

INTERGENERATIONAL ASPECTS



Michael Keen

International Tax Dialogue Conference on Tax and Inequality
Delhi, December 9, 2011

Many fiscal policies redistribute across generations

Much redistribution is across lifecycle (.e. child benefit), but much acts across generations:

- Pay-as-you-go pensions
- Public support of care for the aged
- Education spending
- Debt policy
- Use of natural resources
- ...and almost everything else: E.g. switch from labor tax to VAT

Two key issues arise in evaluating them

- Do we value \$1 of consumption now more than \$1 in the future
 - Because future generations will be richer?
 - Simply because its in the future? More controversial

Answer can make a big difference:

- E.g. Stern's 1.4% discount rate implies tax now of \$85 t/CO₂ (then flat): 5 percent implies \$8 (then rising)
- Consume or invest from natural resource wealth?

- To what extent will private reactions offset?
 - ‘Ricardian’ consumers, caring for their heirs (who care for theirs,...), would e.g. fully offset more government borrowing today by saving more
 - Extreme form may be implausible...
 - ...but so is zero offsetting:
 - E.g. In Kazakhstan, government built up National Oil Fund and reserves of \$50 bn; banks raised \$50 bn from abroad

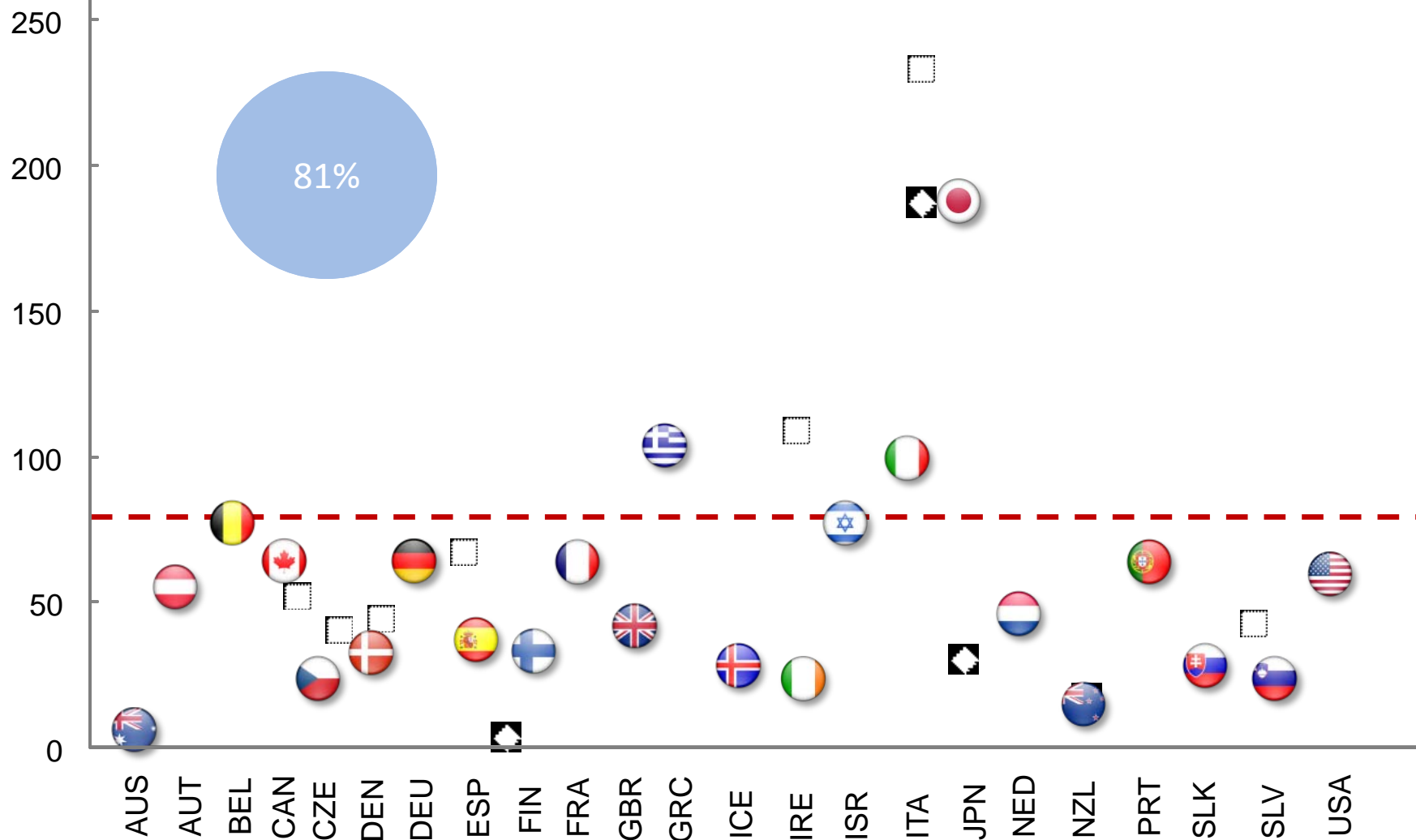
And offsetting does not mean no harm done:
interventions may induce distortions

Public debt as an intergenerational transfer

- Much debt is implicit—e.g. excess of promised future pension payments over future receipts—and many argue should be made explicit
- Can benefit all generations if growth rate (population + productivity) exceeds rate of return
- But...

2007

2011



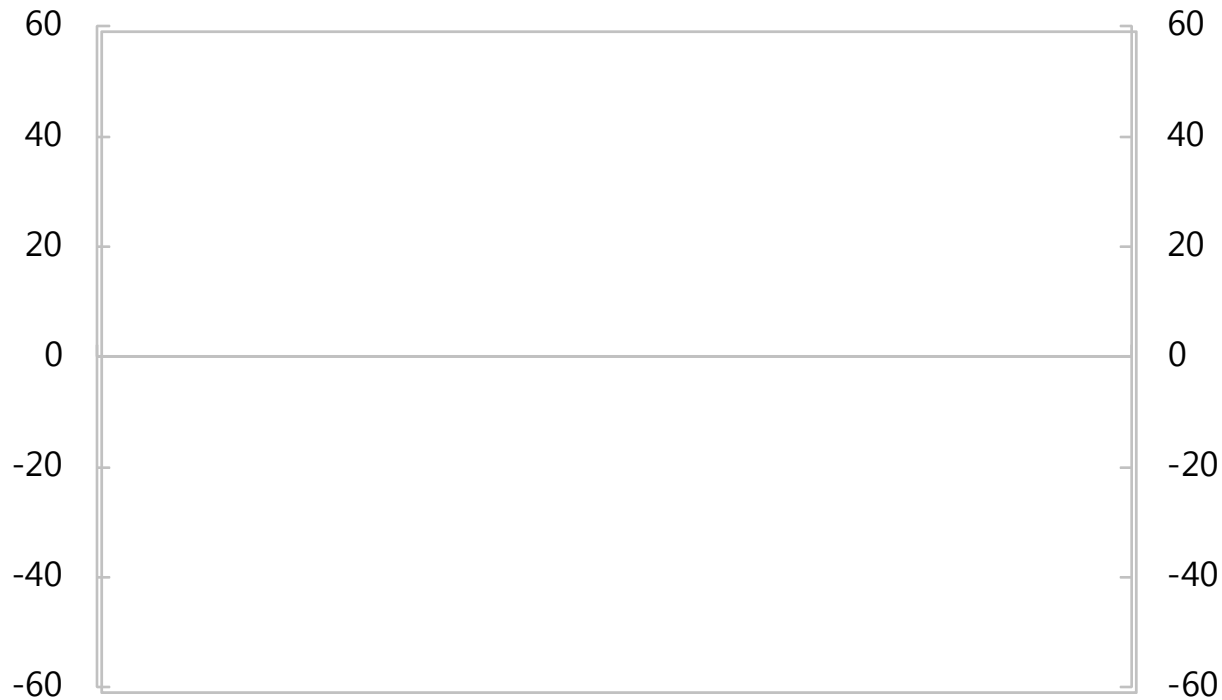
- ...And evidence is that debt at these levels increases
 - Interest rates, by crowding out and raising risk premium
 - The 2008-15 increase in advanced economies could reduce growth 0.5 percentage points
 - Risk of crisis, though market response to fiscal fundamentals very hard to predict

So, much of burden passed to future generations

Generational accounts

- Calculate, for each generation now alive, present value of net transfers over remaining lifetime
- For unborn, average PV net transfers are residual from govt.'s budget constraint and initial debt
- Commonly find large implied transfers from unborn. For instance:

- For EU (1999) average difference of \$100,000:
- For Japan net transfers by age group (¥ mn):



Source: Cabinet Office (Japanese Government)

Redressing intergenerational inequities?

- Beyond pension reform, health changes, should consolidation burden tilt towards the older?
- Higher VAT bears largely on older generations—effect mitigated by uprating benefits
- Greater age-differentiation of income tax?
 - But efficiency points the other way, as participation decisions of near retired are tax-sensitive.

Taxing intergenerational transfers

- Largely an issue of intra-generational equality
 - Points to donee-based tax
- Efficiency concerns make motive for giving important
 - ‘Warm glow’ motive: subsidy may be needed
 - Accidental bequests: tax at 100 percent
- Practical considerations loom large
 - Eg excluding some assets for liquidity reasons creates avoidance devices