**Is the Fiscal Crisis Forcing a Rethink of our Intergenerational Compact with the Elderly? Intergenerational Justice and the Challenge of Aging Populations**

1. **Questions to Raise**
   1. In this talk, I want **to explore the concept of intergenerational justice as it relates to burden sharing for the elderly, but with particular reference to how these concepts** are affected by the fact of an ***aging*** population?
   2. This is a talk that could have been scheduled four years ago—it is just as compelling a topic; with concerns then for whether existing social insurance commitments would be fiscally sustainable, given the aging of industrial country populations.

But in 2011, the challenges of reconciling intergenerational justice and an aging population have been rendered even more difficult by the recent financial crisis (the losses in asset values for many; the dramatic increase in public debt and the perceived urgency of restoring fiscal sustainability; a recession which is NOT over—some countries may need further stimulus measures; and where we don’t have the luxury of a buoyant global growth environment

Because the financial crisis has so weakened the public debt position of many countries, many are now being forced to weigh intensely difficult budgetary tradeoffs—among growth-promoting investments, essential public services, outlays for the young (and college aged), and social insurance outlays for the elderly, **recognizing that these tradeoffs will only become worse with the aging of the population.**

But note: even if there had not been a financial crisis, soon enough industrial countries would have had to examine whether existing policies--and what they imply about their views on intergenerational justice-- would need to be changed in the light of the unprecedented aging of their populations.

Also note: Even countries whose fiscal positions have been less affected directly by the financial crisis would do well to consider the lessons now being learned by the industrial countries as they contemplate the implication of their own aging populations

For these countries, constituting a substantial part of the world’s population, the consideration of what social insurance policy framework is “intergenerationally just” is very much a live issue that has NOT been yet settled.

1. To set the stage, let me clarify several important terms and address concepts that inevitably shape society’s perceptions as to what is fair in terms of intergenerational justice in the context of an aging population: 3 in particular

Intergenerational support

Justice

Aging population

* 1. **To start, what do we mean by an aging population? China is aging; Europe is aging. Many middle-income Latin American countries are aging. But they are at very different points and are experiencing aging in relation to their economic growth process very differently**
     1. **An *aging* population is not the same as an *aged* population. Wh*ere* a country is in the process of its aging will influence its view of how much intergenerational support is just.**
     2. The source of aging populations is clear: the *continuing* increase in longevity rates and the sharp fall in fertility rates
     3. But what makes these demographic trends particularly slalient is that they were not anticipated when most industrial countries designed their well developed social insurance frameworks. It’s been a big surprise.
     4. For many EMs, with far less developed social insurance frameworks, they should not be surprised as they consider the issue of intergenerational support
     5. **The** stages of demographic transition have implications for how the issue of intergenerational justice is considered.
        1. **Phase I**: falling fertility and longevity increasing: a period when the share of young falls, while the elderly share remains low; large share of working age group in the population: So, a low overall dependency burden facilitates a significant share of the population in the working age group with the overall low dependency rate potentially facilitating a high savings rate: Constitutes a big opportunity for growth—but will it be realized has been the big question—(different experiences in Asia vs. Latin America). Will the working age group be employed?

Intergenerational support of elderly in this phase not a significant problem

* + - 1. **Phase II**: eventually, these changed demographic parameters lead the share of young to subsequently fall further; but with now the share of elderly starting to rise: the elderly dependency burden (as traditionally defined 65+/15-64)eventually increases and one may see a fall in the size and share of working age population traditionally defined: becomes increasingly growth challenged. Exacerbated in many industrial countries by the baby boom bulge.

**Could even see an absolute decline in the population size and in the size of the labor force as defined as 15-64**

**Obviously, where your pension or health care system’s financing is PAYG—where the benefits to the elderly are paid by working generation through payroll or income taxes, we see the results commonly projected of a substantial increase in the fiscal burden and the payroll tax rate (S&P; European Commission)—(though remember, may only partly reflect demographics)**

**Two sub-phases to note**

* + - 1. **Phase IIA**: significant increase principally in the elderly dependency burden of the 65-85 group, very elderly are still a small burden of very elderly; industrial countries also differ by the size of their elderly bulge, which is quite large, reflecting the **baby boom cohort** going through the system
      2. Phase IIB: when there is a **sharp increase in share of very elderly in population (over 85)**
  1. Two important points that bear on the issue of intergenerational justice
     1. One well recognized issue is that much of the financial problem of intergenerational support derives from the unchanged age at which health retirement benefits are made eligible. With more flexible definition of dependency rate---for example, disabled over the nondisabled population—capturing the longer potential period for healthy working life with increased longevity—the issue would not be as pressing. Not surprising that most push for a delayed retirement age.
     2. Aging has implications for growth and growth conditions what is possible re ease of intergenerational support for elderly in Phase II

First, in phase I, can you **exploit** increasing share of young for rapid growth? If not, enter the second phase with lower GDP/capita then otherwise—or in the question often posed for China, will you be old before you are rich? Harder problem for intergenerational support if both increased dependency burden and relatively lower GDP/capita

Second, can you sustain growth as you move into the second phase? An aging population overturns the Ponzi scheme of an overlapping generation model—social insurance financing models challenged by lack of growth of “n”; Even if you are rich when you turn old, can you continue to grow and maintain some dynamism?

* 1. **Next, defining nature of intergenerational support**:
     1. **Obviously, this can be defined narrowly in terms of intrafamilial or multi-generational supports *within* a family. But, in many industrial countries, it is much less familial and more impersonal, defining how given cohorts or generations, pooling finances ia taxes or contributions, support later or *earlier* cohorts or generations**
        1. One obvious element relates to the

**future** support of the aged by now young or unborn generations.

* + - 1. But also relevant to consider is how the current working age generations is supporting both the current elderly and also supporting those who were alive in the past (not to mention their support of younger generation) ESTABLISHING A FUTURE CLAIM
      2. In principle, the potential scope for this intergenerational support of the elderly could be quite extensive: income support in retirement has been the traditional focus; but medical care for the elderly is obviously now a challenge with the increased longevity and increased importance and cost of medical technologies; further, with the increasing number of the very elderly subject to dementia or needing daily support, the issue of long-term care—and the role of younger generations or family members in support of the elderly looms large increasingly as an issue
      3. Intergenerational support can be in cash but also in family or publicly provided services. Focus typically on budgetary tax financed transfers to elderly. But should not neglect provision of services via families—obviously re kids. But draw attention to families having to deal with the very elderly—particularly those with dementia or physical disabilities.
      4. One must also recognize that the economic position of current generations—young and working-- is a function of the role played by past generations, including the now elderly
      5. My focus is principally on the burden being shifted to future generations in support of the elderly. But I should note that even the matter of how the young are supported is being revisited—look at the debate in the UK on financing of higher education—is intergenerational pooling diminishing? Families or young themselves bearing greater burden? (US model)
      6. Equally, in some countries—I’m thinking of Japan and Italy, there is awareness that the elderly are increasingly playing a role in supporting younger members of the working age population.
  1. **Last big issue to put on table is how to determine what standards of justice should influence the extent of intergenerational support.** **Three alternative concepts of justice** could be applied in thinking about what is intergenerationally just, particularly in relation to the burdens to be borne by future generations for intergenerational support of the elderly.
     1. **Beckerman and Pasek directly addressed this issue about a decade ago (principally in the context of the climate change policy debate). They asked whether it is fair for us to impose a burden on future generations in terms of the costs of climate change:** They argued that future unborn generations cannot be said to have rights; so must rule out intergenerational justice as a guide to our obligations to future generations. But, they argue, we need to consider the *interests* of future generations, even if they have no rights per se (particularly since we may try to impose burdens on them (on future generations)
     2. **Amartya Sen and a “Consequentialist perspective**”: We can evaluate and rank alternative social states of affairs according to the degree that they embody justice and other social values. An “impartial spectator” would take into account everyone’s circumstances and well being: That spectator would need to balance alternative perspectives, both macro and micro as to what is fair in terms of an inter-generationally just solution
     3. **Rawls and a “deontological perspective**”: He asked the question: If you were designing an income distribution ex ante, how to go ahead? My question: Could you do a similar thought experiment on the issue of intergenerational justice? Ask the question of how one would want to be treated if one (i.e., you or I) were to be of a future generation? What would we think of as fair, recognizing what previous generations may or may not have done?

“Justice constrains the means we take to promote good consequences, for it must take account of individual rights, fair procedures and equitable distributions that manifest relations of mutual respect for others as persons.”

* + 1. Note the contrast: **Sen**: explores “fairness” in terms of the broad range of considerations that influence how we should balance past commitments to those who are elderly now or who will be elderly in the future RELATIVE to an attention to what is a “fair” or “reasonable burden to be placed on those who will be working in the future and their children: largely a **microeconomic** type of argument.

In contrast, drawing on the Rawlsian argument, if we **were to put ourselves in the position of the future young or working age population, what burden of support for the elderly would we regard as fair? Answering this question would force a confrontation with the** **macroeconomic realities that would be associated in the future with an aged population structure In effect,** **we would be forced to contrast how the fairness of the burdens implied for intergenerational support would differ across different types of social insurance policy frameworks.**

**TAKE HOME**: In either case, not an obvious absolute standard of what is intergenerationally just in defining obligations of young and working age generate to the elderly

1. **How to confront these alternative perspectives of intergenerational justice in context of aging populations? How to think about the intergenerational justice issue? What are the considerations?**
   1. Recent Henry Aaron vs. Eugene Steuerle debate” in US: mirrors the concepts of intergenerational justice just discussed, with aging population issues at center

|  |
| --- |
| * + **Henry Aaron’s arguments strike me as having a “consequentialist perspective.”**      - Are we being excessively generous or unfair to those who are now elderly or will be?   + Social security not generous by any means—low rate of return (RoR) on contributions relative to private sector RoR;   + Largest share of deficit arises from Medicare/Medicaid—again, not from excessive generosity but inefficiency of the US health care system and impact of technological progress in medicine (of positive value to all generations, present and future   + “Legacy” debt of social security akin to any other form of public debt (from wars etc.); should be borne intergenerationally     - Must recognize that we are dealing with the rigidities and difficulties of addressing historical inefficiencies?     - One cannot totally ignore the understandings associated with past intergenerational commitments and compacts?     - Tries to rationalize and make judgments based on the pros and cons of particular policy programs and what appears fair in their specific context |

|  |
| --- |
| **Eugene Steuerle: much closer to what would come out of a Rawlsian perspective—more of a macro perspective**   * One must consider the overall resource demands arising from past policy commitments and whether it is fair to shift this burden onto future generations * The macro perspective better takes into account the pressures that arise from the overall financial impact of demographic structural changes, which are harder to consider in the light of specific program details * Current system implies that whatever happens, technological change, increased longevity etc., results in THE additional financial burden borne entirely by those of the future * The current policy regime implies that this violates fiscal democracy: present commitments deprive future legislatures of the ability to make budgetary choices * Again, Rawlsian inference: If we abstracted from our own situation, would we see this as fair if **we** are the ones that will be born in the future?   DEMOGRAPHIC SURPRISES, AT LAST,CONFOUND WHAT WERE ORIGINALLY WELLDESIGNED FINANCIALLY SUSTAINABL PROGRAMS |

* + 1. Mirrored as macro and micro perspectives
    2. Micro perspective: focus on the whys/wherefores; RoR; arguments for particular programs
    3. Macro perspective is important
       1. Resource transfer issue
       2. **Aging population may exacerbate growth challenge**
          1. Not time independent
          2. This is happening in a 21st century period where we will observe sharp shift in global economic balances, competitiveness challenges, resource constraints
  1. **Let me add the Hans Werner Sinn perspective**: the “micro” HH decision of current working age generation to have fewer children should be compensated by THIS generation in the form of higher financial savings (replacing lower human capital; ***Failure by this generation*** to generate such higher financial savings would engender excessive burdens on the next generation. Not fair for the latter! Are own problem; except we didn’t klnow we would live so long etc or medical care so expensive
  2. **Finally, let m offer what I could call a “Chronic disease perspective”**: example of where self-responsibility makes sense: chronic diseases arise from bad health behavior: also not the acute, unexpected situation: substantial share of elderly afflicted by such illnesses

Why should my children bear burden of my bad health behavior?

* 1. **More concretely, in actual country practices, one observes the following approaches to what is seen as fair in an intergenerational support:**
     1. “On your own”
     2. “You reap what you sow”
     3. “We are all in this together”

|  |
| --- |
| **I. YOU ARE ON YOUR OWN!**  Individuals are responsible for themselves looking forward: must save for their own aged years or work longer:   * + This can also be seen as ““generational”: each cohort or generation should be seen as largely “self-sufficient”—viz., essentially responsible for its own upkeep   + Echoed in the approach of Chile’s defined contribution model: each generation or member of it, in principle, bearing the full risk (e.g., if asset prices fall, burden borne by the same generation)-- EACH GENERATION MAY BE SUBJECT TO CONSIDERABLE VULNERABILITY—*BEYOND* THEIR CONTROL, EVEN WITH THE LEAST MYOPIC AND BEST OF INTENTIONS.     - Government mandate on DC: used to deal with myopia problem     - Principle modified when government ensures a minimum pension subject to a means test (but with a minimum required contribution)     - A safety net scheme in place to limit destitution? |
|  |

|  |
| --- |
| **II. YOU REAP WHAT YOU SOW, LITERALLY AND FIGURATIVELY**  Intergenerational but in **narrow familial** sense (NOT generational): financing retirement a **joint responsibility** of children AND parents   * **Singapore:** Children formally responsible for caring for their parents and grandparents; But significant contributions required of each worker to the Central Provident Fund. So a mix between self-responsibility of a given individual and familial intergenerational **burden sharing**   + But this is **different** from assigning responsibility to extended younger generation impersonally!   + China (last two decades): Formally, children have obligation to take care of their parents. Some segments of the work force have socialized pension schemes. But for many, elderly are essentially on their own; Fishman (2005) elderly and even current generation is essentially being exploited on behalf of future generations.   + May be leavened by some pooling for limiting extent of destitution among elderly |

|  |
| --- |
| *III.* **WE ARE ALL IN THIS TOGETHER: Socialization approach**  *Socialization* of child/parent responsibility: genuine *inter*generational burden sharing (a la Bismarck and Beveridge   * + That *future* workers and children have derived “benefits” from earlier generations in terms of human and physical capital endowments; technological advances; and thus higher real income levels. Thus, *they are “indebted*” to past generations for their standard of living.   Echoed in approach of industrial countries and KOREA  But: this approach **must still confront the question of how to distribute the burden among those living in an “aged” society**  **PRESSURES OBVIOUSLY ARISING WITH AN AGING POPULATION AS AARON/STEUERLE DEBATE SHOWS**   * Should future workers and younger generation alone bear the burden? (Principally the existing model of the Beveridge/Bismarkian model; or, * Should burden be shared among future workers AND the elderly   This approach can break down—seeing changes across the board in industrial countries-Greece, Ireland; a number of US states and localities—suggests that what seemed socialized may prove vulnerable or open to renegotiation  **The fact of socialization has not implied *constancy* in the degree of intergenerational support! Most social insurance schemes reveal diminishing RoR associated with whether you are an early or a later member of the scheme**  **Also, what elements socialized? Some still not—in many industrial countries, long-term care handled with considerable variance in terms of its formal coverage in social insurance schemes. Variations in balance between home, hospital, or community based care for the very elderly with mental or physical problems. Who is responsible**  **How much wealth depletion associated with long-term care provision?**  **As size of very elderly population rapidly expands, we are at cusp of having to confront this issue much more directly.**  **Most countries have some kind of approach to deal with destitution issue for elderly (though they also are challenged with the moral hazard issue)** |

1. **So Intergenerational justices is very much an evolving story. It’s affected by economic situation and policy context of a country and buffeted by unanticipated developments.**
   1. **Contexts matter**: What becomes clear is that the approach to what can be considered “fair,” in terms of achieving a given intergenerational justice result, is affected by the economic and policy context experienced when an aging population for your country occurs
   2. **Demographic surprises matter!!! The social insurance framework of the Western industrial countries were shaped by the assumption of positive n: that you would have the classic population pyramid; a Ponzi scheme**
      * 1. **Never designed with the expectation that the population pyramid would be inverted. Changes the entire perspective on what the likely financial burdens would be on future generations. What seems to be an intergenerationally fair form of burden sharing suddenly seems much less so!**
   3. **Culture/Traditions/ matter**: Countries do not see the issue what is fair through the same prism.
      1. **Yet it is also clear that we are in a** rapidly changing, globalizing, mobile world; For example, multigenerational families dealing with the issue of long-term care—Yet when raised with Indian audience, am told that this can no longer be counted on; China? Young migrating out of rural areas; space an issue; Singapore: divorce, space—familial support can no longer be counted on
   4. **Challenge of previous commitments**; If you design a system and then are struck by demographic or other kinds of surprises, you are still stuck with the a**ccrued rights** associated with past contributions. These constrain **how quickly policy designs can be revised to:**
      1. Restore financial sustainability;
      2. Limit burdens on future generations;
      3. To facilitate fair and adequate time for adjustment in the behavior of those affected? In labor force behavior; in savings behavior
   5. **Growth matters**: can you make it happen more? These issues also occurring in period where resource stresses and a changing competitive environment also are problems
      1. To protect all elderly by cutting R&D and infrastructure self-defeating.
      2. Is your country growing, in fact? This will influence **perceptions** on the degree of bindingness of “resource tradeoffs? Of resource conflicts intergenerationally; on how to square the circle? On degree of bindingness of public debt constraint;

A rising income period is a far more comfortable environment for making difficult intergenerational choices, in contrast to periods of decline/retrenchment (inflation vs. deflation analogue) (Benjamin Friedman)

--not time independent

Happening in 21st century

Sharp shifts in global economic weights, competitiveness challenges, resource constraints

* 1. **The last few years shows that the playing field may shift in unanticipated ways**—influenced by exogenous shocks: the **financial crisis has** 
     1. Heightened challenges because of stimulus-created increase in public debt ratios
     2. May have “narrowed” amount of fiscal space available a la Ostry paper—forcing changes more quickly in relation to addressing intergenerational justice issues
     3. the magnitude of public debt as a constraint; need for generalized savings in fisc—appraisals by capital market players incorporate both aging population factors as well as new debt accumulation; changes required independent of “fairness” characteristics of particular age related spending program
     4. Other shocks—fertility rates? Interest and growth rates could change markedly
     5. Also note: We are **now in a globalized world**-- the weight and behavior of large demographic groups in different countries of different economic size can influence important economic variables, including interest rates globally; growth rates;

Not just the occasional small country which is aging, but large swaths/blocs of countries; what might make sense for a single country experiencing an aging population –as a strategy for intergenerational justice—may **not** be viable when it is a large block of countries—of global economic significance—that are **all aging together**

* 1. **Finally, Technological change also buffeting our views as to what is intergenerationally just**—with impacts on longevity; health care costs; plus emergence of significant long term care costs (associated with large share of population reaching ages of high dementia incidence) **may influence what is feasible and just**

|  |
| --- |
| * **Thought experiment:** suppose a technological innovation in genome science allows an immediate and discrete rise in life expectancy, at age 65, by 5 years! * The result: immediate deterioration in current and future balances for public pension and medical insurance funds.      * **What would be a “fair” intergenerational solution?**   + The challenge would be in relation to the “legacy” liabilities to those already retired and those soon to reach eligibility age for retirement.   + For those younger, they would benefit from the innovation but would be forced to incorporate these new life expectancy assumptions into their behavior concerning work and savings.   + But who should bear the burden of the legacy liabilities?     - Workers?     - Consumers (e.g., Increase VAT rate)     - An increase in age of eligibility for pensions? But with what time delay?     - A commensurate reduction in pension benefits? |

1. **What makes this intergenerational justice issue even more challenging**, in a policy sense, is that policy objectives can be confounded by unanticipated effects and by institutional challenges
   1. **Macro trumping micro**: Policies taken to enhance intergenerational justice may **give rise to behavioral incentives that offset or counter policy intentions!**
      1. To not burden future generations with excessive debt, we see now fiscal consolidation efforts in UK and other European countries: “Keynesian contraction” or “expansionary contraction”: if former, will worsen not enhance, the position of future generations
      2. A. Mason and R. Lee argument: efforts to strengthen public transfer systems may erode savings incentives and lead to crowding out of private savings, reducing ultimate growth rates and future levels of per capita income
   2. **Market failure**—creates its owns set of difficulties Implicitly, market has a bias towards drugs benefitting current generations: a negative externality in relation to future generations (e.g., antibiotics issue)
   3. **Political economy** “dictates” what is seen as “fair” –may lead to suboptimal outcome: **Democratic models**: where shifts in share of elderly have an impact on voting behavior, voting groups; **Authoritarian regimes**: to whom is a government responsible? For what is its focus? Growth; for workers; for party; for future generations of future workers (kids of my kids); Do financial crises lead to decisions which are poorly designed?
      * 1. Myopia of the public and politicians; Self-interest is heavily biased towards current generations; Nonvoting status of future tax-paying public

Uncertainty factor is so large when one spins out even twenty or thirty years;

Can be problematic when there are too frequent changes in what can be expected in terms of the degree of intergenerational support that can be assumed. A source of political discontent!

* 1. **Coming up with solutions is hard because of the difficulty of having a sensible and informed dialogue**:
     + 1. Inadequacy of the tools to clarify the intergenerational distribution of the benefits and burdens from a policy measure;

1. **So where are we now in the policy challenges facing key groups of aging countries?**
   1. ***Countries that adopted a* socialization approach are now directly confronting the question of roles/approaches to reach**, to **settle, to determine, norms of intergenerational justice**; how much is to be intergenerationally shared in the context of an aging population; striking a balance between the following alternatives: we see the following as possible outcomes for the industrial countries looking ahead
      1. **Younger generation bearing larger burden** through higher tax rates (payroll taxes/income taxes)
      2. **The individual bearing much more of the burden of aging**—including pushing back retirement ages--tough luck if you didn’t provide sufficiently **Moving to a VAT**—seeking *intergenerational sharing* of both the young and the elderly
      3. **Default approach: Setting limits on tax rate** or the tax share: examples:
         1. Imposing a limit on the aggregate tax and contribution burden as a share of GDP?
            1. Limiting the share of output to spend on key age related spending, particularly for elderly?
      4. **Using automatic rules**—a la Sweden and Italy and Japan (2004) NDC schemes? Adaptation takes place in “x” factor; also in longevity and interest rate assumptions underlying the magnitude of the annuity at the time of retirement: It is principally the elderly generation, not the working age generation, that is expected to bear the burden of any change; How transparent is the system in terms of anticipating what adjustments might be necessary so that household can adapt in terms of labor force behavior and previous savings decisions?

Okita presentation: “This reform contains indexing of benefit to total wage (which is decreasing because work force is decreasing). This is a hidden automatic cut of benefit!”

* + 1. **Allowing only a marginal safety net to prevent destitution**
  1. **For the emerging market countries, still in the process of formulating policy, ex ante, for intergenerational support in an aging population**: what would appear to be appropriate (“just?”) policy solutions?

Highly relevant for China and India, where the pension framework is partial at best for limited groups and where there are significant differences in how much social insurance provided to different employee groups and the extent of its “reliability.” |May be a function of past history and luck

1. Ex ante, designs can seek to ensure long-term financial sustainability and intergenerational fairness (viz., nonincreasing tax burdens on future working generations)
2. Must thus weigh in on the intergenerational justice issue: to define what are the adaptation principles to take account of IJ and who will bear the burden of adaptation
3. Ex ante, significant time to allow program design expectations to be incorporated in household behavior
4. Industrial country experience suggests likelihood of unanticipated change—in fertility and longevity rates, the global economic context or the rate of technological change
5. Can thus incorporate program parameters that are **adaptive**—that can adjust the burden of change arising from unforeseen events among different generations
6. **Where do I come down?** 
   1. We are **coping with a new frontier in relation to intergenerational support** —we have never experienced the issue of intergenerational justice with such a large share of the population being elderly and even more the point, VERY elderly. For countries with significant social insurance commitments, issue of intergenerational support will be often revisited
   2. Underscores the importance of growth oriented policies: Growth can address the public debt burden issue and lack of growth particularly damaging
   3. No universal principal likely to be correct? What is “intergenerationally just” is **NOT** immutable or culture or context free. What systems? What expectations in a culture?
      1. Extent to which one generation can count on being *impersonally* supported by *other generations*—call this the “socialistic” social insurance model—as observed in industrial countries—is likely to have been the exception—an unusual window that may no longer be practical or the norm looking forward.
      2. Certainly this is likely to be recognized by EMs and also likely to be reflected in **diminished application** of degree of intergenerational support in fiscal outlays for welfare in industrial countries looking forward
      3. Singapore, limited only by social safety net, the way to think about it? China likely to not significantly deviate towards Western soc insurance model—simply unaffordable
   4. **Surprises matter AND WILL CONTINUE TO MATTER!**—they will influence the extent—in practice—of revealed degree of intergenerational burden sharing—whether they be surprises deriving from demographic or global economic shocks, or the impact of technological change. Will see increasing move to “adaptive” nontransparent frameworks
   5. May start to see similar approaches in intergenerational support models beyond the pensions sphere—e.g. in medical care or long term care--less automatic in terms of elderly generation able to count on intergenerational support from pooled financing of younger generations. For example, could easily see a move whereby, say, in US, one sees elderly provided with fixed dollar grants to enable purchase of health insurance—if what the insurance purchases is limited in terms of the extent of its coverage (re advanced technologies, drugs, diagnostic tools, devices),HH will have to fund the residual. Proposal of Ryan of Republicans. I am not arguing this is a desirable approach, but in the US case, may be what ends up squaring the circle in terms of limiting the fiscal pressures arising from health care.

For most countries that rely on more global budget constraints in health care, limits—rationing, queues, Japan approach of limiting availability of devices and advanced drugs—may end up being outcome

* 1. Ethical issues are outside the discussion: often talk of high share of lifetime medical spending in last three months of life. Implicitly raises the question of whether we should be spending to prolong life for those few extra months. Raises obvious ethical issues. But we are also confronted with an increasing number of very elderly whose quality of life is questionable. Dementia will become an increasing challenge. Far from solutions to the Alzheimer’s problem. Societies differ in the extent of life prolongation efforts—nutrition, drugs, care. Will become an increasingly difficult issue.
  2. Thus, in this respect, the Financial crisis has merely accelerated the debate on an issue of intergenerational justice which was in any case being provoked by an aging population
     1. Exacerbated by financial crisis but would have arisen in any case
     2. It is really the surprise of an aging population that has forced the rethink
     3. The financial crisis does serve however as “warning” to EMs etc—ex ante—the need for caution in making precommitments

Check out Alastair Smith, Journal of Public Economics, OLG model 11970s