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Generations at War or Sustainable Social Policy in Aging Societies?

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I. Intergenerational Justice: Judging the Unknown Future

A popular legend recounts how a boy in ancient times accompanies his father and his grandfather as they embark on a ritual journey intended to end with the grandfather’s voluntary death, as he is no longer self-supportive. The boy takes pity on his grandfather and persuades his father to promise to support the old man until his natural death in exchange for a promise from the boy to do the same for his father when the time comes.

The story reflects a social contractarian approach to generational equity based on reciprocity across generations. It is likely to have had little relevance for actual historical development. Anthropological and economic research indicates that the few persons surviving to old age in hunter-gatherer societies constituted a substantial asset to the community rather than a burden, not only supporting themselves but actually producing quite large surpluses to help care for young dependents. Following Laslett, we can observe that with the industrial revolution and the demographic transition people survived in increasing numbers into an age where capabilities had deteriorated to the point of becoming dependent on the younger generation. This created an old-age issue and contributed to the creation of statutory pension systems and other elements of what turned into the modern welfare state. These institutions have come to be labeled "intergenerational contracts."3

In the twenty-first century, however, the ongoing demographic transition is changing the social and economic context of social security in fundamental ways. The aging of societies challenges how we think about intergenerational contracts and public policy involving classical philosophical issues such as "what is a just society?" The generational issue in aging societies also poses challenges for social science. Because we are obliged to consider what will happen in the future, epistemological questions arise concerning the kinds of knowledge that are possible. This in turn limits the kinds of certainty that we can have, with consequences for how we assess analyses of these matters.4

The issue of justice between generations is inherently complex and debate surrounding it is often rather muddled. First, the concept may refer either to the resources of young and old at a given moment, or to equal treatment of successive cohorts. In the former case there is the problem that one’s income when young has little or no bearing upon one’s life prospects in general. It would therefore seem more appropriate to compare cohorts over their entire life-spans. But in the latter case there is the problem of predicting the future for the as-yet unborn. Successive cohorts, moreover, face different economic and social environments, depending in part on the size of the cohort. The concept of "actuarial fairness" (pension rights should be commensurate with contributions) may add to the confusion, conflicting as it does with "generational equity" when generations differ in size.

Principles for economic justice between generations over time have generally been discussed in the context of balanced population growth. In that sort of model, each generation constitutes a fixed proportion of the population, and it is relatively straightforward to offer an accounting framework that allows us to discuss how taxes and benefits should be distributed over the population; but this accounting framework becomes complicated outside of the balanced growth path, and different sizes of cohorts introduce numerous other issues. Yet this is the real world in which we live. While Easterlin concludes that large cohorts are disadvantaged due to labor market crowding, a conclusion that tends to be supported by US data, evidence suggests that baby boomers actually have an advantage in the context of Swedish institutional arrangements. The likely cause of this outcome is twofold: first, the higher education system was greatly expanded during the boomers’ adolescence; second, generous housing policies made it easier for boomers to establish themselves in the labor market and support their families.

There are several ways, differing both in scope and ambition, of trying to measure fiscal generational equity. The well-known generational accounting method attempts to keep track

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8 Dahlberg and Nahum 2003.  
of the fiscal burden of different generations; in general, its conclusions suggest that current
generations owe a large debt to future generations.\textsuperscript{10} This framework involves various
problematic simplifying assumptions, however. Its conclusions are highly sensitive to
assumptions about future growth and discount rates, and the question of private transfers is
largely ignored.\textsuperscript{11}

Still, it is important to note that, if the reproduction of the tax base is insufficient to finance
public transfers to the elderly, then the system will be unsustainable. In the language of
generational accounting, this means that we are effectively imposing a tax increase on future
(smaller) generations that they will be unable to bear. The level of fertility required for the
system to be sustainable is not necessarily the same as that required for the population to
remain constant (some decrease in population size may be optimal for several reasons), and
there are other margins (such as retirement age, productivity levels, hours of work, and so on)
that can make up the deficit generated by a brute decrease in the number of people.
Nevertheless, in the same way that too high a fertility level places burdens on future
generations by straining the resources of the future, too low a fertility level also will place
burdens upon future generations.

Within this discourse about generations, equity and policy, there is an alarmist notion of a
strong and growing conflict between different generations, and a clear prediction that this
conflict will generate new political cleavages with important ramifications for the political
systems of aging societies. However, there are several reasons for doubting the prediction of
generational war. One is that policy matters in the sense that we can see major differences
among countries depending upon the nature of their policy regimes. Another is that many
people do not perceive the problems as outlined by some economists, and there are
compensatory redistributive channels available, for example the family. Substantive flows of
resources both in time and money have been registered over different generations within
families.\textsuperscript{12}

\textsuperscript{10} Auerbach, Gokhale and Kotlikoff 1992.
\textsuperscript{11} See, e.g. Haveman 1994.
\textsuperscript{12} Kohli 1999.
The increasing cost of bringing up children in our kinds of societies is of great importance today, and is a major driving force behind the development of public support for families with children. The uneven burden of reproduction carried by women is another factor that deserves attention. Reproduction should here be interpreted in a broad sense as encompassing caring responsibilities for both children and frail elderly relatives. Aging societies highlight important gender-related issues, not least those concerning childbearing and paid work. The question is how the policy responses are to be formulated, on what ideological ground and via what kinds of practical arrangements. There are, in addition, justifiable concerns about the macroeconomic consequences of declining or unstable populations; a critical feature of the demographic transition is that it produces radical changes in the relative cohort sizes.

In this article, we attempt to place this issue in a public-policy context that is informed by a lifecycle perspective on social change as well as gender and class. Our conclusions have consequences both for the design of policy in contemporary societies and for understanding how social injustices might better be combated in the future. Here we draw on both historical evidence and cross-national comparisons of social policy institutions. Our perspective is somewhat Swedocentric. We believe that there are good reasons for this (besides our residence there). One is the Myrdal legacy from the 1930s and issues of policy design related to the dilemmas addressed by the Myrdals; the gender perspective is of particular relevance here but also that of social class. This is also true of more recent developments. Rowntree’s poverty cycles remain an interesting test case for evaluate redistribution between different phases in the lifecycle. The case of Swedish pension reform adds an interesting further dimension to the intergenerational debate.

II. Life Cycle Dynamics in Aging Societies: Demographic Gifts and Hangovers

Traditional theories of the relationship between population change and economic development have recently been challenged. The broadly accepted view among economists was that population change is an unimportant factor in economic development. This view was consistent with data that showed practically no correlation between population growth and economic growth measured by changes in per capita income. This implied that the data

supported neither the Malthusian pessimistic view that population growth is harmful to income growth nor the more optimistic view that population growth is a trigger for economic development. The zero-correlation result suggested that economists could ignore population. That conclusion turned out to be premature.  

In his recent book on economic growth, David Weil singles out demography as one of the primary determinants of economic growth. The reason for this drastic shift in opinion is not new data. Instead, it is a realization that earlier attempts to understand the role of demography were based on an erroneous conceptualization of population change. Up to about 1990, almost all studies were based on the assumption that it is population size and population density that matter for economic development. The role of changing population structure was ignored. In the 1990s this changed. Different researchers started to consider the importance of shifts in the age structure for economic development. Although this is a minor modification of the earlier approaches, it turned out to produce drastically different results. In fact, it could be shown that both population optimists and population pessimists are correct. Population growth in dependent age groups does have a negative effect on per capita income growth, whereas a growing working-age population has a strong positive effect on per capita income.

This discovery would have been less significant if it were not for the fact that the growth of different age segments in a population closely follows a distinct pattern during the transition from high to low mortality and fertility rates. During the last two hundred years this demographic transition has affected practically every human population, albeit not at the same time. When the demographic transition affects a population it has dramatic, long-term effects on the age structure. During the first phase, when mortality declines but fertility remains constant, there is a rapid increase in the young dependent population (people below 15 years of age). The reason for this is that after the mortality decline, the rate of survival among infants and children improves drastically. In time, the higher survival rate of children leads to

an expansion of the fertile population and hence, as long as fertility remains constant, to further expansion in the number of births. Eventually, the expansion of the fertile, young adult population leads to a reduction in the number of births, and this implies that the population enters the second phase of the transition.

During the middle phase, population growth becomes concentrated in the working-population. Because of lower fertility there is little expansion in the child population. There is also little growth in the old-age population and the reason is simply that it takes a long time for a large surviving birth cohort to reach old age. This situation -- a growing working-age population, a stagnating child population and an almost-constant old-age population -- has been called the “demographic gift” because it represents conditions that are favorable to economic growth. This explains very substantial parts of economic “miracles” like those in East Asia. Eventually, however, the demographic transition implies that the population enters an aging phase, when the size of the working-age population stagnates, and is followed by an accelerated growth of the old-age dependent population, a phenomenon that could be called the “demographic hang-over.” The most likely future scenario is therefore that economic per capita growth will tend to stagnate in the developed economies while there is scope for very fast growth rates in important Asian economies like China, India and Indonesia.

Not only will this development transform economies throughout the world but, more to the point for the subject of intergenerational transfers, capital streams from the aging economies will make it easier to fulfil the promises of this demographic change. By financing especially the human capital accumulation in developing countries, we generate future streams of capital income and eventually, as these economies reach our current phase of aging, direct investment into our economies. It is, however, all too easy to point out that political stability and well-developed financial markets in these countries is a sine qua non for this to take place. It is not likely to happen without policies promoting global and local stability as well as truly global capital markets. International financial transactions are today almost exclusively restricted to the already industrialized or emerging markets.

20 Malmberg and Lindh Forthcoming.
Demographic forecasts from the UN Population Division indicate rapidly growing dependency ratios in the developed countries.21 With the exception of Ireland, where the fertility decrease is relatively recent, all the countries of Europe face an accelerating growth in the elderly dependency rate, but projections differ substantially concerning the level at which this growth in dependency ratios will halt. However, this is a result of the UN fertility assumptions, which are rigged so that all countries converge towards the same total fertility rate. In reality, differences in fertility levels and variability over time will most likely produce a more complicated picture.

Even if the elderly dependency rate is a very crude measure of the burden that elderly transfers will put on taxpayers, and the demographic projections start to get very shaky beyond fifty years, the general trend cannot be questioned. Simply put, there will be fewer working taxpayers available to support each elderly person. Recognition of this fact has generated a number of predictions of catastrophe, generational conflict and fiscal breakdown.22 Whatever one’s view of these predictions, the demographic change clearly challenges current policy regimes in important ways.

III. The Problem of Generation in Classical Liberalism and Marxism

The realization that economic change mirrors to a large extent underlying, long-term, demographic trends has some important consequences for political theory. The age-transition perspective underlines the importance of considering the human lifecycle as a primary, structuring principle in human life, not only at the individual level but also at the level of basic social processes. With the development of a new understanding of the forces that lie behind economic change, it also becomes important to analyze how dominant political ideologies relate to such fundamentals as the life cycle, human mortality and human reproduction.

21 UN Population Division 2000.
22 See e.g. Kotlikoff and Burns 2004.
Our basic observation is that neither "classical liberalism," nor "classical Marxism" contains an explicit theory of lifecycle or generation. For classical liberalism, one possible explanation could be that it is based on a patriarchal and paternalistic conception of societies as composed of male heads of household. Women, children and other dependents do not belong to the public sphere of market activities and political interaction. Classical Marxism has a similar view inasmuch as the class status of the household in general is typically based on the class status of the male breadwinner in particular, and the class positions of individuals are seen as fixed over the lifecycle. We shall argue that social liberalism and social democracy, by contrast, can be seen as responses to the challenges individuals face over the lifecycle and the associated social dilemmas.

Marxism’s class-based understanding of human societies has dominated much twentieth-century discussion of historical dynamics. The advantage of this class-based view was that it could account for the deep, social cleavages that characterized industrialized societies. A problem, however, arises concerning the relation between classes and individuals over time. At any given point in time, the allocation of individuals across classes is relatively straightforward. But as the focus shifts to development over time, things become more complicated. If individuals lived their entire lives in households in which the class-status remained the same, all would be fine. But what is the class-status of a man who was the son of peasant, who worked as a seaman in his youth and became an independent, wealthy tradesman in his middle-age years? Is it his current position, ancestry or plans for the future which count? One solution to this dilemma was to declare that the class-status of individuals is of less importance than the objective position of different classes. However, this solution presupposes that the lifecycle dynamics of individuals is of little interest for social change and, clearly, this is contradicted by the close connection between economic development and age structure change. There is definitely a missing link here.

In order to remain relevant, a class-based approach to social change must, therefore, be able to integrate the life-cycle perspective. Sociologically informed social mobility research can be

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seen as a strategy for dealing with this in a dynamic way.\textsuperscript{25} We need to acknowledge that one’s social position is intimately related to one’s position in the life cycle. If we take the individual’s life cycle situation as a point of departure for our analysis of the social situation of individuals, then one’s class position as well as that of one’s parents, siblings, spouse, children and other relatives are factors which can modify the impact of one’s life cycle situation. According to this perspective, the class identity of an individual is not a given fact but, rather, something that may change over the lifecycle.

We would argue, then, that the analysis of inequality in societies should acknowledge that an individual’s social position is intimately related to her position in the lifecycle. Social democratic reformist welfare state politics can be seen as entailing a pragmatic lifecycle perspective in contrast to the hard line communist program for revolutionary social change. What was developed was a reform program that gave insurance against the major (life-cycle \textit{and} class related) threats to individual welfare such as insufficient education, poor health, unemployment, industrial accidents etc.

Classical liberalism also abstracts from the human lifecycle by building a theory that focuses on the situation of adult males. The adult male is seen as capable of supporting himself with his own labor and freely entering into voluntary contracts with other adults. Liberal theory then goes on to argue that arrangements based on such voluntary contracts cannot be improved upon by external interventions. The lifecycle perspective clarifies important shortcomings in this argument. Most importantly, there is no such thing as a self-made man. If we in a society can find free, independent adults, they exist thanks to the efforts of parents, especially mothers, and in modern societies, public sector employees and taxpayers. Free adults are free from debt only because those who have paid for their upbringing do not demand any payment in return, or because they have renounced the claims others have upon them. The independence of social links is, thus, not a natural fact but instead based on social conventions and interventions.

Moreover, the lifecycle fact that humans are born, not as independent individuals capable of providing for themselves, but as infants that would survive less than a week were it not for

\textsuperscript{25} Erikson and Goldthorpe 1992.
their mothers or those substituting for their mothers, makes realization of a perfect market economy impossible. The contradiction is that if individuals are to be free men when they enter adult life then their parents or other caregivers cannot be allowed to charge them for their upbringing. On the other hand, if care for young dependents is given without compensation then it is not a market transaction. Thus a free market society is dependent on non-market transactions for its very existence.

Ideologically, this contradiction was swept under the carpet by the "separate spheres" theory. According to this theory, the market economy is a male arena, whereas human reproduction occurs within a female sphere where market rules do not apply. This is not a solution to the practical problem of overcoming the costliness of human reproduction. Throughout history, a combination of sexual attraction, lack of efficient contraceptives, productive and emotional services gained from children have been sufficient to make most parents take on these costs, willingly or otherwise. However, decreasing individual incentives for having children and increasing possibilities to control fertility have exposed the fact that a market economy does not automatically ensure continued human reproduction. Low levels of fertility in Europe are evidence of this. On a purely theoretical level, many difficulties in the liberal proposal could be solved by assuming zero mortality. However, such an assumption would obviously risk undermining its practical relevance.

To sum up, both the great nineteenth-century ideologies of liberalism and Marxist socialism ignore vital aspects of the human lifecycle. Comparing these ideologies with their twentieth-century counterparts of reformist social-democracy and social liberalism, it becomes clear that one major difference is that the policies advocated by the modern approaches are more closely linked to the changing conditions that individuals experience during their lifecycle. Here it is of crucial importance to recognize that these conditions are interacting with gender as well as social class. Moreover, the societal challenges created by the lifecycle changes are of the nature that they will not be responded adequately to by markets, which suggests that we should address the issue from a public policy point of view.

26 Wolf 1980.
IV. Population Development as a Social Dilemma and the Myrdal Solution

In the early twentieth century, Swedish birth rates fell sharply, reaching record low levels in the 1930s. Population growth could no longer be taken for granted. Instead, the prospect of a population decline had to be seriously considered. This demographic shift precipitated new interest in the population problem and opened up room for radical rethinking. A leading exponent of the new ideas was Gunnar Myrdal, a young Swedish economist soon to become responsible for the major study of racial relations in the US that would result in the book *An American Dilemma*. In 1940, he published his views on the population question in *Population: A Problem for Democracy*, based on his Godkin lectures at Harvard, making this not only a Swedish story but also an American one.

Myrdal’s argument is based on the premise that the standard of living will be lower in a declining population than in a stationary population. His argument for this view was primarily that investment demand will be lower in a declining population and that this will lead to a deflationary situation with a demand shortfall. According to the Keynesian paradigm this would result in a low rate of economic progress. Myrdal’s argument carried substantial weight when presented to an American audience in 1938 with the depression experience fresh in its memory. It was taken up by Alvin Hansen in his 1939 presidential address to the American Economic Association and, in the same year, also by John Maynard Keynes in his famous Galton Lecture.

Myrdal’s second premise was based on an identification of a social dilemma. Children impose a heavy economic burden on parents but are very valuable to society as a whole. In traditional societies this burden was to some extent compensated for by benefits in the form of labor services and old age support. In modern industrialized economies, though, the economic benefits of having children are small. “I do not think that the economic motive is the only one, but I think it is basic.” Hence, if provided with efficient means of controlling their fertility,

29 Myrdal 1940.
31 Myrdal 1940, p. 197.
most parents will restrict their fertility in a way that leads to population decline. From the perspective of society, however, children have a high economic value. Therefore, governments have an interest in supporting family formation. “What is thus developing is nothing less than a socialization or nationalization of certain important parts of consumption, a carrying over from the individual family budget to the public budget of cost items relating to children.”^32 Myrdal insisted that in a democratic society a desirable increase in fertility cannot be achieved by restrictions on the use of contraceptives or measures that make it more difficult for women to pursue a career. Instead, “a large part of the economic burden of bringing up children must be passed from the individual family to society as a whole, i.e., the burden must be supported by all citizens as taxpayers, the cost of children, in other words, being distributed among citizens in proportion to their ability to pay taxes, not according to the number of their children.”^33 According to Myrdal, such a “population policy will turn out to be simply an intensification of the important part of social policy which bears upon the family and children. Such a policy is prophylactic rather than palliative or symptomatic: it seeks prevention, not mere cure.”^34 In Myrdal’s view, then, the extensive welfare state is not based on considerations of social equity. Instead Myrdal offers an efficiency-based argument for a radical increase in the level of social spending. This is the first part of Myrdal’s solution.

Myrdal’s population argument was put forward in close collaboration with his wife Alva and included an explicit gender perspective. This revealed another dilemma: modern women wanted to be engaged in paid employment and not (only) unpaid reproductive work. They saw this as an important triggering factor for the construction of the Swedish welfare state.^35 Their argument was not immediately appreciated by class-oriented social democrats but was later accepted as a strong lever for a radical policy of income redistribution.^36 Conservatives, on the other hand, did not like the reform proposals but accepted them as a means of strengthening support for childbearing and family values. Yet, paradoxically, the policies, which were formulated from a life-cycle perspective and targeted to typical, universal, life-
cycle situations, turned out to be most important from a class perspective. For one, it was the lower social classes and those in vulnerable situations who were most reliant on public resources. For another, the quality of support was also dependent on the inclusion of the middle class not only as taxpayers but also as benefit recipients.37

The Myrdal argument may still be of some relevance today. The first premise, that the standard of living will be lower in a declining than in a stationary population, is debatable, since the grounds for assuming that investment demand will fall in a declining population are somewhat shaky. It could be argued that capital-labour substitution and increased net saving in an aging population might lead to increased investment demand in a declining population, at least in per capita terms. However, if retirement age does not rise with increases in longevity, pressure for increased redistribution will mount. Recent analyses have shown that gender norms that make it difficult to combine child rearing and a career can have a negative effect on fertility. Another piece of evidence supporting the Myrdal perspective is that the long-term decline in fertility seems to have been less extreme in countries where financial support for families with children is more extensive and is combined with support for female employment rather than support for the exclusively male-breadwinner family.38

The conclusion to draw is that the analysis of welfare state policies should not focus solely on economic outcomes for different generations. Equally important are the effects that different regimes have on decisions regarding family formation. The political theory of the welfare state should hence be extended to include an analysis of reproductive outcomes. As pointed out by the Myrdals, such an analysis can appear strange to scholars who see family formation and fertility decisions as essentially operating within the private domain. A reluctance to discuss welfare state arrangements in relation to the question of fertility has been evident especially in countries that have an experience with totalitarian or authoritarian population policies, for example Germany and Italy. From a gender perspective, however, it is problematic to fail to acknowledge the potential effects of welfare state arrangements on issues of family formation. Historically, reproduction has been an essential part of the lives of both women and men, with women taking a disproportionate share of the responsibility.


38 Ferrarini 2003.
Denying the effect of social arrangements on reproduction, therefore, would be tantamount to declaring that activities that for centuries have dominated the lives of women have not been part of political and economic development.

Welfare state programs can be seen as attempts to solve different kinds of collective action problems, the increasing costs of raising children in modern societies being one obvious example. Another major dilemma concerns the issue of women’s agency in terms of balancing participation in the productive and reproductive spheres. It may be that the old myth of the voluntary three-generational contract plays a role here in the sense of promoting certain views about our -- and any future generation’s -- obligations to take care of frail elderly people and other dependants. If we are persuaded to think these intergenerational contracts are the natural way to do things, we might be more willing to take on these obligations within a compulsory framework, such as the welfare state.

V. Lifecycle Poverty and Sustainable Family Policy

It can be argued that the essence of welfare state policies is to redistribute resources between individuals at different positions in the lifecycle.\(^{39}\) In the case of an extensive welfare state like Sweden, this is clear from the very structure of the system, but the importance of redistribution across the lifecycle is evident also in more restrictive welfare states like the US. In principle, the welfare state channels support through a mix of cash benefits and various social services: child benefits, subsidized child care, housing allowances graded by family size, school finance, student loans, subsidized housing for students, parental leave payments, health care, retirement schemes and old age care. Yet the most advanced industrial nations differ to a considerable extent both in terms of the kind and degree of benefits offered. The redistributive role of the welfare state over the lifecycle is also mediated by the structure of the tax system. The important role of income and consumption taxes within industrial nations implies that high-income middle-aged people contribute more public resources than other age groups. However, the lifecycle redistributive effects of welfare states on the economic situation of different age groups is highly dependent on the exact design of taxes and benefits.

\(^{39}\) Barr 2002.
The dependence of contributions given and benefits received on age implies that future changes in the age structure will have a direct bearing upon the financial situation of the welfare state. This raises questions about the sustainability of the system. In Europe, “sustainability” has become a buzzword and is integrated in the new EU-governance as part of Open Method of Coordination (OMC). The basic question is how to balance aging populations, gender equality and a new working life. Different policy areas have been subject to a review process where different criteria for policy evaluation have been agreed upon by the Member States. This includes employment, pensions, health care and social inclusion. What is striking, though, is that the basic conditions concerning human capital formation have remained outside the OMC. Following Esping-Andersen, it can be argued that fertility and human capital investment in children are the critical factors for aging societies.40

The apparent conflict in many European countries between the expansion of higher education and childbearing is given very little attention. Formal education is getting longer and has begun to intrude into women’s prime fertility period at the same time as we are observing a substantial decrease in fertility rates. It seems a reasonable hypothesis that education has indeed led to delayed births for large parts of the population. There are disturbing signs that this delayed fertility has led to a widening gap between desired fertility, which is still around the reproduction level of 2.1 children, and actual fertility, which in many European countries has become considerably lower. In the longer term this means that it will be hard to reproduce the tax base without resort to extensive immigration. Since the continuing longevity trend is likely to require much more than a reproduction of the current tax base, if the relative living standards of the elderly are to be maintained, this is worrying. There should, however, be scope for reasonably comprehensive and inexpensive policies in order to facilitate the combination of education and family formation without any harmful effects on female labor force participation.

Evidence for this can be found in the fact that the previously negative cross-country correlation between female labor force participation and fertility rates has turned positive in the 1990s. It is no longer the case that countries with higher female labor force participation have lower fertility rates. Dual-earner families are also an important factor in keeping child

40 Esping-Andersen 2002.
poverty rates down.\textsuperscript{41} This, in turn, increases the probability that children grow up in circumstances conducive to improving their future tax-paying capability as well as their own welfare. Fertility studies also indicate that the increased gender equity following from dual-earner activity has positive effects on the propensity to have children. Moreover, the available evidence does not seem to indicate any systematic negative effects on educational performance of children as a result of full time employment by their mothers.\textsuperscript{42} Cross-national comparisons can be used for analyzing the effectiveness of various policy designs in achieving lifecycle redistribution, that is, to eradicate the poverty risks over the lifecycle identified by Rowntree over a century ago.\textsuperscript{43} The comparative perspective is useful when it comes to identifying the background that has triggered generational conflict in academia as well as in “real life.” The most obvious case is of course the US. Over the past three or four decades the situation of children, and the families they live in, has deteriorated relative to other households. Even if poverty among old people in the US is higher than in most other advanced industrial nations, there has not been a corresponding increase in poverty as among children.\textsuperscript{44} Scandinavian countries have recorded a clear decline in poverty among the elderly as well as among families with children. The suggestion to roll back the welfare state for the elderly is quite common in the US, whereas the alternative -- to support families with children as an investment in the future tax base -- is not taken seriously.

In the end, the discussion must take place within a framework where both resources and individual agency constitute the basis of policy evaluation.\textsuperscript{45} Resources are of obvious importance, but unintended consequences matter too.\textsuperscript{46} The multiple effects of transfer systems on labor supply may raise questions concerning the equitable use of tax revenue. If young dependents are treated in a way that discourages childbearing, the future sustainability of the system is also threatened as the tax base used to finance the system is eroded. That these issues have a particular gender relevance is suggested by the fact that females bear most

\textsuperscript{41} Ferrarini 2003.
\textsuperscript{42} Esping-Andersen 2005.
\textsuperscript{43} Rowntree 1901.
\textsuperscript{44} Kangas and Palme 2000.
\textsuperscript{45} Palme et al. 2003.
\textsuperscript{46} Ringen 1987.
of the burden for reproduction, which takes place outside the market and thus carries no pension rights, even if there are sometimes compensating factors. Women also make up the majority of the retired population because they live longer and take on much of the family care of the elderly. This should be acknowledged in terms of both resources and agency.47

VI. Aging and Intergenerational Justice: The Case of Pension Reform

The demographic transition from a high fertility/high mortality regime to a low fertility/low mortality regime is gradually making the self-supporting adults responsible for the support of an increasingly large number of elderly surviving well beyond formal pension-age. The twentieth-century debate about generational equity mainly focused on the issue of transfers from young to old. Yet we should recognize that, in practice, transfers from old to young have tended to exceed those that flow the other way. Part of the reason for the maintenance of the illusion has to do with the higher visibility of public transfers to the elderly, as compared to the private transfers in both time and money that flow from parents and grandparents to children and grandchildren.48 Attempts to measure these flows are riddled with difficulties, but it seems clear that substantial amounts of what the elderly receive as public transfers flows back to children and grandchildren through private transfers. Parental altruism is a very strong driving force behind intergenerational transfers. Intergenerational interdependency, as opposed to generational conflict, must not be forgotten or underestimated.

For public policy, the aging of our modern societies has focused a lot of attention on pension systems. Partly this is also a result of the way institutions were built with mandatory or at least common retirement ages and strong disincentives for continuing work above these ages.49 All countries in the advanced industrial world have been affected by what the World Bank labeled the “old-age crisis,” and many of the countries have taken action.50 The kind of action taken appears to be dependent on the kind of pension system in place. For countries

47 Korpi 2000.
49 Gruber and Wise 1999.
with flat rate benefits two kinds of actions have been taken. One has been to shift responsibility for income security onto the private, individual and occupational spheres. The other has been to use various forms of modest means-testing to exclude high-income earners from being subject to public support, either by income testing of pension benefits or by claw-back via the tax system. For countries with income security oriented pension systems, the earnings-related benefits have been tied to longer contribution requirements for full benefits. Another technique to balance resources between young and old has been to change the indexing of benefits. The German pension reform of 1992 is an interesting example. Indexing old-age pensions to net income instead of to gross earnings constitutes an explicit attempt to link the benefits of the retired to the consumption level of the working-aged.\(^5\)

Other countries have gone further by shifting from defined benefit (DB) formulae to defined contribution (DC) formulae. The Swedish pension reform is an interesting case in point.\(^5\) This kind of reform means that members of the working age population are committed to contribute a specific proportion of their incomes to the pension system. There is a profound difference between DB plans and DC plans in terms of the kind of intergenerational contract underlying the two systems. As pointed out by Goodin, DC plans involve treating like cases alike in the sense that current and future generations are burdened with the same contribution rate, but at the same time they do not take account of how past generations have been treated.\(^5\) Yet they do not entail any automatic compensation for the effects of different cohort/generation sizes. Another aspect of the DC framework is that it changes who is taking the risk when it comes to supporting the aging populations economically. In a DC system, the size of benefits will be adapted to the sum of contributions rather than the final salary of the retired person. This has interesting implications for generational equity. For example, if employment declines the contribution sum will decline. If longevity increases this means that the same sum of contributions will have to suffice for longer periods. The system is financially sustainable if we assume that future generations are willing to pay the same share of their incomes into the pension system. The question is whether it will be politically sustainable if incomes of retired populations develop poorly due to increased longevity.

\(^5\) Hinrichs 2000.
\(^5\) Palme 2003.
\(^5\) Goodin 1999.
In any case, the kind of DC reforms that Sweden and some other countries have implemented come closer to what Laslett and Fishkin have labeled "strong" generational contracts.\textsuperscript{54} In their terms, the DB frameworks are “weak” generational contracts open to recurrent re-negotiations.

Population aging will continue to put pressure on current institutions for the support of the elderly, even if changes such as DC based pension reforms succeed in considerably dampening its fiscal impact. Pension reforms intended to remove early retirement incentives, increasing pre-funding and moving demographic risks to the elderly population by introducing defined contribution pensions rather than defined benefit programs, help to insure the financial viability of the systems in question. However, most of the discussion of these issues tends to avoid the real issue. No matter what we do about our institutions, the central economic problem is that the output produced by a smaller share of the population will have to be distributed to a greater share of dependents. This is the case whether or not we have public redistribution, private family responsibility or mandatory/voluntary pension saving. That means that, if the relative consumption level of dependents is to remain the same, the working population will have to consume a smaller share of what they produce. While this is obvious in the case of public transfers and not difficult to understand in the case of family responsibility, many people tend to overlook it when pensions rely on funded assets. As McKellar points out, an asset can be sold only if somebody else abstains from consumption to buy it.\textsuperscript{55} Thus, within the aging industrialized world funded pension systems do not really solve anything, quite apart from the fact that the transition costs are enormous.\textsuperscript{56}

Note, however, that the qualification “within the industrialized world” is important, because if the funds are invested in the developing world we can draw on output outside the aging economy to help keep the consumption distribution within the economy stable. In a sense this is a further extension of the public pension system that evolved to solve the problem of old age insurance when the family system became insufficient. The economic development of currently poor countries could be one important part in alleviating the redistribution problems

\textsuperscript{54} Laslett and Fishkin 1992.
\textsuperscript{55} McKellar 2000.
\textsuperscript{56} See Lindbeck and Persson 2003.
that aging gives rise to. Migration is another measure that might help keep elderly dependency rates down but only temporarily, since immigrants will themselves be aging. In any event, aging and the global demographic transition are likely to make global interdependency a recognizable part of generational interdependency processes. The intergenerational exchange of transfers already occurs beyond the borders of the nation-state as a result of immigrant workers. It may be time to start thinking about development aid in terms of an intergenerational transfer from old populations to young populations and to view international equity as an aspect of intergenerational equity. In this context, it deserves to be emphasized that the lack of a global regime for managing earned pension rights of migrants threatens the economic security of some of the most vulnerable.

VII. Conclusion

The balance in existing intergenerational transfer systems is upset by demographic change and requires that we adapt. This is well understood even if not always acted upon. In the area of pension systems it has evoked fears of generational warfare. Yet there is very little evidence that selfish pensioners will aggressively vote for their own enrichment at the expense of the younger population. For reasons identified above, the debate has been most intense in the US, which in other respects is surprising since a sober assessment suggests that the population structure is and will remain rather well balanced. This is in sharp contrast to several European nations, especially the Mediterranean countries, where fertility has reached historically unprecedented low levels, close to half of what is required to reproduce the population. This suggests that we should take a broader approach to sustainability in social policy, focusing not only on the pension systems but also on family formation and education.

Generational considerations deserve greater attention in discussions about policy design. A good starting point for such discussion is the new finding about how age-structure dynamics have shaped patterns of economic development during the nineteenth and twentieth centuries. These findings make clear that age-structure change has been a powerful driving force of historical change and that we can therefore expect that the dramatic age shifts of the twenty-first century will constitute a major challenge for policy-makers. Although lifecycle

considerations have been essential for welfare state policy designs, they have attracted less attention within political theory. The shortcomings of both classical liberalism and Marxism relate to their lack of a lifecycle perspective. In this context, Myrdals’ argument for welfare state policies as a response to demographic challenges can also guide policy-making in the twenty-first century.

The demographic factors that helped trigger the debate about generations and equity will grow in importance. We are facing new phases in an unprecedented demographic transition. This warrants further scientific inquiry. It is also likely to require new policies, or changes in the design of current policies. Given the strong politico-institutional background to the generation-war debate, if the political responses to the current phase in the demographic transition are inadequate, the risks of future intergenerational conflicts are likely to increase markedly.

What we have argued is that a balanced population growth would reduce the distributive tensions between generations. It would also be welfare enhancing for individual citizens, since it would mean that people would actually give birth to the number of children they would like to. In a European context, this is likely to require substantial public intervention in the form of redistributive policies in favor of families with children and a different division of the burden of reproductive work in gender terms. There are other policy options that should be part of a future-oriented approach to changing population structures. To invest in human capital and to use migration as a way of increasing the labor force are good examples of policies for the future that will require substantial public intervention. Such policies boil down to increasing the number of future taxpayers and their productivity.
What is required to succeed in this endeavor is a balanced approach: a synthesis involving a concern with the way that the welfare state supports different groups in society, on the one hand, and a realistic view of how society works, on the other hand. Such an approach could cast new light on an issue that is likely to be confused by zero-sum perceptions of social and economic development in aging societies. Here, as in many other areas, theory is not enough. We need empirical data to grasp, however tentatively, what is really going on in the real world.
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