

International seminar on

The family, the market or the State?

Intergenerational economic support in an ageing society

Geneva, Switzerland, 23-24 June 2010

Jointly organized by the IUSSP Scientific Panel on the Impacts of Population Ageing and the AIDELF (International association of French-Speaking Demographers)

Report

As the world population ages, the relative weight of the age classes changes drastically, sometimes quickly, and the economic and social arrangements guiding intergenerational exchanges that seemed to work satisfactorily up to a few years ago are now under stress, and may collapse in the future. The consequences of the current structural changes may be counteracted if behaviors, traditions and formal and informal rules adapt with sufficient speed. This may call into question such diverse themes as age at retirement, pension system arrangements, labor market participation of younger and older workers, private transfers between the generations, labor division within the household, gender roles, etc. More generally, the balance between the family, the market and the state in providing for the needs of the youngest and the oldest generations is, once again, called into question.

In this context, the IUSSP Scientific Panel on the Impacts of Population Ageing in partnership with the AIDELF held the seminar on “The family, the market or the State? Intergenerational economic support in an ageing society”, in Geneva, Switzerland, on 23-24 June 2010. The seminar was organised in such a way as to be embedded in the 16th General Conference of AIDELF, devoted to the more general, but strictly related, topic of "Intergenerational relations: Demographic issues" (21-24 June 2010). Of the four sessions of the seminar, three appeared as parallel sessions of the AIDELF Conference, and one as a plenary.

The main focus of the seminar was on the changes that population ageing brings about, both at the macro and at the micro level, in such diverse fields as the labour market, the pension, and more generally the intergenerational transfer system, private exchanges between relatives (inter vivo gifts, bequests, etc.), capital accumulation, and also intergenerational relationships (e.g. co-residence, contacts, etc.). The policy implications and the possible actions that the ongoing demographic changes entail were explicitly considered, as well as the possibility of offsetting or reinforcing mechanisms on the interplay between the public and the private sphere. Although the geographic focus of the seminar was worldwide, special emphasis was placed on the consequences of ageing in developed countries, where ageing is more advanced, and where the role of immigration on the intergenerational system of exchanges needs to be analyzed more in depth.

The seminar brought together a core group of 15 social scientists from Canada, Germany, Italy, Japan, Norway, Romania, Russia, Spain, Switzerland and the USA. All the papers were pre-distributed to facilitate a lively discussion, which did indeed take place, and benefited also from the presence of scholars who, while attending the parallel AIDELF Conference, also turned up at the Seminar's sessions.

The Sessions

Generations and policies: challenges for today and the future

The development of the modern welfare state is the result of the historical circumstances of the 20th century. In the opening session of this seminar, which also happened to be a plenary session of the parallel AIDELF conference, and attracted a large audience, *Paul Demeny* argued that demographic changes in combination with the expected economic dynamics of modern, affluent societies will eventually call into question the acceptability and viability of existing institutions, along several dimensions. He focused on three of them in particular. One is that richer, healthier, and better educated people will likely be less and less willing to delegate (to governments and states) basic decisions in such fields as pension plans, health insurance and education of the young. On a different level, he questioned the adequacy of states borders, especially in a world where international flows (of people, money, goods, information, etc.) are now the rule, not the exception, and where supranational institutions are becoming more and more important – especially in Europe. Finally, *Paul Demeny* resumed his ancient doubts that an ageing electorate might not be far-seeing enough in its voting and policy choices and suggested correctives, whereby the young and/or the parents should weigh more than they currently do in the political arena.

Gustavo De Santis offered a colourful analysis of what pay-as-you-go public pension systems can and cannot legitimately do, and suggested that a different perspective be adopted in this field, which would lead to the creation of a new typology which he himself labelled Almost Ideal Pension Systems, or AIPS. This typology is characterized by a sharp distinction of the terms of the problem in three categories: constraints, choices and consequences, which in turn, become constraints for the next step of the decision tree. While the constraints are more or less standard (e.g. survival conditions; current age structure of the population; employment and productivity; budget balance; etc.) the originality of the approach lies in the variables of choice (e.g. average share of life passed as a young, an adult and an old person; the relative standard of living accorded to the old – and the young – with respect to the adults; and the trade-off between actuarial equity and solidarity), in the suggested sequence of constraints and choices, in the particular use of the stationary population (as a "reference" age-structure), and in the outcome, by which virtually all of the current difficulties of PAYG (Pay-as-you-go) pension systems seem to dissolve, in (almost) all demographic or economic scenarios.

The following two papers in the session centred on macro variables and questioned the viability of current arrangements in the face of the likely demographic and economic changes of the future, up to 2050. *Luc Godbout* focused on the specific reality of Quebec, while *Fernando Gil-Alonso* considered 31 countries: those of EU-27, plus Canada, Japan, South Korea and the USA. Both papers argued that ageing will make things financially less sustainable: either by increasing the public deficit (*Godbout et alii*) or by aggravating the pension burden (*Gil Alonso*). There are possible counteracting forces, luckily, ranging from more immigration, to higher fertility, from later age at retirement to more participation of women in the labour market, from less age-specific health spending (if health conditions improve) to higher labour productivity. Their simulations show that while each single variable (or policy measure) will likely prove insufficient in itself, a proper combination of several options (including immigration) should produce acceptable results: the good news is that we are not doomed, but the path to salvation is narrow and will require some effort. The proper policy mix will likely differ in each country, depending in part on the initial situation and in part on choices and preferences.

Social norms and intergenerational ties

As *Valeria Bordone* highlighted, both micro and macro aspects should be taken into account in order to understand cross-country differences in terms of solidarity between elderly parents and their adult children. In particular, social norms seem to play a key role in shaping behaviours, here measured by the frequency of contacts between non co-residing relatives (parents and children). The paper focused on several European countries and included an interesting discussion on the specificity of Eastern European countries in this framework.

Maria Letizia Tanturri presented evidence on how much time Italian parents devote to their children. Time is an important (and scarce) economic resource, usually exchanged between generations, typically from parents to children. In Italy, when a first child is born, parents spend about 25 hours a week on childcare. This cost in terms of time decreases as children age, but it remains high throughout, up to junior secondary school, and is mainly shouldered by women.

Finally, the paper by *Janice Keefe, Jacques Légaré, Patrick Charbonneau and Yann Décarie* forecasted the amount of hours of help provided by adult children to the needs of their old parents with long-term health problems. Survey data indicate that children devote several hours of their time to support their old relatives in need. This information can be combined with demographic forecasts: for some years in the future there will still be a sufficient "supply" of children, because of the lingering effects of the baby boom, but, in the longer term, children will start to become a scarce resource, and this will call for alternative, more costly forms of support, that require preparations, e.g. in state policies and in the recruitment practices of home care agencies in the marketplace.

Socioeconomics of intergenerational relationships

Jacques Légaré, in his joint work with *Amelie Cossette* focused on the differences between the pre-retirement financial situation of the baby boomers and of their "fathers", in Quebec and Ontario, where "fathers" actually stands for "the generation born 30 years or so before". Incomes of the Ontarians, both boomers and parents of boomers, are higher than those of the Québécois throughout their whole life cycle. However, in both regions, especially in the period immediately before retirement, the income of the baby boomers is markedly higher than that of their parents. The main conclusion that emerges is that recent generations are better equipped to face their retirement years than previous generations were, and that the frequently voiced worries about the future (e.g. because of ageing, lowering pension benefits, and the like) may be exaggerated, in this respect.

In Asian societies, the number of elderly people who rely on support from their children seems to be particularly high. *Jinkook Lee's* analyses of the Republic of Korea show that the prevalence of downward transfer (from elderly parents towards their adult children) is indeed limited: upward transfers prevail, and children still play an important role in providing old age income security for the elderly. This happens both through co-residence, so that resources are shared within the household, and through private transfers, that emerge especially when the elderly are poor. Data from the 2006 Korean Longitudinal Study of Aging, however, support the widely held fears that public transfers may crowd-out private support: the more welfare agencies give to elderly in need, the less adult children feel obliged to intervene to support their parents.

While low-income older parents are financially dependent on their children's families, high-income older parents tend to support their children's (especially their daughters') families. At least this is what emerges from *Taizo Motonishi's* study of Japan. For several

reasons, money exchanges depend greatly on the sex of the child. Older parents have therefore different probabilities of becoming financial burdens on, or sources of support for, the families of their sons and daughters, and different probabilities of forming extended families, i.e. of living together with one of their descendants.

Living arrangements

The physical and emotional well-being of elderly persons depends strongly on (and, at the same time, is one of the determinants of) their living arrangement. *Nico Keilman* and *Solveig Christiansen* show that the share of individuals aged 80+ who live with a partner will likely increase in the interval 2002-2032: from 54% to 77% for men; and from 15% to 26% for women. This trend depends in part on the current household composition of those who are now aged 50+ years (they are more likely to be married than it was the case in the past), on the likely future course of mortality (which is decreasing, and will make widowhood less likely at all ages), and on the fact that the increase in divorces affects only marginally those currently aged 50+ years.

Families can be powerful agents of support when financial and health conditions are scarce. *Yulia Lezhnina* showed evidence of the Russian situation, trying to measure how much younger relatives living together with retirees contribute to ease their life. Survey results indicate that one-third of pensioners (either lonely, or with other pensioners) get no help from relatives and friends. However, nearly 45% of pensioners live together with relatives of working age and this generally proves highly beneficial for their standard of living.

As long as the economic situation remains dire, and young people's expectations for the future remain pessimistic, the formation of multigenerational households seems to be an accepted practice, at least in certain cultural contexts, among which Bulgaria. As *Laura Bernardi's* and *Kristen Ghodsee's* qualitative analysis shows, whereas in countries such as Italy young adults delay marriage and childbearing until they are independent from their parents, Bulgarian young people tend to start their life as a couple and also to have children even while they are still with their parents because they cannot afford to live autonomously.

Research priorities and policy implications

A number of research priorities were identified during this seminar. Research studies that explore the role of young people in ageing societies, that trigger behavioural changes within the couple (gender roles) and that link the individual (micro) perspective with the national or even the supra-national (macro) institutional influence are encouraged. Also needed is research that sheds light on the continuity of intergenerational relationships in order to understand whether demographic change, along with economic variations, will modify existing arrangements and institutions, and, if so, in what direction.

Several areas that call for policy interventions, or at least monitoring, were identified, including reform of the pension systems, health care for the elderly, but also child care in order to increase female participation in the labour market. Seminar participants repeatedly insisted that all adjustments (e.g. in the pension system, or in long term health assistance, or in any other domain of social policy) should be made keeping two constraints in mind: guaranteeing intergenerational equity and long term sustainability, but also accounting for the tradition of each country, e.g. in terms of the equilibrium between individual, family, and state responsibility. However, it was also forcefully made clear that the existing balance of, for instance, formal and informal support relies on preconditions (relative number of old people,

family structures, role of women in the labour market, etc.) that will most likely not hold in the near future, especially once the still beneficial effects of the baby boom will have turned into a burden (more elderly, fewer adults): a change in the prevailing modes of intergenerational support might be needed sooner than most people, and most policy makers, seem to anticipate.