

Abstract

Generational accounting is a technique above all designed to evaluate the sustainability of the public sector's budget policy. In its basic form, developed by Lawrence J. Kotlikoff and others, it has not very much to say about the economic living conditions of e.g. those born in the 1960s as compared with those born in the 1940s. First, the technique is basically concerned with the individuals' economic relations to the public sector only – their tax payments less their receipts of current transfers (the so called net tax payments). Their income in form of e.g. wages and salaries, certainly much more important for their welfare, is not at all included in the calculations. Second, only future payments are normally included, which of course makes it impossible to compare the life-time conditions of generations of different age, unless the calculations are completed with historical data (which are difficult to obtain at the generational level). Third, and as a consequence of the previous remark, the results are typically presented as the relation between the life-time net tax payments of those newly born and those not yet born. Both these "generations" have their full economic lives in front of them, and thus the future payments are the relevant ones.

In the calculations the newly-borns are supposed to pay taxes and receive transfers according to in principle the rules prevailing at the outset. The future generations (the not yet born people) have to take the burden of fulfilling the intergenerational budget restriction. The latter says that future generations' net tax payments in present value are equal to (a) the governmental net debt in the starting point of the calculation, plus (b) the present value of all future government (collective) consumption, minus (c) the now existing generations' net tax payments in present value. Thus, a crucial assumption is that, for computational purposes, the now living and the future generations have to pay net taxes according to different sets of rules.

Another assumption, much debated, is that all contemporary govern-

ment consumption (and also investment for that matter) reduces the net wealth for those not yet born. The building of highways or educational activities, for instance, have no value for economic life in the future. The bequests in the form of government bonds have no real value to future generations, since the budget deficits of the parental generation are assumed to have crowded out productive investments that the children otherwise would have benefitted from.

The usual model specification requires a real rate of interest which exceeds the real economic growth in the long run – by contrast to the assumption often made in other contexts. Furthermore, the results of the calculations are highly sensitive to the actual assumption made for the interest rate in relation to the economic growth rate.

A main result for Sweden is that the measures already taken in later years, in the taxation and social security fields, are almost sufficient to make newly born and future generations net tax payments equal, provided however that the economy rather soon returns to "normal" levels concerning unemployment and other aspects of macroeconomic activity. The latter not being the case, future generations payments will by far exceed those of the newly-borns. If the government's plan for continued restauration of the public finances is followed, and if the economy recovers according to the latest Medium Term Survey from the Ministry of Finance, it seems as if the future generations have to make rather less net tax payments than the newly-borns. The high degree of uncertainty in the calculations must be stressed, however. The results here are obtained using an interest rate which is one percentage point above the growth rate. At higher interest rates they are less favourable for the future generations.