COMMENT

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Introduction

I think that it is a good thing that one of the sessions in this workshop on fiscal sustainability discusses Generational Accounting (GA) and its application to a number of countries. In my opinion, GA very much presents to policy makers the basic trade-off involved in designing policies to achieve sustainability, which is deciding on which generations will eventually pay for the policy adjustment. Certainly in the coming decades, with an ageing population, the result of this kind of calculation is not so transparant. Moreover, apart from this intergenerational equity issue, GA may also lead to political decisions which enhance efficiency. This is the case if tax rates are set at a sustainable level as a result of the forward looking GA exercises. As we know, a constant tax level is generally assumed to minimize the total excess burden over time.

Now I'll turn the papers and discuss them more or less separately.

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Comments on Leibfritz' paper

I very much agree with the advantages of GA which Willy highlights. I myself have been an intensive user of GA over the last couple of years, applying GA to the Netherlands. Especially its forward-looking properties and its comprehensiveness are important elements in assessing the sustainability of fiscal policies. It is a far better instrument to do this than the deficit or government debt, which are the traditional measures.

However, I also have some (more or less critical) comments on your paper. The first applies to the two measures used to express the extent of the generational imbalance. I think that there are better ones. The absolute difference in net taxation between a newly born and future generations has the drawback that it does not accurately provide an idea of its significance. It would therefore be better to express this difference as a percentage of an estimated lifetime income. The other measure, the *percentage* difference between future generations and a newly born, has the additional drawback of being very sensitive for the denominator, the net taxation of the newly born. Another disadvantage of these measures is that they assume that current generations will fully escape the required adjustment of an unsustainable policy. For the present generations fiscal policies remain unchanged for 100 years, which is rather unrealistic.

As a measure of unsustainability I therefore prefer another indicator, namely the immediate and permanent adjustment of some tax or transfer and that expressed as a percentage of GDP. That expresses how far you are from a sustainable policy. Another good measure is the present value of it, the sustainability gap, which is advocated by Bernd Raffelhueschen and is also employed by Manzke and Cardarelli.

My second remark refers to the real interest rate of 5% used in the benchmark. It strikes me as a bit high for Europe and Japan, especially in the coming decades with the high savings related to the ageing population. Japan presently has an interest rate of 2 or 3%. The results are sensitive to this assumption.

In your last paragraph you say that it is important to make the issue of ageing transparent. Obviously, GA performs this task. However, in my opinion, this transparency could be enhanced even further if the GA's would be translated into annual budgets. This would facilitate the communication with the politicians. It would also provide a link with the traditional tools of assessing sustainability, such as the deficit, and help to transform policy objectives with respect to generational distribution into the more concrete targets for the deficit or debt. GA would then become more intuitive which was one of objections to it brought forward by Balassone yesterday.

Comments on Manzke's paper

My first question about this paper is about the choice you made to extrapolate the narrowly-defined current fiscal status-quo and not to include automatic changes inherent in the present fiscal system. Why did you choose this method? By doing this you are not measuring the required further adjustment of fiscal policies. And would you also object to taking account of changes in the economic environment, such as changes in labor participation? Could you elaborate on that?

I also have a question about making separate GA's for men and women. You did this as well as many other countries. I don't understand the point of the extra effort of doing this. Suppose that women have a smaller net-tax burden than men. Would this be a reason to raise tax rates for women? It doesn't seem politically feasible or realistic.

Another important point is how to assign taxes and benefits within families. It might be argued that children bear part of the burden of the taxes paid by their parents as net household income income is reduced by the taxes and the effect of it is mostly distributed over the whole family. Yet, most GA-studies assign the full tax burden to the parents. This choice seems correct if one wants to measure the sustainability of present public arrangements because the parents pay taxes or receive the benefits.(Future taxes and benefits will fluctuate with the number of parents, apart from childs allowances). But if one wants to measure intergenerational distributional effects assigning part of the taxes and benefits to children would probably be better.

At some point in your paper you remark that a moderate increase in the burden for future generations could be justified because they are richer. However, one has to be very careful about this kind of policy line because future generations, say those living 50 years from now, would then have the right to do the same and thereby to increase the burden for the generations living 50 years after they do. This would involve a permanent increase of net taxation, which could have detrimental effects on incentives and growth.

Comments on Hebbink's paper

1) It seems to me that this paper exaggerates the scope for raising productivity by raising government investments. In your main variant government investments are increased from 2.5% of GDP to a permanent level of 5.5% of GDP. However, at present in the Netherlands some of the main infrastructural projects under consideration are already being critisized for their low profitability. These are plans for railways and a plan to enlarge the harbour in Rotterdam. Moreover, in case of a permanent level of government investment of 5.5% of GDP, the ratio of public capital to GDP would reach a steady state at extremely high levels. It seems difficult to imagine that this increase will have the beneficial effects you impute.

2) A second comment of mine is methodological. As far as the investments increase productivity, your extension of the GA-methodology improves the measurement of the sustainability of fiscal policy because it takes account of the higher tax revenues that result from it.

However, the accounts you present do not represent the relevant trade-off for policy makers because these accounts do not include the higher before-tax private incomes that are generated by the government investments. In your model these private incomes are not given as they are in most GA exercises. I would therefore suggest to include the higher private incomes in the results you present. Moreover, it would be necessary to not to include government investments in your net tax concept because these investments don't produce a benefit at the time of the investment. Their benefit lies in the higher *future* private income levels.

Comments on Gjersem's paper

I don't have much to say about this paper. I only received a summary of it. What strikes me about Norway is that it seems that its policies are so fiscally prudent. It hasn't spent the temporary oil revenues in the past. In your paper you state that budget surplusses are necesarry in the coming years to secure generational balance. Do you think that these surplusses will also be realised? Aren't the politicians eager to spend it, as some of them are in other countries? In selling the policy, isn't it a problem that future, richer generations will benefit more from the oil revenues in absolute terms than the present generations do. This is implied by the GA methodology which attributes an equal benefit relative to income.

A strong point of the Norwegian way of performing the calculations is that it adjusts for the cyclical impact on the budget. You are probably one of the few.

Comments on Cardarelli's paper

I only received an English summary of the paper and therefore only have two comments on it. The first is that you chose not to include likely future changes in the economic structure (or in immigration). Isn't this inconsistent with your objective which is to measure potential tensions implied by the continuation of present policies?

And my second question: Why did you make separate accounts for males and females?