

Generational Wealth Accounts: did public and private inter-generational transfers offset each other over the financial crisis?

forthcoming, *Economic Journal* (2022)

Dr David McCarthy, University of Georgia; Prof James Sefton, Imperial College;
Prof Ron Lee, University of California, Berkeley; Jose Sambt, University of Ljubljana

Overview

Generational Wealth Accounts (GWA) are comprehensive balance sheets, by generation, that include human capital, financial and tangible wealth, and public and private transfer wealth (1,2). They can be understood in two senses: first, they serve as the balance sheet (stock) counterpart to the flow accounts of the National Transfer Accounts (3); second, they extend Generational Accounting (4) to the whole economy. They therefore provide a comprehensive and integrated picture of inter-generational transfer systems and how they change over time. We estimated them for the UK 2005-2015, a period spanning the financial crisis.

Methods

Private generational account:

$$ga_{k,0}^h = \underbrace{\sum_{t=0}^{\omega+k} c_{k,t}^s \rho_{k,t}^r + \sum_{t=0}^{\omega+k} c_{k,t}^h \rho_{k,t}^r - \sum_{t=0}^{\omega+k} y_{k,t}^l \rho_{k,t}^r}_{\text{Life cycle demand for assets}} - \underbrace{\sum_{t=0}^{\omega+k} (\tau_{k,t}^{h,+} - \tau_{k,t}^{h,-} - \tau_{k,t}^{h,ROW}) \rho_{k,t}^r + \sum_{t=0}^{\omega+k} (\tau_{k,t}^{g,+} - \tau_{k,t}^{g,-}) \rho_{k,t}^r}_{\text{Transfer wealth}}$$

Per capita savings gap is the difference between demand for tangible and financial assets, after accounting for public and private transfer wealth, and assets actually held by each generation:

$$sg_{k,0} = ga_{k,0}^h - w_{k,0}$$

$$SG_0 = \sum_{k=-\omega}^{\infty} N_{k,\max(k,0)} sg_{k,0} = \sum_{k=-\omega}^{\infty} GA_{k,0}^h - NW_0^h$$

Aggregate Savings Gap

Public generational account and Fiscal Gap as in GA Fiscal Gap and the Savings Gap, equals the (4) (reversed sign). All per-capita profiles consistent with SNA, estimated using NTA methods (3).

Consumption Gap defined as the sum of the difference between total economy resources and uses (derivation not shown)

Results

¶ The old have over-accumulated assets relative to their future consumption plans; the young have under-accumulated assets relative to theirs.

¶ As a result, as much wealth is passed between the generations through the private sector (bequests or inter-vivos gifts) as through the public sector (taxes and transfers).

¶ Public sector in the UK deeply unsustainable, and worsened over the financial crisis.

¶ Private sector improved over the financial crisis, in balance in 2015. Overall consumption unsustainable given population aging.

¶ Aggregate consumption gap therefore barely changed: change in private transfers largely offset change in public ones over 2005-2015.

FIGURE 1: Private generational accounts by age (£000's, UK: 2015)

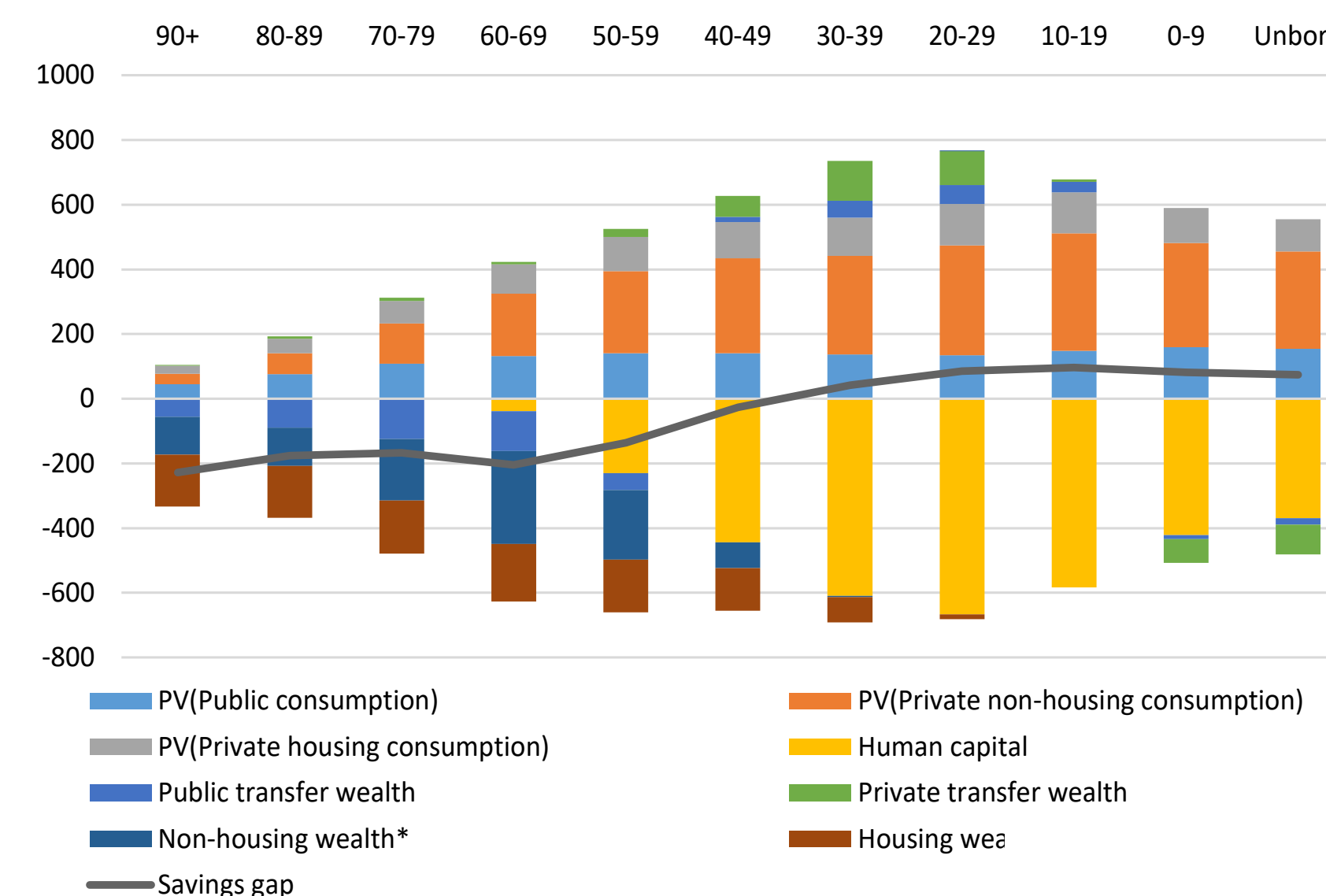
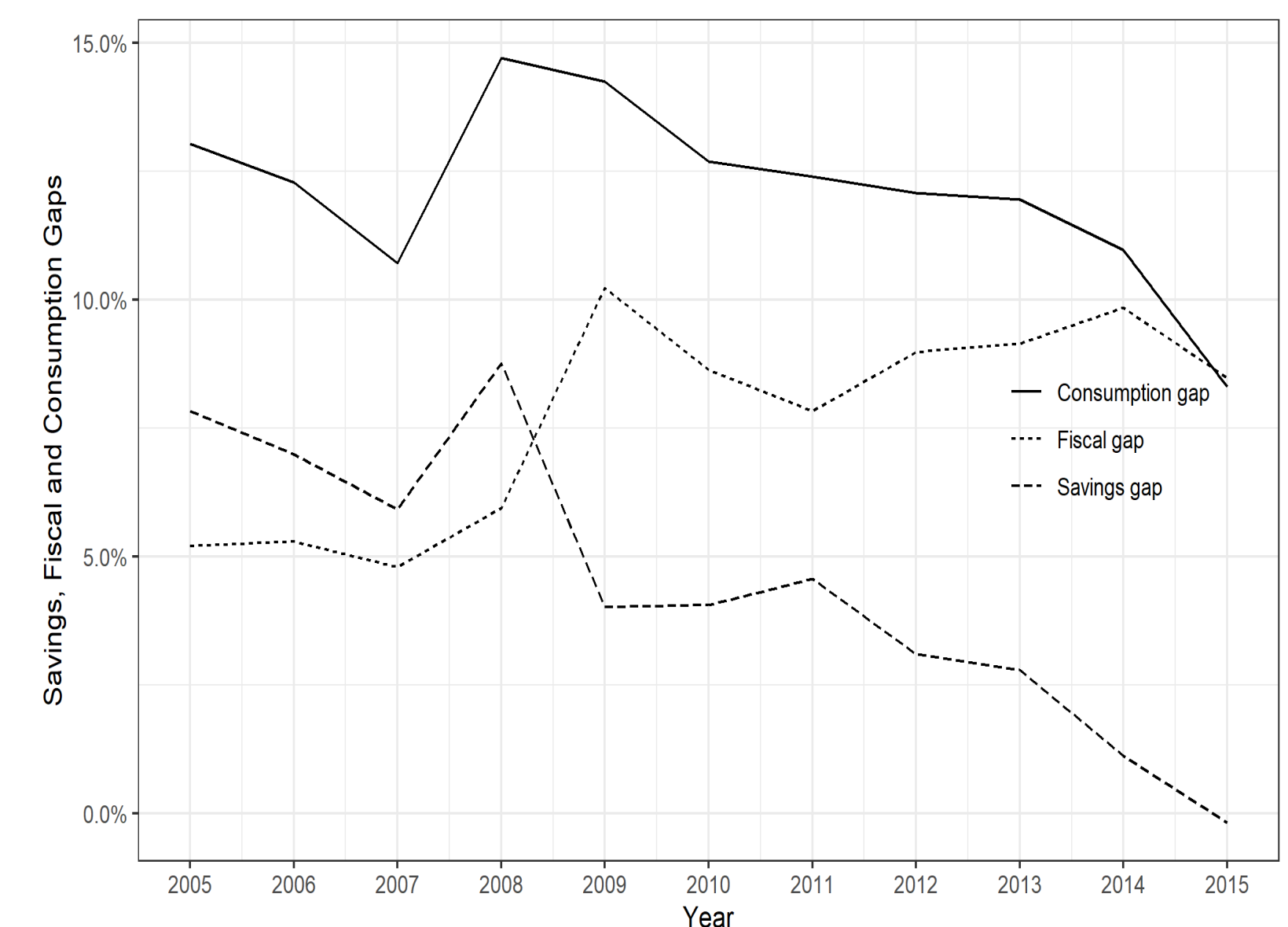


FIGURE 2: Fiscal, savings and consumption gaps (% of total consumption, UK 2005 - 2015)



(1) Lee, R. D. (1994). *Journal of Human Resources*, 29(4) 1027-1063

(2) Willis, R. J. (1983) *Chicago Population Research Center Working Paper*, No 83-16.

(3) United Nations. (2013). *National Transfer Accounts Manual*.

(4) Auerbach, Alan J., Jagadeesh Gokhale, and Laurence J. Kotlikoff. (1991). *Tax policy and the economy* (5) 55-110.