Slovenia from socialism to the market economy: rapidly increasing dependence on intergenerational (public) transfers

Tanja Istenič
Faculty of Economics, University of Ljubljana

Jože Sambt
Faculty of Economics, University of Ljubljana

December, 2015

Abstract

Rapid population ageing puts increasing importance on economic flows across age and intergenerational transfers in general. In this paper we employ the National Transfer Accounts (NTA) methodology measuring consumption and production at each age and how the difference between those two is financed through (private and public) transfers and interaction with assets (the "asset-based reallocations"). During working ages people produce more than they consume. This surplus enables them to finance the deficit of the young and old generations who consume more than they produce. Such a pattern of economic dependency is quite general across countries and times, but there can be large differences at which ages individuals are dependents and at which supporters. Also, the importance of private transfers, public transfers and asset-based reallocation varies across countries and times. In the past three decades the life expectancy at birth in Slovenia has increased rapidly, however the period where production exceeds consumption has shrunk rather than prolong. While children predominantly depend on private transfers, the elderly mainly rely on publicly provided transfers. Despite the increasing pressure on the sustainability of public finances, for both the young and the elderly, the share of private transfers decreases and they more and more rely on public transfers. Together with the rapid population ageing this will probably severely jeopardize the public finance system in the future.

Introduction

During their life, humans go through two stages of economic dependency: when being children and when becoming old. At these periods they consume more than they produce. This difference has to be financed through transfers (public or private) or through interaction with assets ("asset-based reallocations"), like return on assets, increasing debt, or reduction of wealth. In-between, during the prime ages, people produce more than they consume. The excess of labour income over consumption is used for transfers to the young and old and for the accumulation of wealth (Lee & Miller, 1994). This pattern is general across countries and times, but there can be large differences at which ages individuals are dependents or supporters. Also, the importance of private transfers, public transfers and asset-based reallocation varies across countries and times.

Transfers across age groups

We present the evolution of transfers in Slovenia using the National Transfer Accounts (NTA) methodology, a systematic and comprehensive approach for analysing economic flows across age groups. The NTA opened a new chapter in the System of National Accounts (SNA) by introducing the age dimension into the SNA. The NTA provide an accounting of economic flows from/to age-specific residents of a country (United Nations, 2013). The NTA allocates all components of income and consumption expenditures to individuals in different age groups. Various data sources including surveys, administrative data and aggregate controls are combined to calculate the results. The consumption at certain age that is not financed through labour income and public transfers should be financed through private intra-household transfers (families). By assumption household members with surpluses (their labour income exceeds their consumption) finance the consumption of other family members whose consumption is larger than their labour income. If the resources of all household members combined fall short compared to the total consumption of all household members, then the household head borrows resources from other households.

The age dimension is becoming very relevant because of rapid population ageing. Slovenian population projections assume that currently low fertility rate will gradually increase in the future, but at the same time the mortality will continue to decline, which will, together with the baby-boomers entering the age group 65+, strongly increase the percentage of older people. On the other hand, the share of working-age population is expected to decrease (Eurostat, 2014a). Because the age structure influences intergenerational transfers and those influence the economy, there is a need to analyse them carefully.

Changes in the age structure usually cause changes in consumption pattern, productivity level, and labour force participation. Next, due to increasing pressure of the population aging, changes in the pension system have been introduced. Furthermore, an increasing share of young people is enrolled in tertiary education, therefore, they enter the labour market later. In the course of development, public sector overtakes the function of care for children from the families. Consequently, the patterns of all economic flows, including private and public net transfers and asset-based reallocations change.

Data

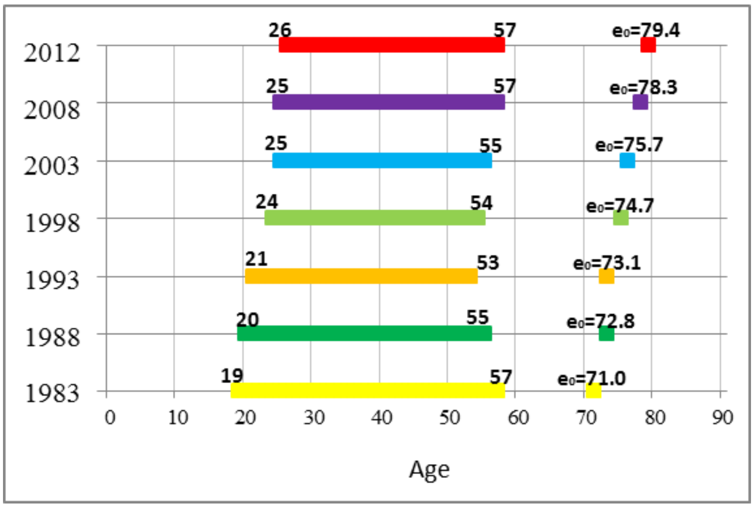
In this paper we present the NTA results for Slovenia for years 1983, 1988, 1993, 1998, 2000, 2003, 2005, 2008, 2010 and 2012. Between 1998 and 2012 the retirement was postponed by about 3 years, however, for about the same number of years also the labour market entry was postponed. The main characteristic of the Slovenian NTA results is a very "narrow" labour income age profile. It is striking how stable the age patterns of labour income were in Slovenia between 1983 and 2012 period – despite the transition from socialism to market economy in 1991 and despite the increasing pressure on the sustainability of public finances. Those results are in line with gradualism approach which Slovenia has chosen when transforming from socialism to the market economy. On the other side, the consumption age profile is relatively stable over all ages. This can be explained by offsetting between public and private consumption. As a consequence of living in an egalitarian income distribution system, Slovenians are very sensitive to an increased income inequality. There exists a high state involvement in the economic system. Consequently, private and public consumption sum up to a relatively stable consumption over the ages (Sambt & Malačič, 2011).

Results

During the last three decades in Slovenia the age pattern of lifecycle deficit (LCD), representing the difference between consumption and labour income, has gradually shifted to "the right" – i.e. into higher ages. At the same time the negative LCD (i.e. periods when labour income exceeds consumption) has shrunk considerably. In 1983 people were able to finance their own consumption in the age span of 39 years. This age span has declined to only 31 years in 1998 and 2003, while in 2012 it was 32 years. As presented in Figure 1, the age at which labour income exceeds consumption has rapidly shifted from age 19 to 26, which can be explained with strong increase in tertiary education enrolment. On the other side, the age at which labour income falls below consumption again has shifted from age 53 to 57 in the period of market economy. However, the age at which people become dependent again, has not changed at all between 1983 and 2012.

Compared to other NTA countries, Slovenia has not only the shortest lifecycle surpluses among all European countries but also one of the shortest in the world (National Transfer Accounts, 2014; Prskawetz & Sambt, 2014). This is a striking result taking into account that life expectancy at birth in 2012 was 79.4 years. Furthermore, in 1983 the life expectancy at birth was only 71.0 years (Eurostat, 2014b). With rapidly increasing longevity we would expect the period of negative LCD to considerably increase, not decrease. However, Figure 1 shows that even though the life expectancy has prolonged by 8.4 years in the past three decades, the period in which people produce more than they consume has shrunk from 39 years in the socialism times to 32 years in 2012.

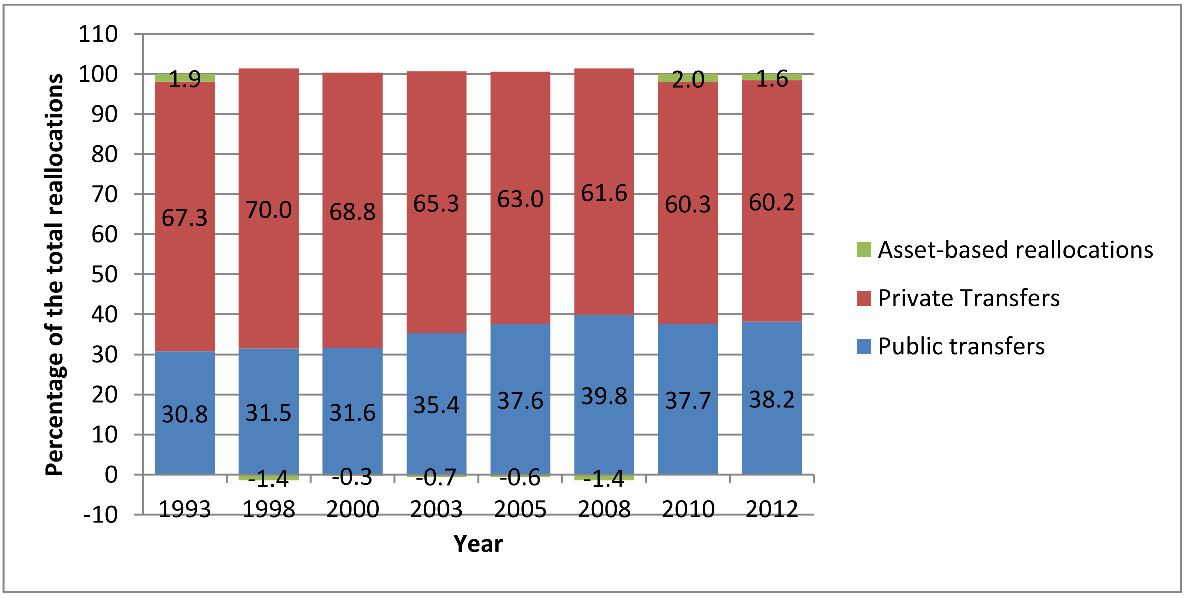
Figure 1: Negative lifecycle deficit and life expectancy at birth, Slovenia, 1983-2012



Sources: Eurostat, HBS 1993-2012, and various other sources.

We have been able to construct age profiles of transfers and asset-based reallocation for years between 1993 and 2012 but not for 1983 and 1988 due to the missing aggregate data. Figure 2 demonstrates that in age 0-19 more than 60% of lifecycle deficit is financed through private transfers. The public transfers represent the remaining source of financing. Even though children predominantly depend on the transfers from their parents, the share of publicly provided transfers has been increasing until 2008 and thereafter the stabilization or even slight decline followed due to the economic crisis. This means that the public sector continues to overtake the function of children care from the families – which is a common characteristic of the development process.

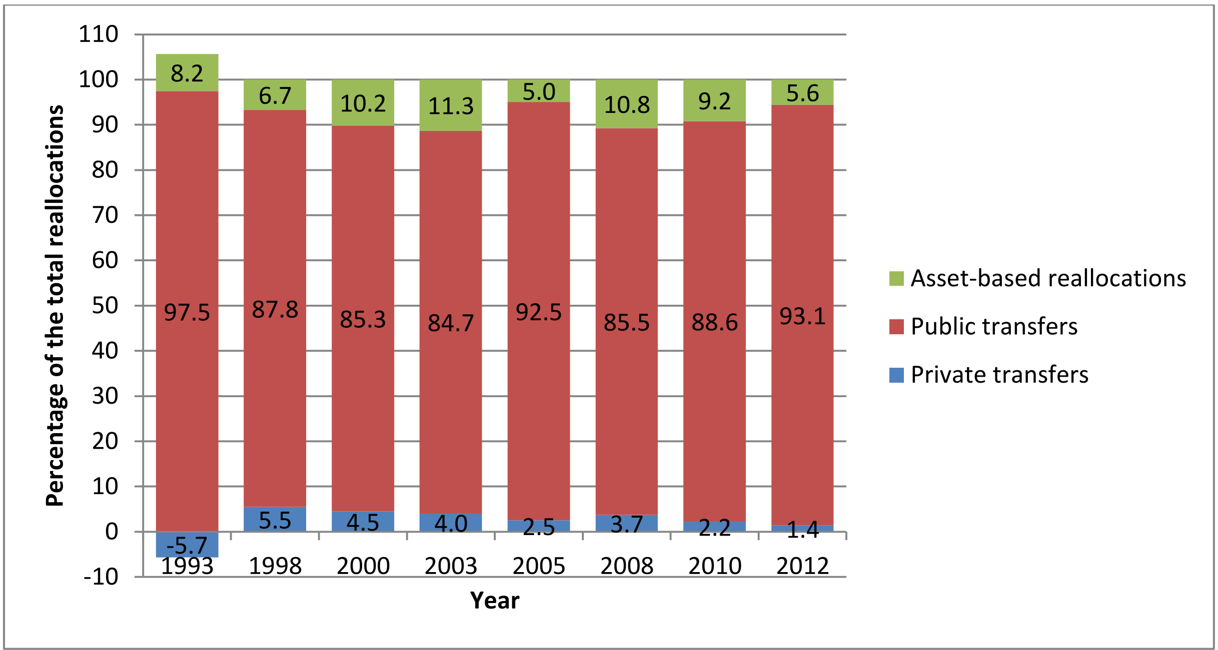
Figure 2: The evolution of financing the lifecycle deficit for young generations, Slovenia, 1993-2012



Sources: Eurostat, HBS 1993-2012, and various other sources.

While the younger generations primary rely on private transfers, the elderly (aged 65+) mainly depend on public transfers. Public transfer inflows represent approximately 90% of the total reallocations. The share was the highest in 1993, when 97.5% of the total reallocation was financed through public transfers. In 1993 the public transfers and asset-based reallocation combined were enough for elderly to finance their own consumption. Elderly were even able to transfer their income downwards in a form of private transfers. From 1998 onwards the share of private transfers in the total reallocations has decreased. The evolution of financing the lifecycle deficit for the elderly is presented in Figure 3.

Figure 3: The evolution of financing the lifecycle deficit for the elderly, Slovenia, 1993-2012



Sources: Eurostat, HBS 1993-2012, and various other sources.

In the times of Slovenian market economy private transfers do not fall only for children but also for the elderly. This means that people in Slovenia are generally more dependent on the publicly provided transfers. Even though life expectancy at birth has increased for 8.4 years in the past three decades, the ages at which people’s labour income exceeds their consumption has shrunk from 36-39 years in the socialism times to only 31-33 years in the times of market economy. Together with the rapid population ageing this will put a strong pressure on sustainability of the public system in the future.

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