COMMENT

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I find the papers included in this section particularly stimulating and interesting. Each paper provides useful intuitions and important information. A different question is whether additional knowledge can be gained by considering all the papers together. My tentative answer is that this additional knowledge is probably limited.

As has already been pointed out by Franco and Balassone, there is a large dishomogeneity across the papers in the assumptions and methods, so that we cannot compare the results across countries. For example, the forecasts in the contribution of Bogaert for Belgium rest heavily on the assumption of a steady increase in employment; in the paper by McMorrow and Roeger, instead, the financing of the economic consequences of population ageing with tax increases leads to a large fall in employment. It is particularly difficult to compare the papers as they also have different aims. The contributions concerning Italy, the UK and Belgium provide long-term forecasts of expenditure, the paper by McMorrow and Roeger seeks to assess the impact of rising taxation; the paper by Martinez-Mongay examines past trends to determine long-run relationships between fiscal indicators and structural factors. In view of these difficulties, I decided to focus my discussion on what I believe are important issues which are missing or not sufficiently developed in the papers.

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One such issue is certainly the treatment of taxation. In the paper by McMorrow and Roeger, tax developments are exogenous and the impact of a rising tax burden is assessed by model simulation. The contribution by Martinez-Mongay can be seen as a useful preliminary step in making a forecast, as it seeks to assess whether past trends carry useful information on the long-run relationship between ageing and tax revenue. The difficulties in projecting long-run tax trends are exemplified by the paper by Kinnunuen and Kuoppamaki, who assume that "tax competition leads every country to the European average". While the effort to find a set of hypotheses consistent with European integration in a long term perspective is interesting, it is probably inadequate to assume homogeneous taxation and, at the same time, dishomogeneous expenditure, as tax and expenditure are very much related. A possible alternative might be to consider convergence only in the taxation of very mobile incomes. However, especially for these incomes, competition does not necessarily lead to the current average tax rate.

When forecasting expenditure I believe there are three issues that deserve to be taken into account: the future needs the public sector is likely to have to meet, the degree of control exerted by the Government over different expenditure items, the behavioural reactions of economic agents to changes in expenditure and tax rules.

As to the first issue, together with the budgetary implications of current arrangements, our forecasts should try to take into account the needs of the population whose cost is likely to fall on the public sector. As an example, consider the Italian case. If in the late fifties we had produced a mechanical 50-year-projection for public expenditure in Italy, taking into account the legislation existing at that time, we would have obtained very reassuring results. The social security system had a very limited coverage and was very parsimonious. A very different picture, very likely to be much closer to actual developments, would have emerged if we had considered as transitory the existing disparities in coverage and generosity of the Italian social security system with respect to other industrialised countries.

With reference to the papers presented in this workshop, this perspective may lead us to question the realism of long term forecasts based on the constancy of the existing rules governing the UK system (discussed in the contribution by Miners). I am referring, in particular, to the fact that basic pension benefits are indexed to prices only, which implies a trend decline in their ratio to GDP. Are these rules really sustainable? We may eventually reach a positive answer to this question, but on the basis of a wider analysis, which would encompass, *inter alia*, an assessment of the efforts by the UK Government to foster and expand the II and III pension pillars. A less extreme case is provided by the social security systems in Italy and in Belgium, where pensions, after being determined at the age of retirement on the basis of past wages or social security contributions, are indexed to prices. We should discuss the likelihood of a change of these rules in the future, taking into account the expected widening of the gap between new pensions and those of older beneficiaries.

As for the second issue, in this workshop it has been pointed out that many expenditures are not beyond the control of Government. It is true that the degree of control varies across expenditure items. A certain leeway certainly exists in the case of health, where the Government can certainly shift to the private sector some categories of interventions or of patients (for example those relatively wealthy). This leeway may lead us to question the assumption, used in the paper on Belgium, of an above-unity value (1.15) of the elasticity of health expenditure with respect to GDP. If the growth of income is particularly strong, it may be easier for the Government to limit its commitments in this area. Government can affect pensions in a less immediate and effective way than health expenditure, not least owing to the link between pensions and contributions. We should strive for a concept of sustainability which would take into account the different degrees of control Government has over different expenditure items.

The previous point dealt with the possible reactions of Government to changes in the environment. Another issue, which I consider important, refers to the reactions of households and firms. It is particularly important to take them into account in the case of Italy, where the legal framework will change a lot in the next decades (as is pointed out in the contribution by Aprile and Sidoti). Again, my concern is that one should go beyond mechanical forecasts and assess the implications of these changes for a number of important choices made by economic agents (e.g. those concerning saving and the retirement age).