

Preferences of The Elderly towards Intergenerational Transfers Stumbling Block for Future Social Policy Reforms in Germany?

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Introduction

Demographic change is radically altering the relationship between generations, especially when we look at public sector transfers: it is clear that increasing longevity and low fertility rates are exerting increasing pressure on almost all Western European social security systems. As the percentage of older people grows, more and more money has to be spent on benefits for the elderly, in particular pensions. In Germany the share in the total population of people aged 60+ is expected to rise from 27.2 % in 2000 to 49.2 % in 2050 (Adolph and Heinemann 2002). As the number of younger people, especially at working ages, declines, the financial burden for each member of this group increases significantly. National budgets may also be affected in terms of increasing deficits if governments cannot simply transfer all costs to the younger tax payers immediately. Nevertheless, it seems that under current social systems younger people will have to pay the price – in terms of taxes – for increasing longevity.

In 1984 this issue was broached by Samuel Preston, who claimed that higher benefits for older people in the USA were financed by cutting benefits for children and younger people (Preston 1984). The latest OECD-report on educational systems lends support to this hypothesis as far as Germany is concerned: The German national budget is providing fewer and fewer resources for education whereas the costs for pensions are exploding (OECD 2004).

In light of recent demographic changes, social systems have to be reformed substantially; but room for reforms may be small. Benefits for older people will have to be cut

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to a certain extent (e.g. by increasing the retirement age). Whether older people will be willing to accept reductions in their benefits largely depends on their political and social attitudes: Are older people driven by “altruistic” motives and willing to contribute to the reduction in burdens on children by lowering transfers to themselves? Or are they “egoistic” in the sense that they prefer to maintain or even increase the level of transfers to themselves? Are these attitudes determined by age/membership to a certain generation? What role do other factors such as socio-economic status or the number of children play? In fact, the question whether a person remains childless or not may determine the extent to which this person is “altruistic”, i.e. accepts public sector transfers to the younger generation.

In terms of research, the question of intergenerational transfers and demographic change has been addressed mainly by economists aiming at measuring the extent and direction of transfers between generations as well as by sociologists respectively psychologists analysing the underlying motives of transfers. The latter, two, however, focused on private intergenerational transfers rather than public ones. This paper aims at complementing the few existing studies on preferences toward public transfers in Germany by addressing the following questions: Firstly, what are the current preferences of the elderly towards public transfers in Germany? Secondly, which socio-demographic indicators (age, parity, social class) influence these preferences? Thirdly, do the identified preferences have the potential to limit future social policy reforms?

The importance of preferences within the study of intergenerational transfers

Why is it important to consider preferences when we want to analyse intergenerational transfers?

First, the question is important from a pragmatic point of view, as in the scientific world taking into account preferences brings in its wake three main methodological problems. As information on preferences can be retrieved solely by asking individuals, there is the danger – as with all other surveys – that the expressed attitudes are unsystematic and contradictory. Furthermore, it is not clear to what extent people’s preferences comply with their actual behaviour. Finally, people may answer to sensitive questions in accordance with social desirability rather than not according to their actual beliefs (Swift et al. 1995).

Apart from these conceptual difficulties, it would be possible to explain behaviour between generations – within the family as well as the public context – by more reliable socio-demographic variables such as income and wealth of the giving generation respectively by the needs of the receiving generation. Relational aspects such as

geographical distance, emotional closeness or the frequency of contact between the young and the old also may serve as explanatory variables for transfers.

However, an explanation of transfer giving, which is solely based on these socio-demographic or other objective criteria must remain incomplete (Kohli and Künemund 2001). The current pension policy debate in Germany provides an apt illustration why motives or preferences – in this case public acceptance of the so-called *generational contract* – are crucial not only for family but also for public transfer flows between the generations. As long as the generation in the working age perceives contributions to the pension system as insurance rates, that a fair – and not as taxes –, it seems plausible that workers are more willing to make these contributions to the elderly. On the other hand, a perception of pension contributions as being pure taxes create welfare losses by lower support for these transfers, e.g. in the form of an increase of activities in the shadow-economy (Börsch-Supan and Reil-Held 2001). Surveys show that at the beginning of the current German pension system in the early 1960s most workers perceived pension contributions as fair rates, whereas now the majority considers pension benefits as transfers to the generation of the elderly, which are only linked loosely to own contributions (Boeri et al. 2001).

A further reason of the importance of preferences arises from their relevance in structuring social relations as well as the political process. If the outcome of public transfer policies is conceptualised as a result of negotiations between generations (Razin et al. 2002, Preston 1984), changes in the preferences of large social (or age) groups – such as in the aforementioned example – serve as a crucial factor in forming the preferences of a generation toward certain policies. Thus, preferences are critical because they affect the acceptance of taxes and contributions imposed by the state at the individual level. They also condition the public acceptance of social security reforms on the collective level (Kohli 2005).

Methodological approach and data

The core of this paper is an empirical analysis of current levels and trends of preferences of people with different demographic and socio-economic characteristics towards public intergenerational transfers based on the Population Policy Acceptance Survey (PPAS) 2003 and 1992. This analysis will pay special attention to the preferences of the elderly as this is the group which is likely to be the most affected one by future social policy reforms.

A look at existing literature in the field of transfers reveals that most of the available surveys on preferences toward transfer neither provide sufficient information on public transfers nor contrast these questions with control questions for family transfers.

Furthermore, they often lack important additional information, e.g. on the parity of the respondents, a variable which is of particular interest for the research question at hand, as preferences toward public transfers may be heavily dependent on the familial situation.

For our analysis the two waves of the Population Policy Acceptance Survey (PPAS) 2003 and 1992 will be used. The 2003 wave has just been released for general use. This survey provides recent data on preferences and values with regards to intergenerational transfers – both family and public ones – and both waves have sufficiently big sample sizes (approximately 5,000 respondents) as well as sufficient information on other demographic, social, and political variables (including parity and party affiliation) in order to identify preference structures and changes of these structures, which may further limit the room for social policy reforms. Thus, only variables with questions concerning public transfers (pensions, retirement age, child care, financial support for the family etc.) will be analysed. As the method for analysis we apply logistic regression.