



# Comments on „UK: demographic change, intergenerational inequality and fiscal sustainability“

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## Demographic trends in UK

- The paper analyses the effects of demographic change on inter-generational inequality
- This is an important topic in the UK because aging is the outstanding characteristic of the demographic change
- In contrast, population is still growing due to a relatively high fertility rate and immigration
- However, the importance of both factors is important because it is likely that the Brexit will lead to a considerable decline in immigration

## **Aging and inequality: Three comments**

- Sources of the increasing inequality during the demographic transition
- Importance of inheritances for the increasing inequality
- Meaningfulness of increasing the retirement age.

## Aging and wealth inequality in a neoclassical growth model

- The effect of a change in the age composition of the population depends on the cause of this change
- A reduction in population growth rate decreases the wealth inequality. The reason is that older people have accumulated more wealth. If the group of older people is getting larger and the group of younger people are getting smaller this lowers inequality.
- In contrast, an increase in life expectancy raises inequality. In this case people accumulate more assets. This leads to a higher concentration of wealth.
- It is assumed that all households are able to save.

## An example

Decomposition of the Change in the Gini Coefficient with Life Expectancy Changes

	<i>R</i> constant			<i>R</i> varying		
	<i>J</i> = 53	<i>J</i> = <i>J</i> <sub>bench</sub>	<i>J</i> = 83	<i>J</i> = 53	<i>J</i> = <i>J</i> <sub>bench</sub>	<i>J</i> = 83
Gini	0.37	0.45	0.46	0.40	0.45	0.53
Total effect		+0.08	+0.01		+0.05	+0.09
Effect of <i>a</i>		+0.22	+0.22		+0.20	+0.29
Effect of $\pi$		-0.15	-0.21		-0.15	-0.20

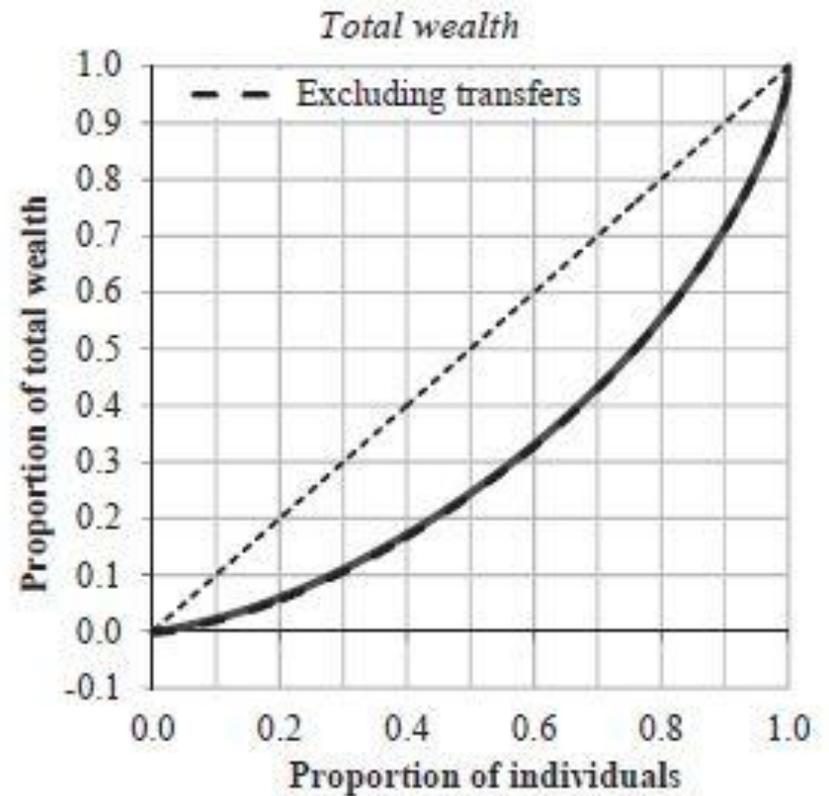
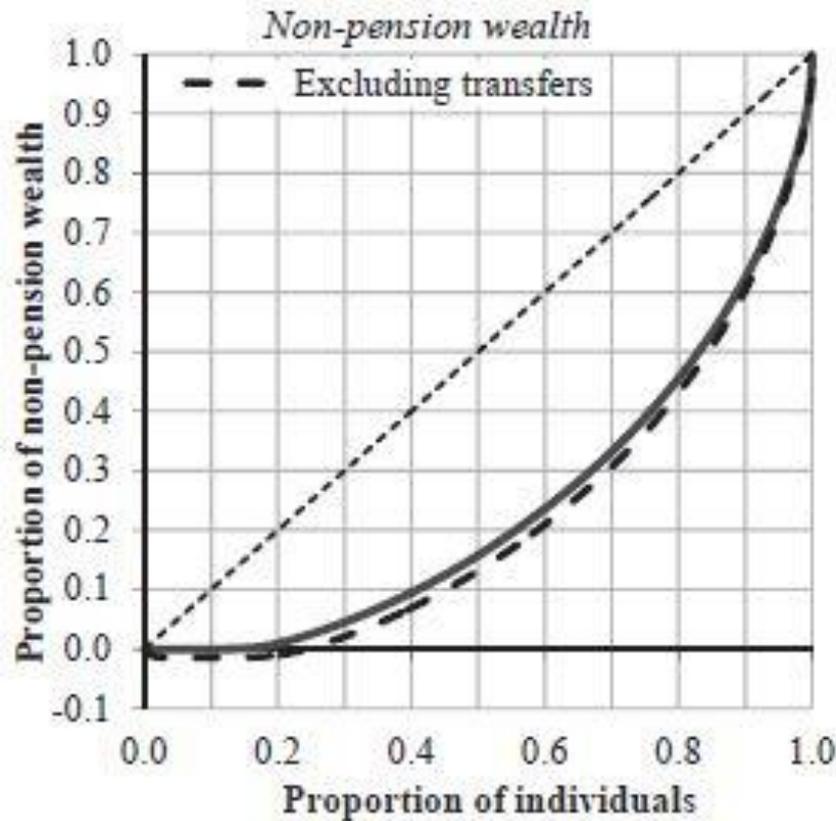
Source: Vandenbroucke (2016).

## Inheritances and the distribution of wealth

- The relative importance of inheritances and other intergenerational transfers in determining the lifetime economic resources of individuals is widely thought to be increasing over time. This has led to concerns about widening intra-generational inequality.
- Inheritances are smaller in absolute terms for those lower down the wealth distribution, but they are more important relative to other wealth holdings. Inheritances therefore act to make the distribution of non-pension wealth less unequal.
- However, this inequality-reducing impact of inheritances and gifts shrinks (or even disappears) when public and private pensions are included in the measure of household wealth.

*Source: Crawford and Hood (2016).*

# Lorenz curves for wealth



# Pros and contras of raising the retirement age

## Pros

- People are getting older and stay healthy longer
- The old age dependency ratio increases considerably
- At least some people are willing to work longer

## Contras

- Workers who earn low wages throughout their careers have seen little improvement in life expectancy
- Some professions are inappropriate for longer workinglife for different reasons