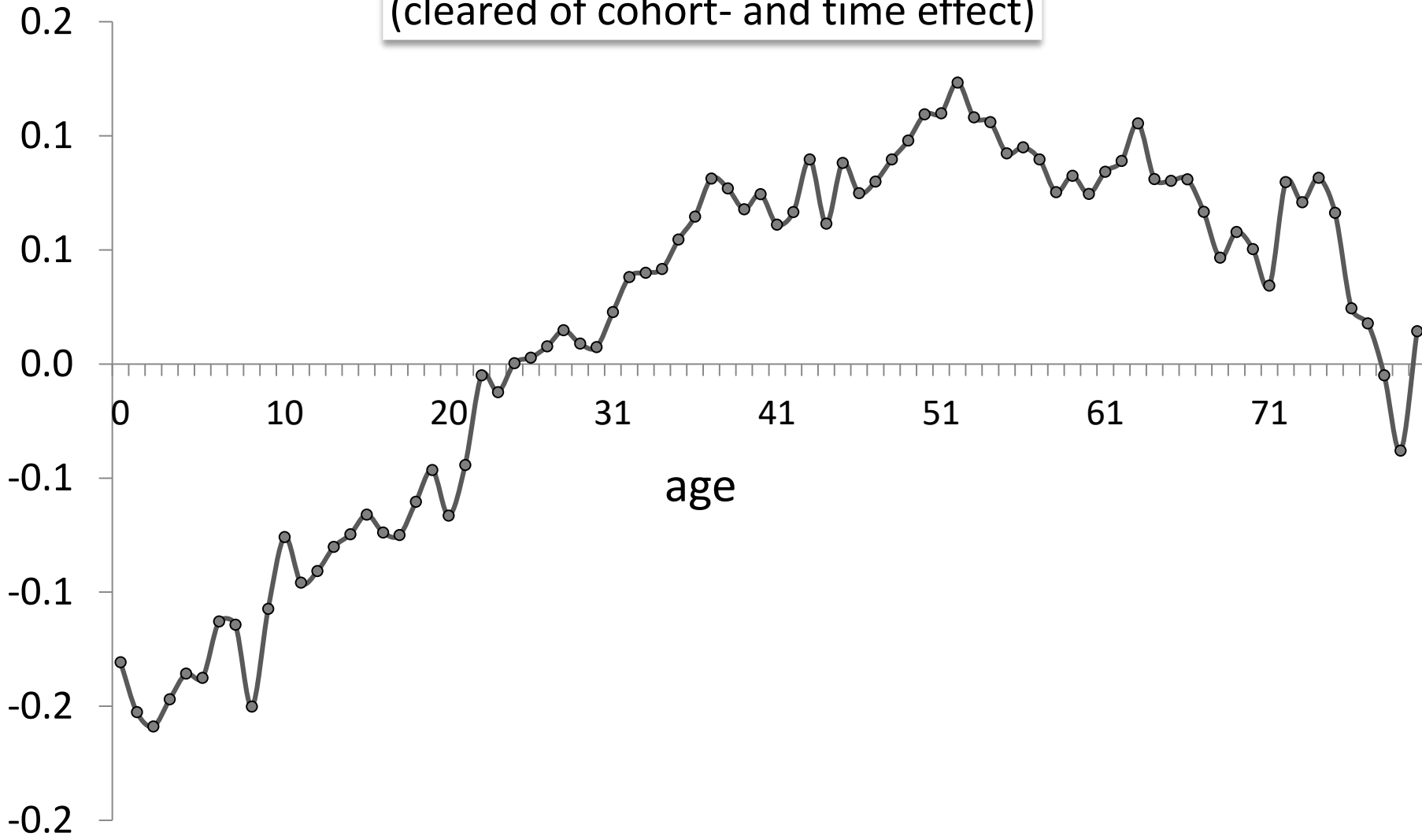
Facts: holidays possible?

can afford holidays: cohort effect
(cleared of age and time effect)

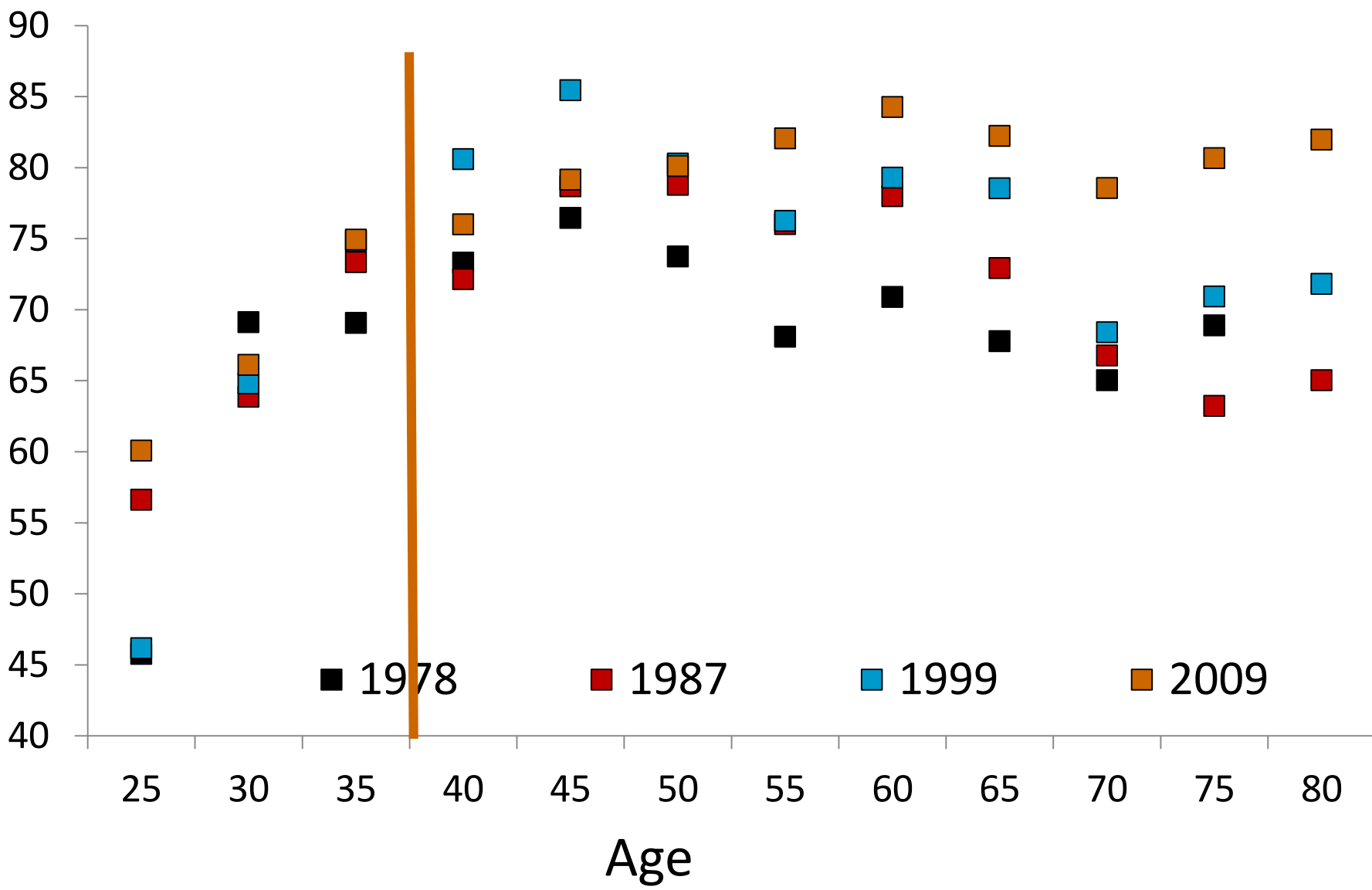


Facts: holidays possible?

can afford holidays: **ages-effect**
(cleared of cohort- and time effect)



Facts: home ownership per age group (%)



Young and old cohorts, anno 2013

- **Conclusion:** little evidence that younger generations are (have been) already worse off.
- The crucial question: standing still a form of decline? Does this explain the feelings?
- And: *what about the future?*

Prospects for younger cohorts

- **Challenge 1.** “Rising” tax pressure – not relevant in se. Relevant is how much consumption remains after taxes (and that is only one dimension).

Prospects for younger cohorts

- **Challenge 2:** Rising expenditures on health care. Do not depend in the first place on population ageing, but do depend on technological innovations. This evolution will benefit also (and mostly) those who are young today, when they reach a higher age. They can decide themselves about the trade-off (and will have to endure the consequences).

Prospects for younger cohorts

- **Challenge 3.** Will productivity rises continue in the future? Uncertain, but pessimism about this has always turned out to be wrong.
- **Challenge 4:** Environment and global warming. Will undoubtedly lead to slower growth of material consumption. But net effect is uncertain.

Prospects for younger cohorts

- Prospects are essentially uncertain. Insurance then is essential. **Need for a long term contract between generations that coherently lays down entitlements and duties.** Musgrave-rule as a point of reference?

Conclusion

- At this instant there is little evidence that young people actually are worse off.
- But the future is uncertain by definition:
- exactly for that reason is there a need for a coherent and robust long term contract between cohorts. Everyone will gain from it.
- Intergenerational redistribution can be justifiable.