# Intergenerational Transfers and National Transfer Accounts

In honor of

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# Understanding the Generational Economy

**Generational economy** *n*

(1) the social institutions and economic mechanisms used by each generation or age group to produce, consume, share, and save resources;

(2) the economic flows across generations or age groups that characterize the generational economy;

(3) explicit and implicit contracts that govern intergenerational flows;

(4) the intergenerational distribution of income or consumption that results from the foregoing.

Lee research

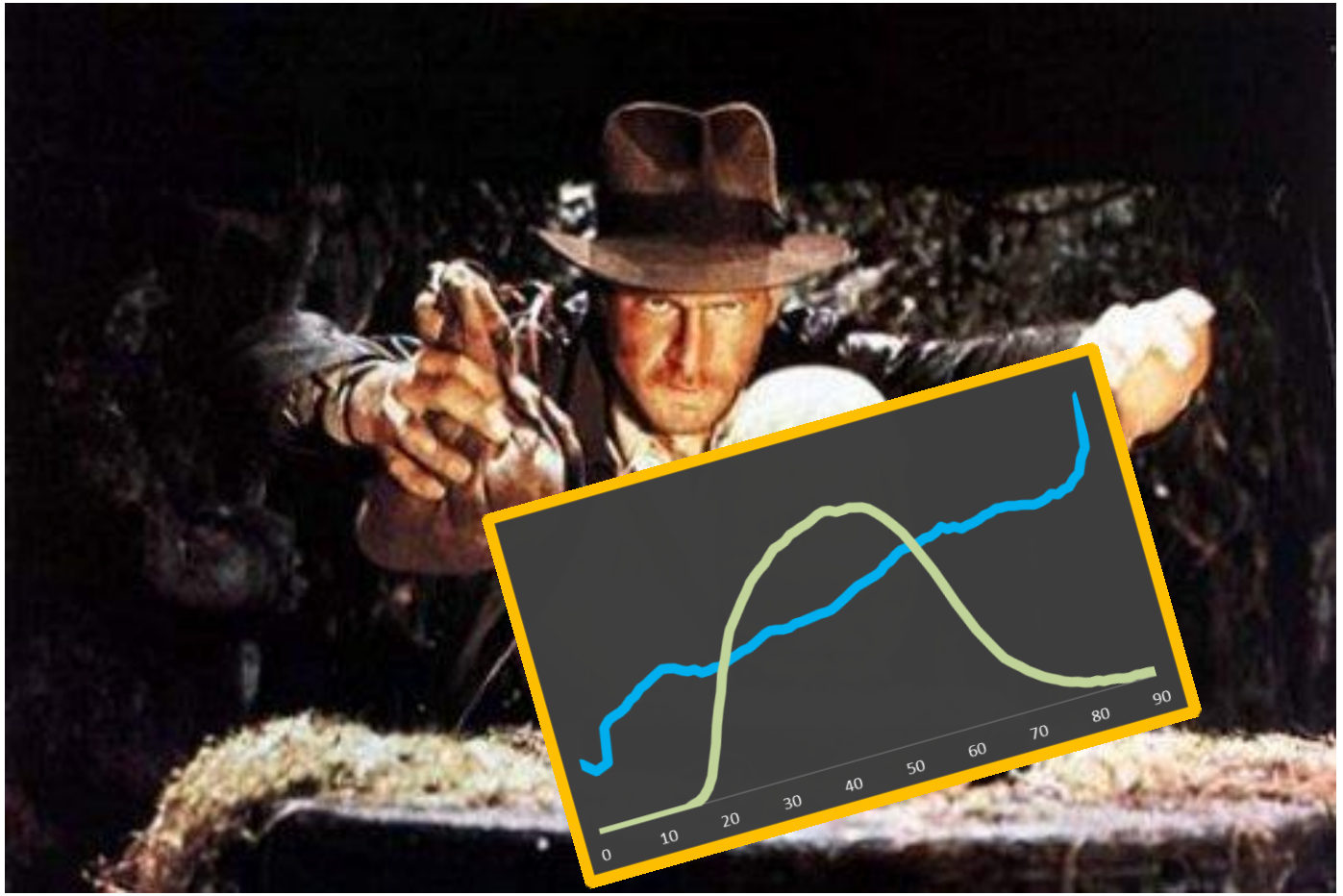
- Identifies the fundamental forces that govern the generational economy;
- Advances our understanding of the real world in widely varying social, economic, and political contexts;
- Addressed important policy issues related to changes in population age structure in the developing and developed world.

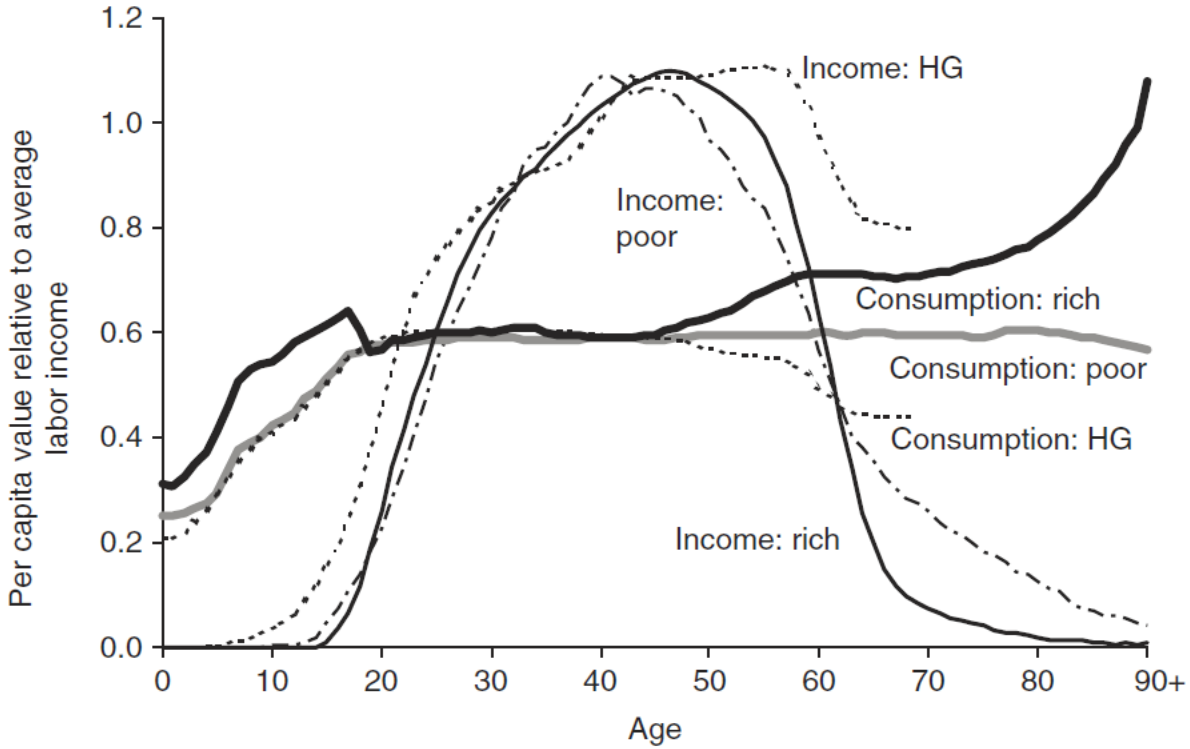
# I. The Lifecycle: Working and Consuming

- Work and its product and consumption vary with age governed by biology, culture, institutions, desires and needs, social and economic forces, and behavioral responses.
- The result is a mismatch between consumption and labor income with extended periods of “dependency” at the beginning and, in contemporary societies, the end of life.

# First Known Depiction of the Lifecycle

# Lee Unearths the True Lifecycle






*Note:* Data for hunter-gatherer profiles are from Kaplan (1994) and Howell (2010); for method of construction, see text. The profiles for the bottom and top quartile of 23 NTA economies are unweighted averages of the profiles for the six poorest and six richest economies. The bottom quartile group consists of China, India, Indonesia, Kenya, Nigeria, and the Philippines. The top quartile group comprises Austria, Finland, Germany, Japan, Spain, and the US. Values are scaled by average labor income for ages 30–49.

*Figure 4.1 The economic lifecycles of rich and poor countries and hunter-gatherers: consumption and labor income*

# Forces that Influences the Lifecycle

- Evolutionary forces

- Institutional context
  - Existence of property: hunters and gatherers had no retirement.
  - Emergence of settled agriculture and property allowed us to accumulate wealth and “retire” (with the help of family members)
  - Development of financial markets (pension funds, 401Ks, etc.) reinforced
  - Development and expansion of government have led to an even more pronounced lifecycle with increasing public support for children and the elderly.

# Forces that Influences the Lifecycle

- Demography
  - Quantity-quality tradeoff:  as number of children declines private spending, particularly human capital spending, per child increases.
  - Public Q-Q tradeoff:  as child dependency declines, per capita public spending on human capital increases quite sharply.
  - Preston effect:  not apparent in NTA data (but it is early yet)

# Forces that Influences the Lifecycle

- Emerging contemporary patterns
  - Extended period of youth dependency due to education and emergence of NEETs
  - Early retirement, but some signs of reversal
  - High consumption among older adults and the elderly in high income countries

# II. Age Reallocation System: Sharing and Saving

- Age reallocations are the counterpart to the economic lifecycle
- Lifecycle deficits at young and old ages must be funded relying on sharing and saving.
- Sharing or intergenerational transfers
  - Private, mostly familial based, transfers
  - Public transfers consisting of taxes and spending
- Saving: an outflow at one age that leads to future inflows at other ages in several forms:
  - Asset income
  - Dis-saving
  - Bequests
- Borrowing is negative saving that yields a current inflow and obligates a future outflow.

# Lee Discovers Arrows

# Why Lee Arrows are Cool

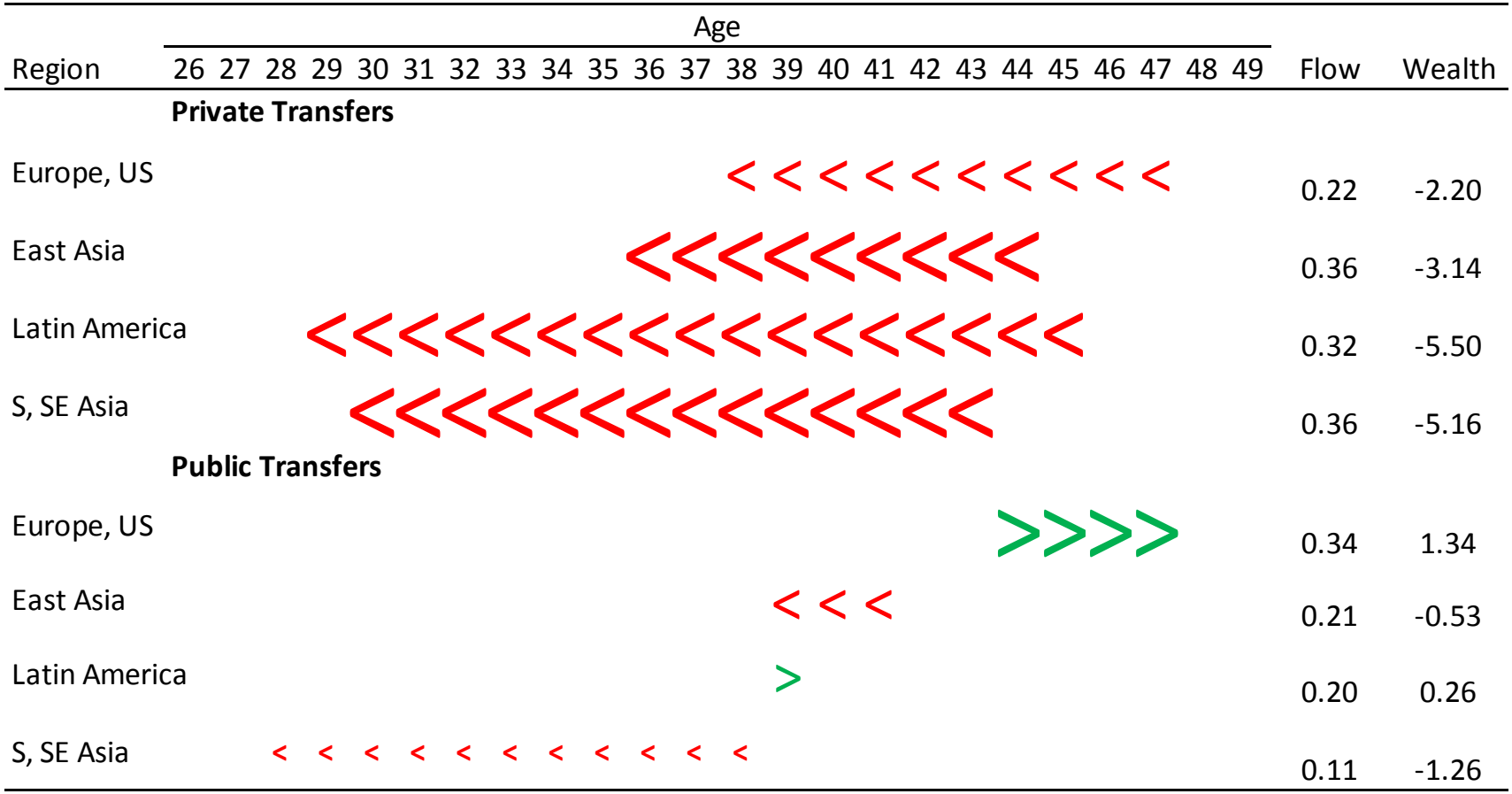
- Provide a comprehensive and coherent way of summarizing any age reallocation
  - Annual flow
  - Age of origin and destination
  - Direction of the flow
- Under idealized circumstances

$$Wealth = flow \times \left( A_{in} - A_{out} \right)$$

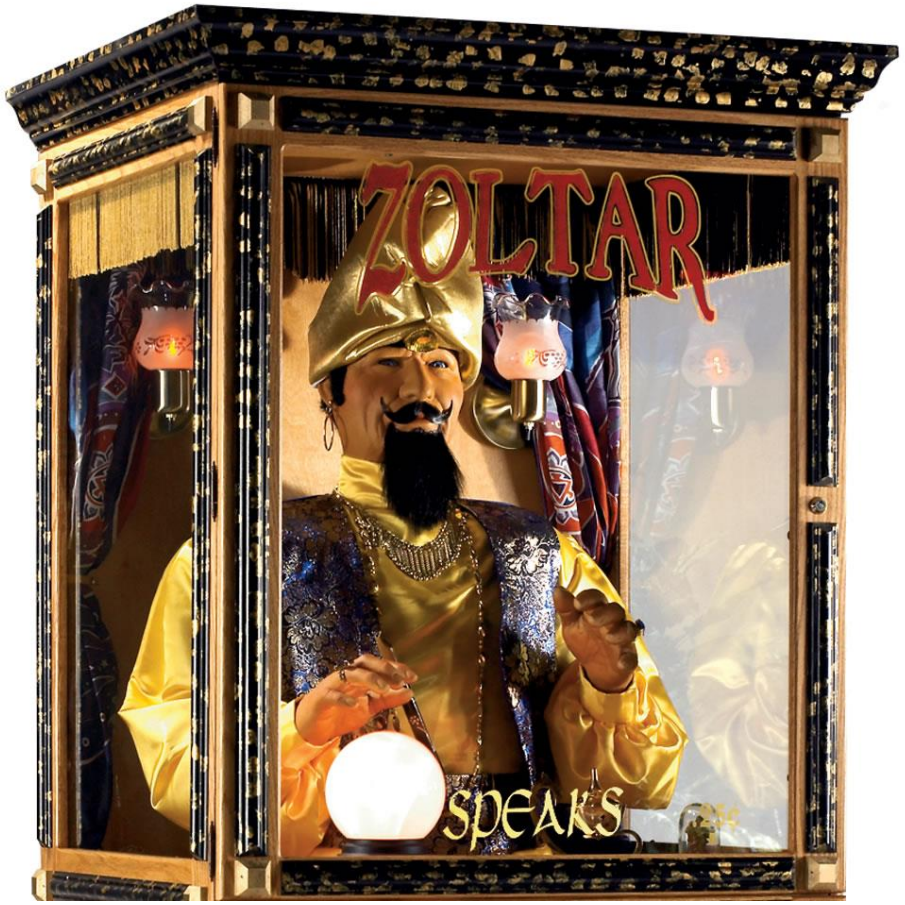
- Approximately so in less idealized conditions

# Lee arrows, transfer flows and wealth

**Public and Private Transfer Systems, Region of the World, Recent NTA estimates.**



# Lee tells us our future . . .




. . . and our past

# Public Transfers and Generational Equity

- Public transfer systems (education, health, and pensions) in the US have benefited all but the 1941-49 birth cohorts.
- Even the descendants of all those alive today are likely to benefit from public transfer systems.
- The costs will be imposed on those who will not be born for decades.

# Demographic Dividends and Standards of Living

- Changes over the demographic transition provide a transitory boost to standards of living.
- And potentially important and persistent effects through investment and human capital channels.
- Moderately low fertility will strain public finances, but favor standards of living.

# Lee's Global Reach
# National Transfer Account Network