SUSTAINABLE PUBLIC FINANCES
EU PERSPECTIVES

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Intergenerational fairness

Introduction

Ensuring intergenerational fairness is one of the biggest challenges facing European policymakers today. Citizens are increasingly worried that they and their children may end up worse off than previous generations, challenging a key premise that has long underpinned societies: each successive generation would become better off than the one before.

Europeans are enjoying longer lives but combined with low birth rates, that means that the continent is ageing. This trend has important implications for future economic growth, fiscal sustainability and the fair distribution of resources between generations. As the EU reflects on a new vision for the future of Europe, considerations of intergenerational fairness are moving centre stage.

The ICAEW-PwC Sustainable Public Finances series is an initiative aimed at facilitating debate on how governments can promote greater confidence in the way they manage their public finances – for today and for tomorrow. The dinner in Brussels on 30 May 2017 with participants from EU institutions, different age group representatives, the finance profession and other interested stakeholders provided an opportunity to discuss the key challenges to intergenerational fairness and to consider potential policy responses. In this synopsis, we have captured some of the key areas and issues linked to the intergenerational fairness debate.

We would be delighted to receive your comments on the synopsis, please send them to: europe@icaew.com

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Challenges ahead

Costs for healthcare, pensions and other needs arising from an ageing population are forecast to spiral upwards over the coming decades. With the baby boomer generation withdrawing from the active labour market, this means that more has to be paid by fewer people if we want to maintain today's levels of pensions and welfare. At the same time, high levels of youth unemployment add extra pressure on public finances in many countries. Re-distribution of wealth is a subject of keen political debate and many see it as a central responsibility of governments. Whether seen or not in this way, there continues to be an important debate on the right balance between public and personal responsibilities. What is clear is that with less people in the active workforce, fair distribution is assuming an ever larger intergenerational dimension with focus on what a proportionate and fair share constitutes.

Today's intergenerational policy challenge ranges from employment to social affairs and healthcare, from education and infrastructure to pensions. It encompasses financial as well as non-financial liabilities, eg, in form of 'environmental debt' that we leave behind for future generations. Intergenerational fairness is as much about tangible as it is about non-tangible values that we as a society hold dear. It is about fundamental issues such as moral obligations, societal responsibilities and solidarity.

In a world of finite resources, there are competing policy priorities. Governments have to balance different demands and find sensible trade-offs. In the past, there was implicit intergenerational agreement that societal needs would be met. What has changed is firstly that the financial position of governments has largely worsened. Secondly, with an ageing population and rapid technological change the intergenerational aspects of policy trade-offs can no longer remain implicit. They need to be an explicit part of the public debate.

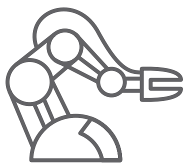
This dialogue ultimately has to address how a governments and societies can embed intergenerational fairness in policy-making. For instance, could there be an intergenerational fairness principle, similar to existing policy principles, such as the proportionality and subsidiarity (ie, think small first) principles at EU level?

PENSIONS

Pay-as-you-go pension systems of many countries will run into severe financing problems in the coming decades due to declining birth rates and increasing longevity. So what kinds of policy adjustment are required to enable society to meet the projected increase in the costs of retirement provision? Who bears the responsibility, governments or individuals?

YOUTH UNEMPLOYMENT

High youth unemployment has severe implications now and in the future. In the immediate sense, young unemployed people miss out on salaries and financial stability. They may postpone household formation, home ownership and parenthood. They also accumulate lower pension entitlements and are less likely to build up savings for the future.



AUTOMATION

Technological progress affects all generations, but often in different ways. Better healthcare and more accessible education will benefit many. But the rise in automation is likely to disrupt labour markets. Will there still be sufficient jobs in the future? Is investment in skills a solution or are more radical measures, such as the introduction of a basic income, needed?

The fairness conundrum

While intergenerational fairness is a societal objective to which most people would probably sign-up, it is less obvious to get agreement on what constitutes fair and unfair. For instance, would it be fair if you asked your children to pay your credit card bill? Would the answer to the question depend on what the credit card bill is for? This mirrors, in simplified terms, a particular policy conundrum which many governments face today, namely whether governments should take on debt to finance assets for the future. This question has gained further prominence in the context of historically low interest rates. But what happens if these rates rise again? Amongst other key challenges, adapting tax systems to changing labour markets and demographics will be critical. It is enough just to consider the debate on where the line stands between personal contribution and reliance on the state.

Today's generations (as both beneficiary and trustee of finite resources) benefit from what other generations have built and accumulated, while today's decisions and management of these resources strongly determine their availability for future generations. Some would therefore argue that intergenerational fairness means that each generation has to at least contribute as much societal wealth as it takes out. But how to measure the amounts each generation contributes or takes?

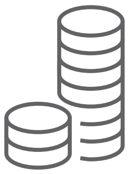
'Not everything that counts can be counted. And not everything that can be counted, counts.'
This quote from Albert Einstein brings out an essential point in the context of intergenerational fairness. Every day and week people from all generations make extremely valuable contributions to society as carers or volunteers. Such contributions are hard to quantify and often take place away from the public spotlight.

MIGRATION

Migration is another important element in this debate. Some see it as key to ensuring a better demographic balance. With the rise in automation, will this perception change? How will ageing societies view and manage cultural diversity that comes with migration?

HOUSING

Many young people, in particular in urban centres, find it difficult to afford housing. At the same time, addressing the issue of old age loneliness will become key. Intergenerational housing has become a growing trend. What else can governments do to ensure that housing policies remain fair for all generations?



INEQUALITY

Intergenerational fairness is intrinsically linked to inequality, including within generations. One way to alleviate inequality is by promoting social mobility. This requires strong education systems which facilitate inclusion of different social backgrounds through equal access.

The role of public sector accounting

A critical area where fairness can be better measured and considered is public finances. In many countries, governments and the wider public lack accurate and reliable financial information. Such information enables the effective management of finite public resources, enabling the delivery of immediate policy objectives and enhancing longer-term planning. It can also support governments in taking informed decisions on competing policy priorities and help citizens to test these decisions against a clearer financial picture. Europe's debate on better public sector accounting needs to be seen within this intergenerational context.

The purpose of accounting is to inform. Provide information which is useful to hold accountable those who take political decisions and provide information which is useful for the decision-making, decisions to be taken by various categories of stakeholders including citizens. When we talk about intergenerational fairness the challenge is to make sure that accounting and reporting reflects the full impact of the political decisions, including the long-term impact. How much of the future wealth is already consumed by the decisions which are taken today?

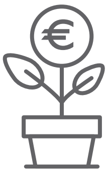
Examples include pension and other liabilities, for instance liabilities arising from financial guarantees given (eg, in the context of bank bailouts) and liabilities arising from environmental obligations. Modern accrual-based financial statements properly reflect the risks associated with certain financial transactions. Is it fair to enter into these transactions if the potential cost is likely to be for the next generations? Looking at the asset side, reflecting all long-term assets on the balance sheet forces governments to make conscious decisions on how to best manage these assets. Robust accrual accounting data can help develop cost accounting systems that provide the true cost of activities, social policies and programmes.

Accounting does not provide a judgement on whether decisions are good or not - this is a political debate - but just aims to transparently present what the financial impact of the decisions will be to inform the decision-making process, including the debate on intergenerational fairness. But governments cannot do it with very basic accounting rules: they need to aspire to best international practices, such as International Public Sector Accounting Standards (IPSAS). Publication of accrual-based accounts based on IPSAS or similar drives the parliamentary and wider public debate on government policies and public finance management.

The way forward

The intergenerational fairness debate has just started. In Europe, this reflects a growing perception that the crisis had a disproportionate impact on the continent's youth, who are also likely to be most affected by structural changes in the labour market, including technological disruption. As the demographic balance continues to shift, open debate about a fair balance between what is paid in and what is taken out by generations becomes imperative for ensuring social cohesion. Further policy efforts will be needed to strengthen intergenerational fairness, and to secure a positive perspective for all generations.

ICAEW and PwC will continue to work with policymakers, age group representatives and other key stakeholders to progress Europe's intergenerational fairness agenda. We trust that the insights from this synopsis will further inform debate by highlighting key areas and challenges. The debate on intergenerational fairness is not limited to Europe: it is a global one. As such, perspectives from Europe may also help inform discussions elsewhere, encouraging global improvements in the public interest. We hope that this report can stimulate the conversation, highlight some of the key changes needed and set out some steps forward.



INVEST IN THE FUTURE

In times of historically low interest rates, should governments use the opportunity to borrow 'cheap' money to invest in long-term assets, such as infrastructure or education facilities? If yes, in what should governments invest to turn incurred debt into assets that will pay dividends for future generations?

ENVIRONMENT

A key dimension of intergenerational fairness relates to the environment. How much 'carbon debt' do we leave behind to the detriment of future generations? How much are we investing in renewables to provide a more sustainable basis for coming generations? Do we need greater accounting for environmental liabilities and natural capital?

RESPONSIBILTIES

Many citizens see their governments as primarily responsible for financing education, social care and other areas linked to intergenerational fairness. But with rising costs, some of the burden is shifting towards individuals and families. But are citizens prepared and do they have the capacity to assume such responsibilities on top of other contributions, such as taxes?

Participants

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