

*The ΕΕΑΓ Report on the European
Economy*

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Main contribution of chapter two

- *Comprehensive analysis, raises important points and invites to further reflections on the topic*
- *Generational contract is under threat:*
 - *as the age of the median voter increase, politicians become more biased towards the elderly*
 - *The young voters might opt out (through migration they exit the national scheme)*

The Not in Employment, Education and Training (NEET) indicator – difficult to interpret

‘Those not in employment or education are those who are so discouraged that they opt out of the formal labour market and training altogether’

- *The interpretation of this indicator should be handled with care, equating NEETS with discouragement is overstated*
- *We talk about youth which can either be unemployed or inactive and not involved in education or training*
- *See example of Spanish NEETs*

Spain NEET youth, 2013



The pension challenge

PAYG systems are under threat due to fading productivity and increased longevity.

→ *As a solution, switch from defined benefits to defined contribution*

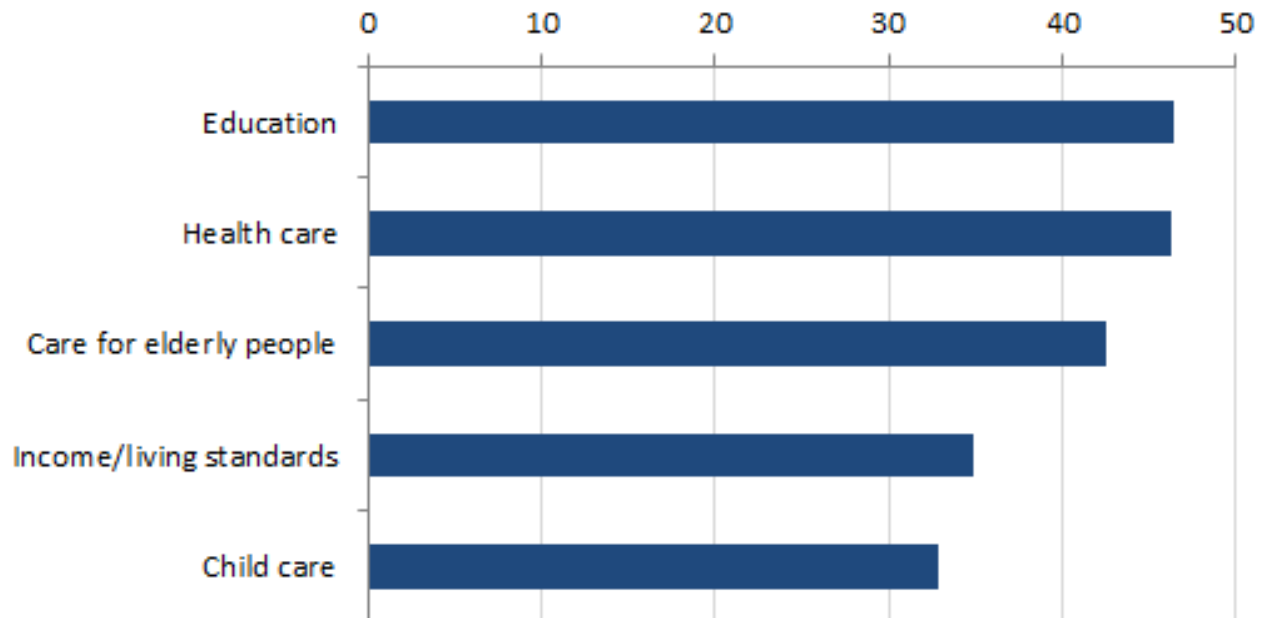
- *defined benefits: the cost will fall on the YOUNG, as contribution rates increase to sustain the defined benefits*
- *defined contribution: the cost will fall on the ELDERLY, as fewer contribution are paid in, reducing the benefits payed out.*

→ *On the extreme, both are 'unsustainable'*

- *Better: we identify a stable and equitable intergenerational contract that assures both old and young*
- *The Musgrave rule: both contributions and benefits are set as to maintain a constant benefit rate (which is defined as average pensions divided by average wage) as an alternative*

A more positive outlook

Thinking about the future public welfare system in your country how important should the following aims be? Diagrammed is only the "Extremely important"-option.



Vision Europe Survey, 2015

Thank you for your attention

References:

Hüttl, Wilson, Wolff (2015) 'the growing intergenerational divide in Europe' Bruegel PC 2015/17

<http://bruegel.org/2015/11/the-growing-intergenerational-divide-in-europe/>

Hüttl (2015) Charting public opinion on the future of the welfare state <http://bruegel.org/2015/11/charting-public-opinion-on-the-future-of-the-welfare-state/>