

WHO PAYS FOR THE CONSUMPTION OF YOUNG AND OLD?

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Ageing Europe – An Application of
National Transfer Accounts for Explaining
and Projecting Trends in Public Finances

Motivation and objectives

Who pays? (Mostly) adults, those who are economically active.

But beyond the demographic view, three sources for funding consumption:

- The State (net transfers),

- The individual themselves (income and assets),

- Inter vivos transfers from family members.

Some fear that “baby boomer” are going to grab everything, leaving nothing to the youth (which will be “sacrificed”). Historically, it’s the opposite that happened.

Motivation and objectives

Here, we apply the NTA methodology to France over the period 1979-2011

Creation of an database using National Accounts and various micro surveys.

87 age-profiles, for 32 years: 281,184 observations

NTA methodology

National Transfers Accounts

- Developed by R. Lee and A. Mason and the NTA community
- Introducing age in National Accounts
- NTA is a consistent framework (time and international comparisons)
- NTA key accounting identity
 - $Y^L(a) + Y^K(a) + T^R(a) = C(a) + S(a) + T^P(a)$ (**age a**)

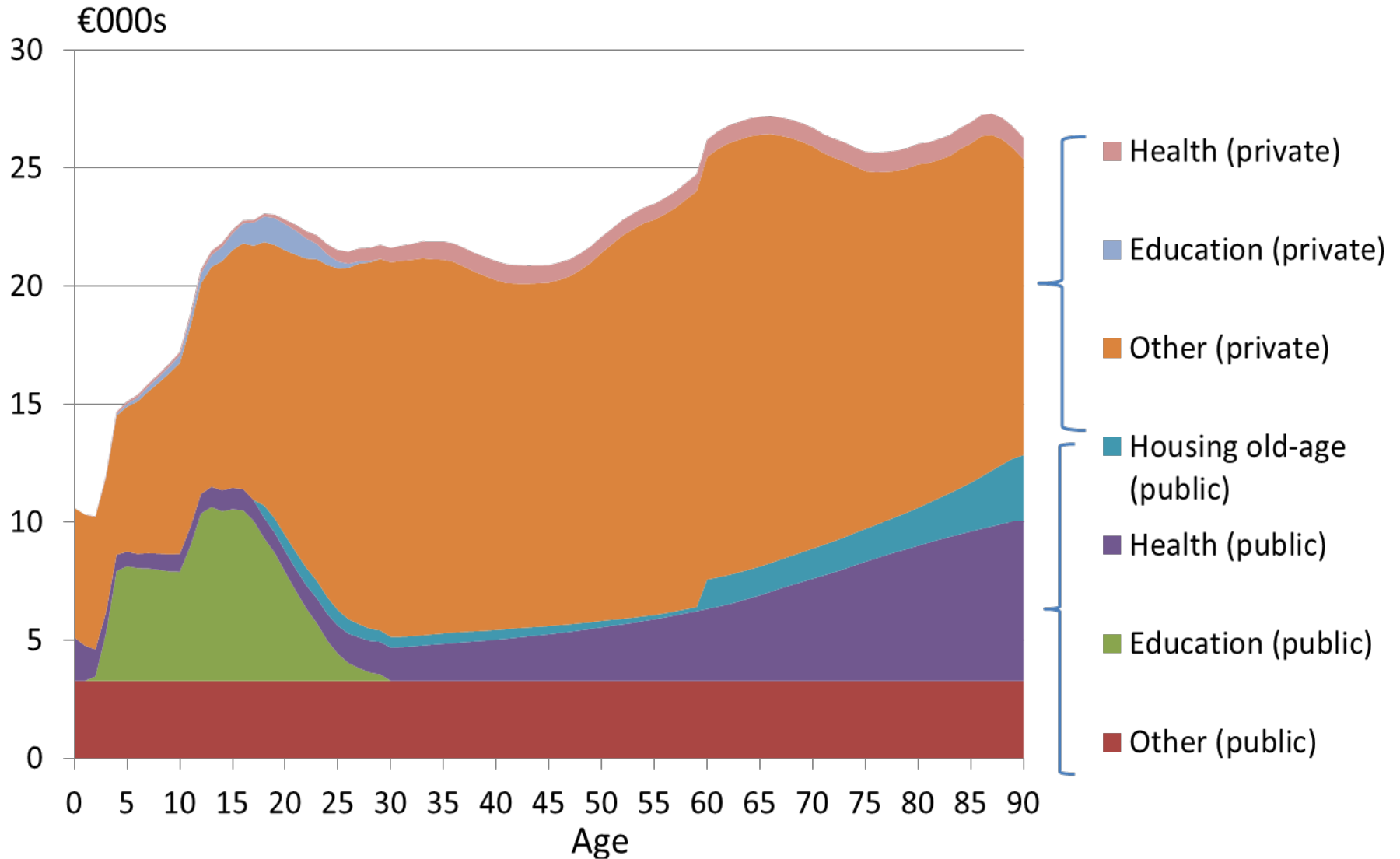
**Labour Income (Y^L) ; capital income (Y^K) ; Transfers (received, T^R) ;
Consumption (C) ; Savings (S) ; Transfers (paid, T^P)**

$$\bullet \quad C = \underbrace{Y^L + (Y^K - S)}_{\text{Individual}} + \underbrace{(T_{pub}^R - T_{pub}^P)}_{\text{State}} + \underbrace{(T_{priv}^R - T_{priv}^P)}_{\text{Family}}$$

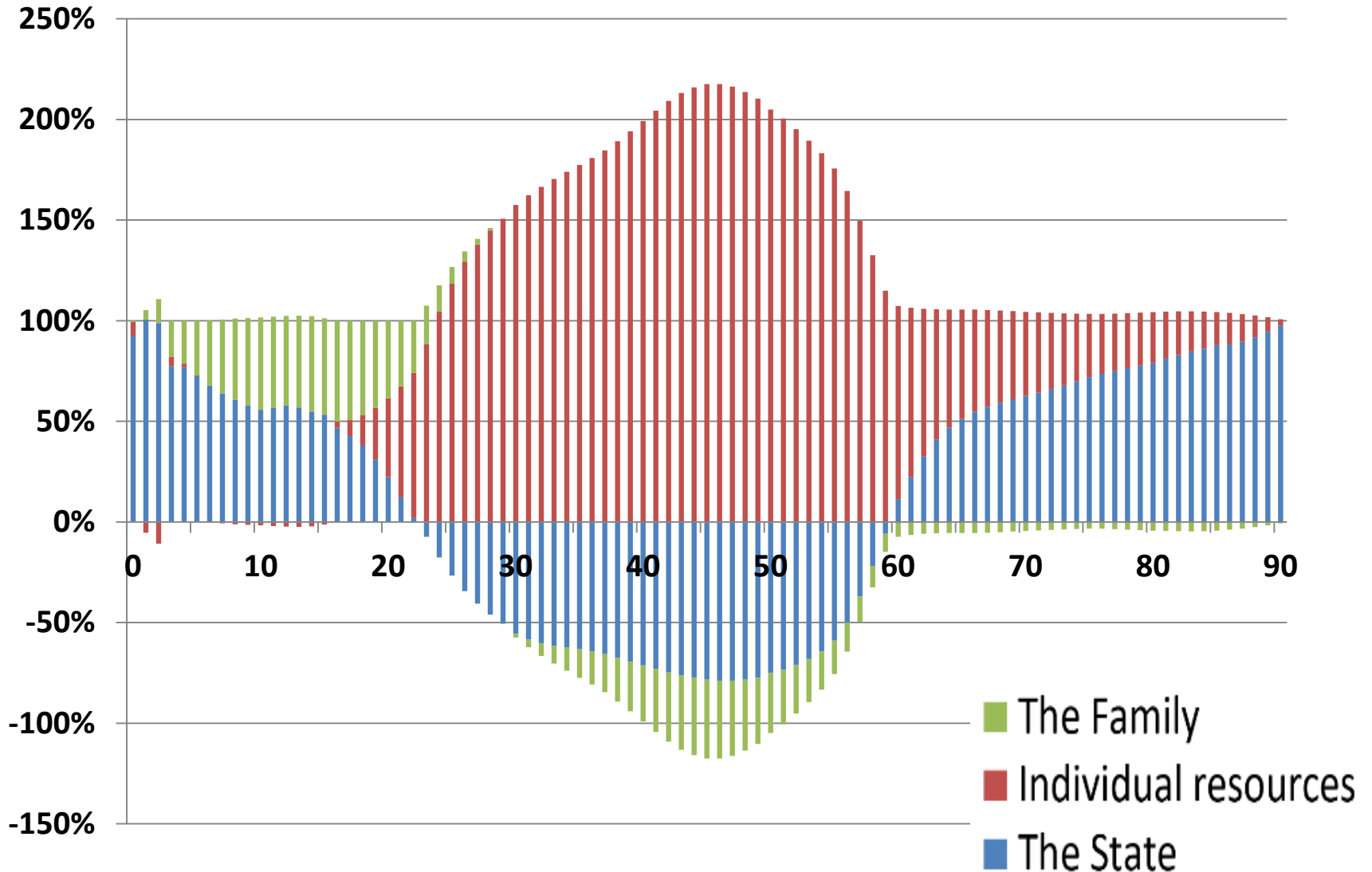
Variables

<u>Consumption</u>		Public	Education; health; long-term care; others	
		Private	Education; health; food; clothes; rents and imputed rents; transportation; others	
<u>Who pays?</u>	Individual	Labor income		Wages; social and employers contributions; self-employment income
		Private asset income		Capital income; property income; saving income; ...
	State	Public transfers	Paid	Income tax; VAT; housing tax; others
			Received	Pensions; family; welfare; unemployment; disability benefits; others
	Family	Private transfers	Paid	Inter HH : Occasional, regular gifts ; in-kind
			Received	Intra HH : consumption; imputed rents

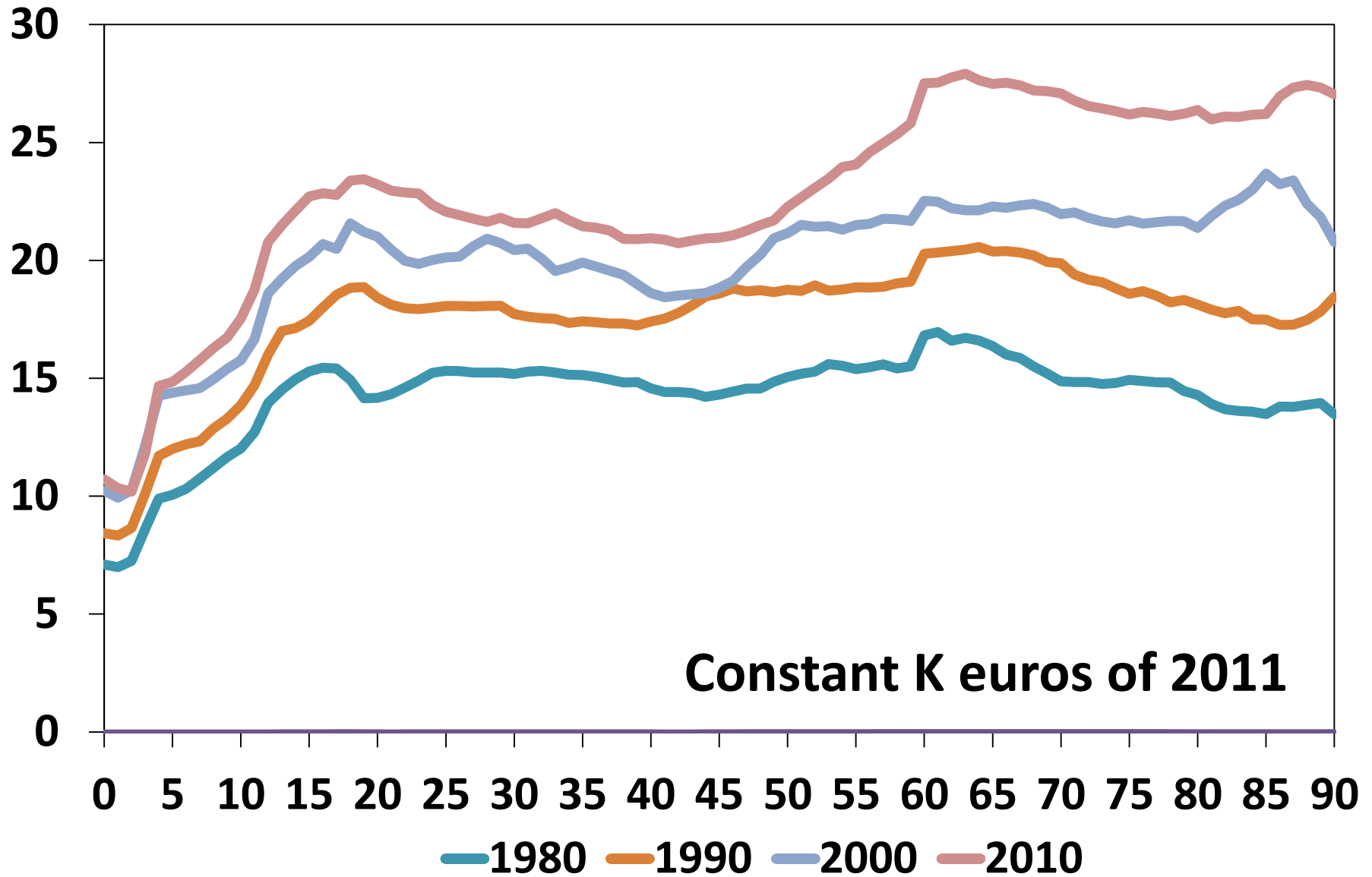
Public and private consumption (per capita) , 2011



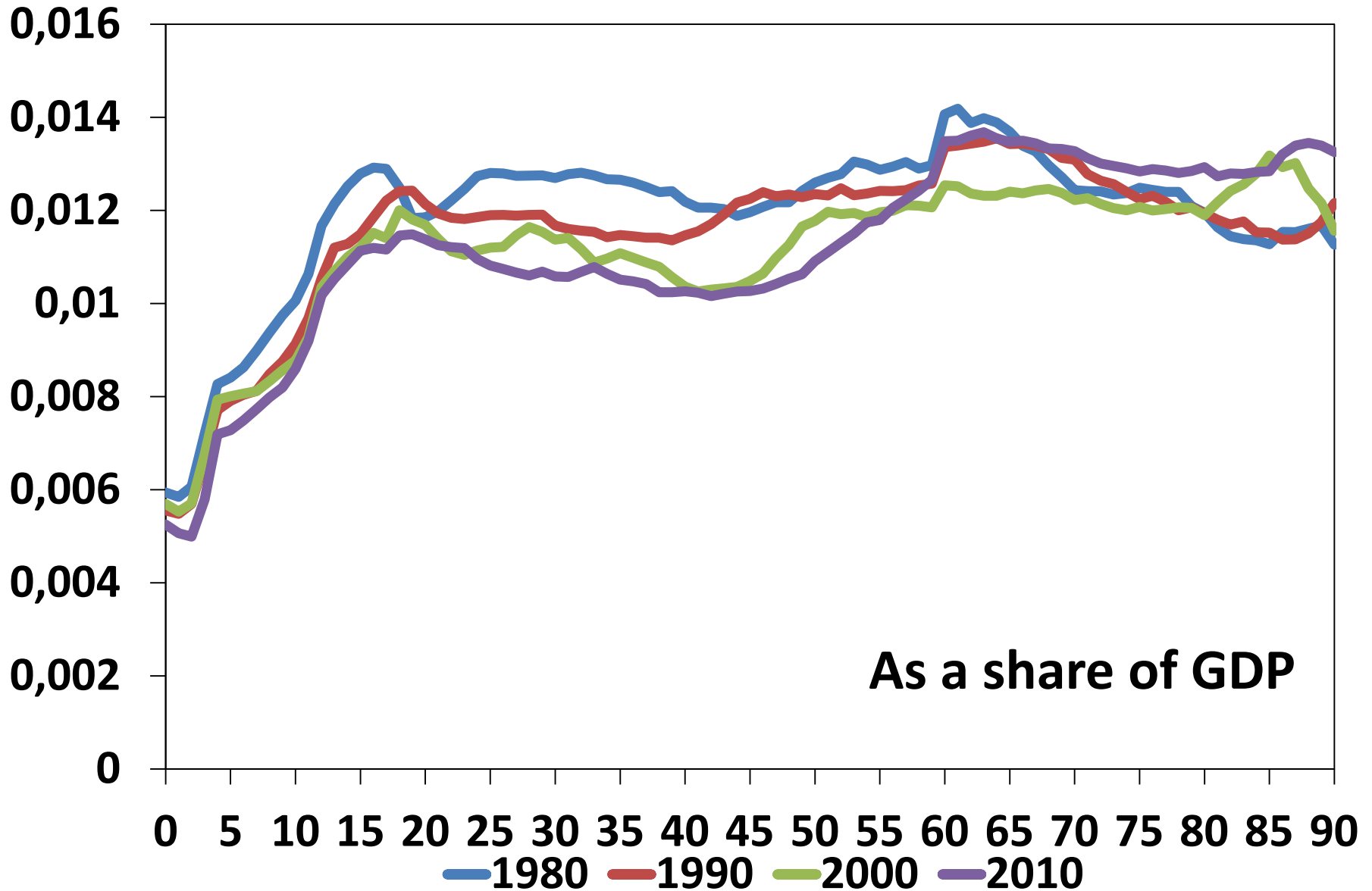
Funding sources for consumption in 2011



Evolution of consumption over the period



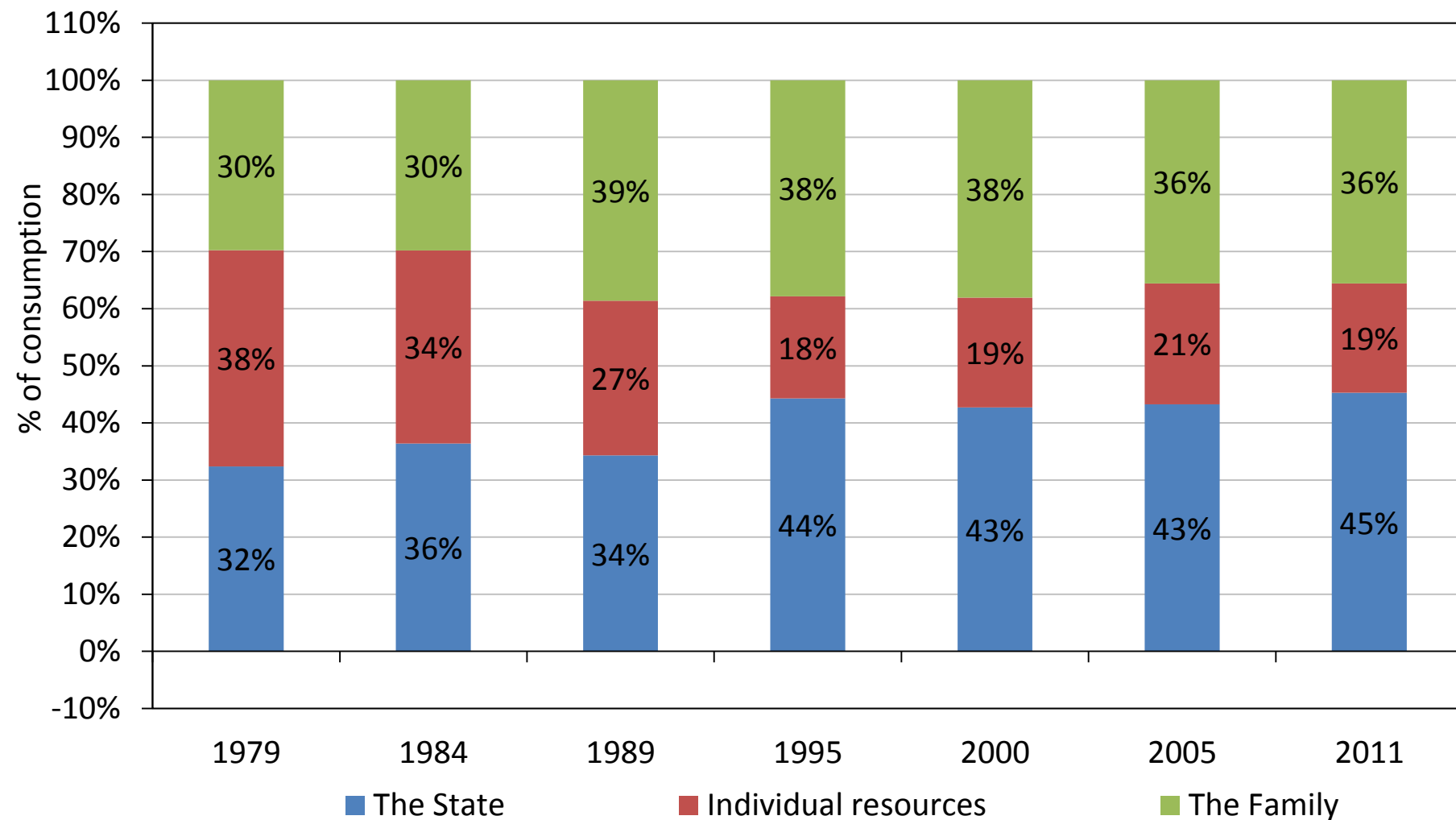
Evolution of consumption over the period



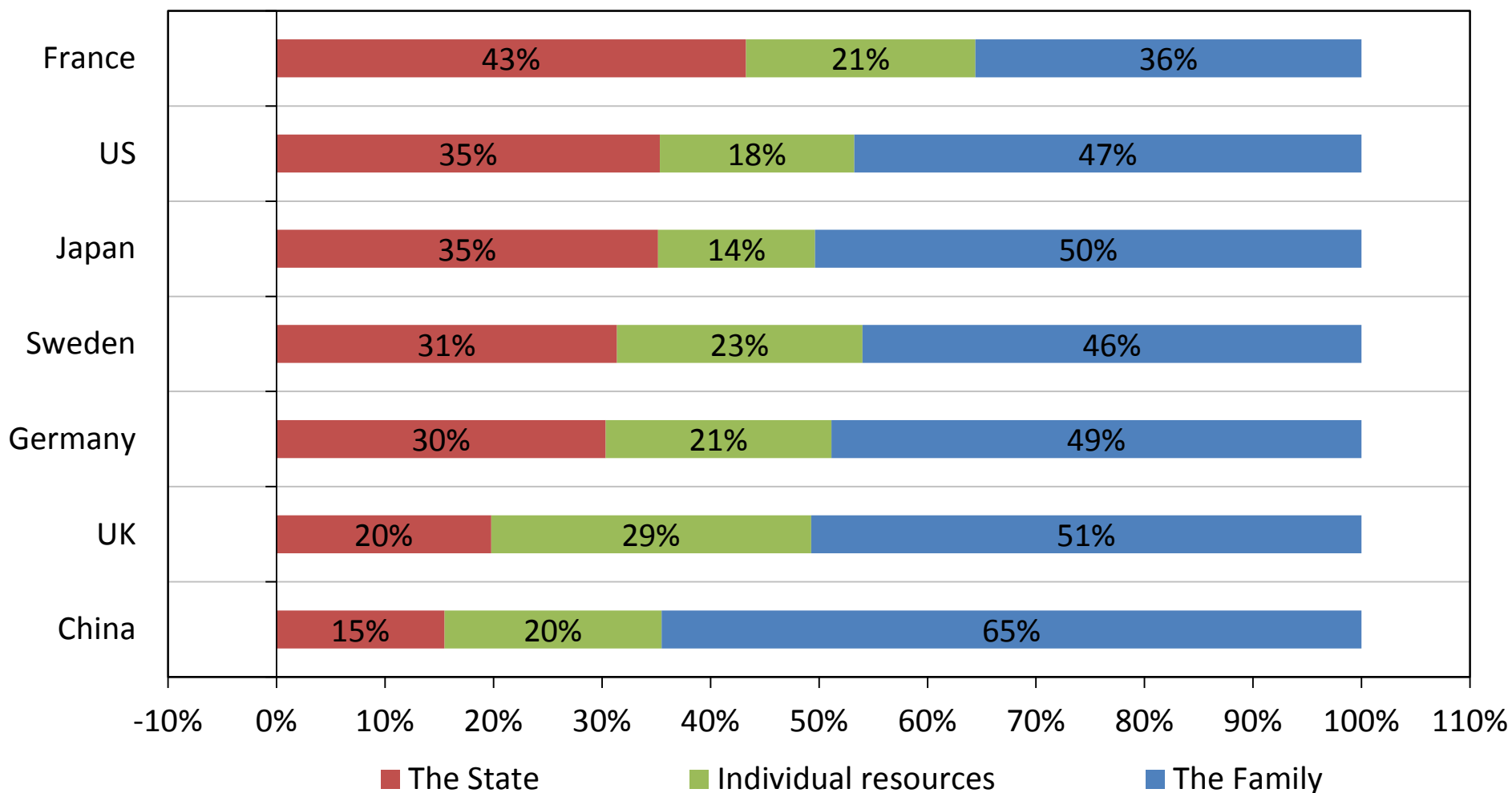
First and last age to which individual resources (labor and asset incomes) is higher than total consumption

	1979	1984	1989	1995	2000	2005	2011
First age to which $C(a) < (Y^L(a) + Y^K(a) -$	22	23	23	25	24	24	24
Last age to which $C(a) < (Y^L(a) + Y^K(a) -$	59	57	59	59	59	59	59

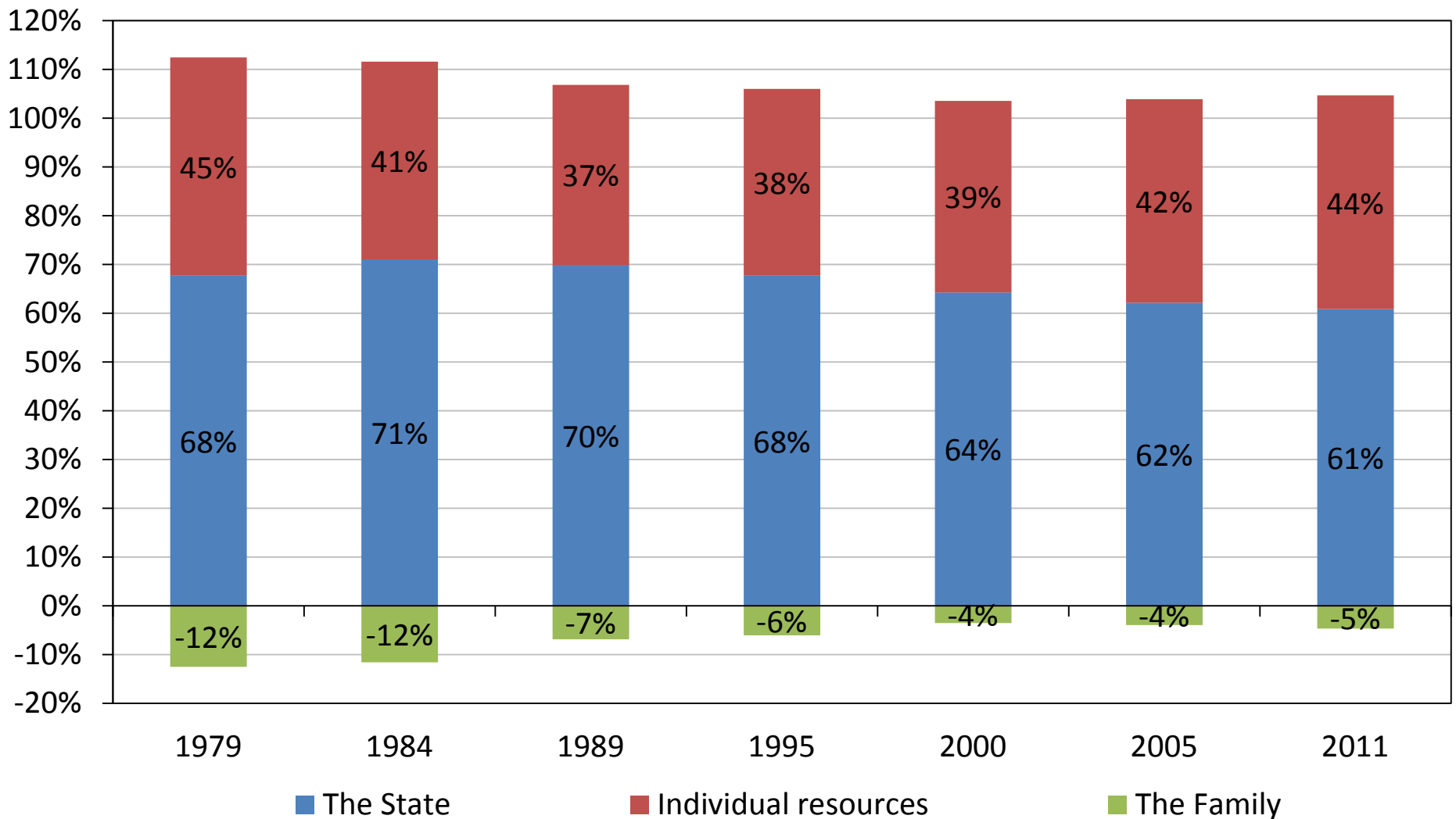
Funding sources for consumption before 25 years old



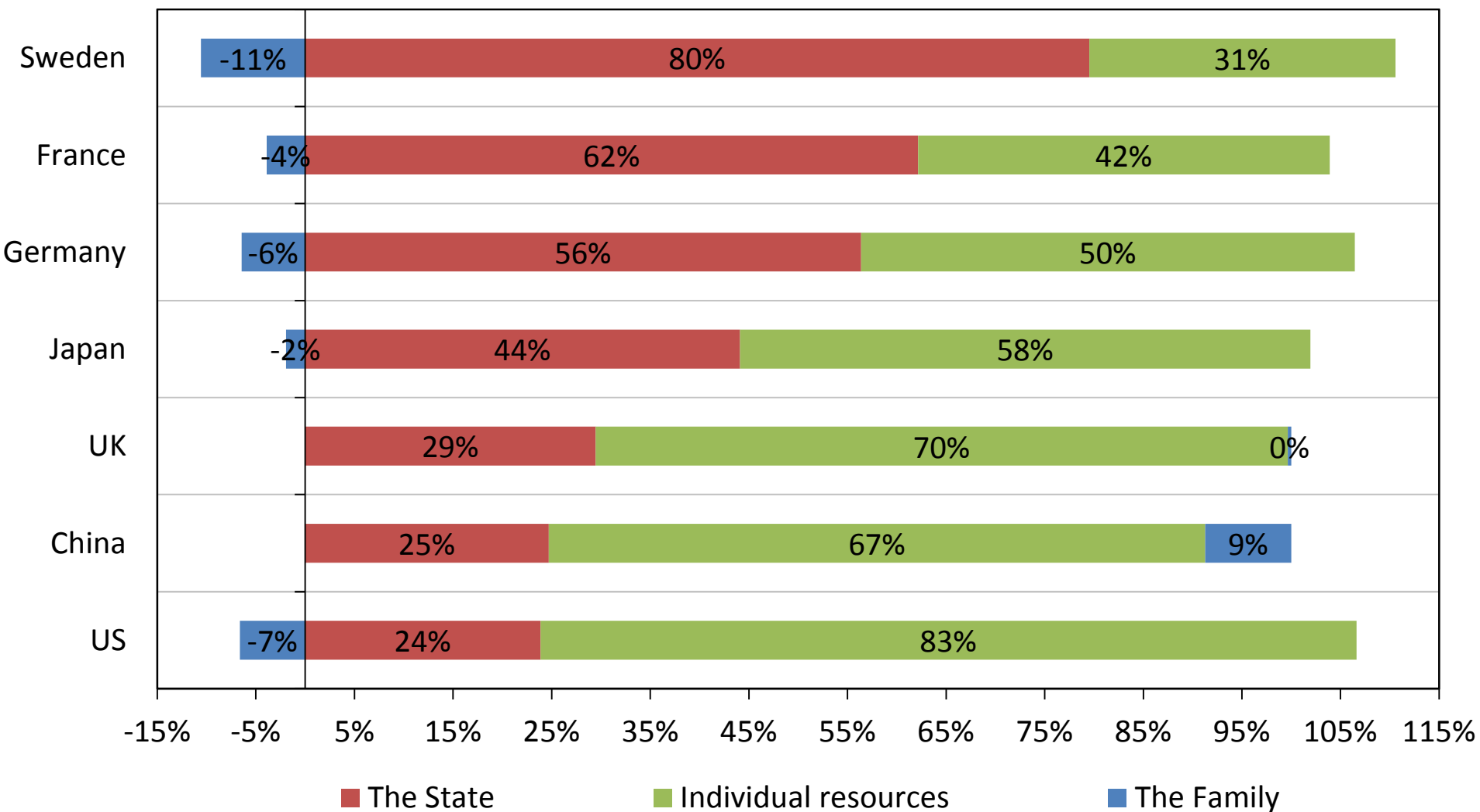
Funding sources for consumption before 25 years old – A cross-country comparison



Funding sources for consumption from 60 years old



Funding sources for consumption from 60 years old



Conclusion

A rather stable consumption Across ages an as a share of GDP

Stable ages to enter and leave “economic independence” where consumption is larger than personal income

BUT: Important changes in “who“ finance the consumption of:

- The young, with a much larger involvement of the State (+30%)
- The old with a much lower involvement of the State (-11%)

Conclusion: projects

Including inheritance and public debt in the picture.

Using those time series in order to build pseudo-cohorts and apply ACP methods; example for consumption (with imputed rents)

