Intergenerational Solidarity, Welfare and Human Ecology
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INTERGENERATIONAL SOLIDARITY AND THE CRISIS OF THE WELFARE STATE: PENSIONS AND HEALTH CARE

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1. Preliminary Note

The subject of intergenerational solidarity encompasses many areas and aspects. The present paper will be mainly concerned with the following questions:

– Which welfare-state provisions aiming at intergenerational solidarity have contributed to the crisis currently besetting the welfare state in many countries?

– What conclusions are to be drawn from this with respect to the requisite reforms, especially in the areas of retirement pensions and health care?

In this connection, it must be remembered that welfare-state provisions often differ from country to country, and that the requisite reforms must therefore have divergent approaches and objectives. This owes something not only to the varying economic conditions, but also to the diverse traditions and social goals that have arisen over time.

For some while past, there has been no mistaking the fact that welfare-state regulations are in crisis in many countries. That goes particularly for the social security and social transfer systems, which are supposed to contribute at the same time to intergenerational solidarity. True, the magnitude of the crisis differs in accordance with the structure of the system in effect. First and foremost, however, it is industrialized nations that are affected. Hence the present paper is principally concerned with the problems that have to be recognized and resolved in those countries. The focus is mainly on Europe, with occasional reference also to the problems besetting Germany.

2. The Welfare State in Crisis

2.1. *From the Socially-Oriented State to the Welfare State*

The origin of the welfare state in its present form is closely connected with the dissolution of feudalistic social structures in the course of the industrial revolution. In the light of the new freedoms and inter-dependencies and the growing mobility, the older systems for guarding against elementary risks to life, such as sickness and poverty (especially in old age), often failed. In the first place, this necessitated the institution of new collective social security systems, to replace the vanished family and neighbourhood networks. Secondly, the surge of productivity triggered by the increased division of labour and innovation made it possible, for the first time, to establish an up-to-date health care system, and to provide an open-ended pension towards the end of citizens' lives. Since industrial enterprises were concentrating mainly on the payment of wages, in the newly industrialized countries of Europe the state increasingly saw it as its duty to arrange for the institution of compulsory insurance systems against those great risks to life, sickness and old age, and to organize relief for the poor. The fact that the introduction of German social insurance under Bismarck was decided upon in part on grounds of power politics, in order to resist the social democratization of the working classes, is not inconsistent with this, but rather a token of the political necessity (which became manifest at that time) of a minimum level of social insurance by the state.

Over the years, the original minimum level of insurance has been increasingly upgraded. The notion of the socially-oriented state has gained more and more support, especially in democratically-governed countries. For a long while, the associated increase in taxes and other official levies was accepted without much protest in view of the concomitant strong growth of the national product and employment. Marked opposition did not become apparent until expansion and employment began to slow down and the pace of social security spending accelerated disproportionately. This owed much to the virtual anonymity of both the taxpayers and the recipients of benefits. Social control, which used to be relatively close in the family and the immediate social environment, was gradually relinquished more and more owing to the anonymity of the system. Another significant factor was the huge attractiveness of sociopolitical election promises under democratic systems. In this connection, even the potentially controversial debate on the redistribution of assets could be sidestepped for a long time by referring to intergenerational obligations, and by distributing short-term sociopolitical benefits while reconciling tax payers and other contributors to the tax burden by stressing future benefits.

It is important to bear in mind in this context that in most countries the established social security systems have hitherto followed the logic of expenditure-oriented transfer policies on a pay-as-you-go basis, with next to no capital cover, but rather the almost complete financing of current payments to the older generation by the younger generation. This has frequently given rise to the notion that redistribution is a positive-sum game. Especially upon the introduction or setting-up of such pay-as-you-go systems, virtually any level of (implicit) yield promises can be made to the first generation of recipients of such benefits, who have paid few or no contributions of their own. As long as the labour force and employment continue to grow fast, it is not unlikely that, from the standpoint of the insured, the return on a pay-as-you-go system will be higher than that on a fully-funded system. Not least Keynesianism – long the predominant doctrine – greatly helped to make the socially-oriented state more and more into a welfare state. This tendency was undoubtedly also encouraged over time by massive inertia on the part of the social bureaucrats and the institutions and bodies controlling the redistribution mechanism.

Ultimately, though, it was mainly the lack of direct financial responsibility in the democratic decision-making process which led in time to the original socially-oriented state, guarding against elementary risks to life, having degenerated in the meantime in many countries into a welfare state seeking to look after its citizens comprehensively in paternalistic fashion. Overall, however, the upshot has been not only well-known ‘poverty traps’ in the economic sense but also the virtual incapacitation of its citizens. Social security, with its typically compulsory nature, is often granted at the cost of individual freedom.

2.2. *The Signs of Crisis and Their Main Causes*

In virtually all advanced industrialized nations, the financial basis of the socially-oriented or welfare state has become unsound. What are the main reasons for this?

There is hardly any industrialized country in which the state of the public sector budgets can be described as sustainable over the long term. In many countries, the disclosed budget deficits and public debt levels are approaching, or even exceeding, the limits that are deemed acceptable on fiscal grounds, on account of the associated increase in the interest burden. That goes especially for cyclically adjusted deficits, although the details of any such adjustment are often highly controversial. But the full scale of public indebtedness does not become obvious until not only explicit debt servicing but also promises of future benefits (made primarily in connection with state-organized pension schemes) are included in the analysis as implicit state liabilities. For this purpose, recourse may be had, for instance, to the methods of intergenerational accounting.[1] In this way, it is also possible to compute the implicit debt, which, under the prevailing financing conditions, results primarily from the ageing of the population. Even in those cases where the current expenditure, mainly for the benefit of older people, is at present being covered by taxes and contributions (which are paid principally by members of the workforce generations), foreseeable demographic changes will generally lead to severe chronic financial bottlenecks. The magnitude of the implicit debt will depend on the sum total of this financial shortfall. To avoid a debt overload involving the risk of complete collapse, either the revenue will have to be stepped up or the spending cut as soon as possible. If the adverse effects on incentives normally associated with tax increases are not to proliferate any further, there remains, as a priority short-term measure, primarily the thinning-out of the expenditure side of the aggregate public sector budget (which is dominated today in many countries by so-called social transfer payments).

These unwelcome developments are often compounded by the structure of the welfare state itself. For example, in many countries today the prevailing social security regulations give rise to seriously flawed economic incentives, which result in both the inefficient allocation of economic resources and a failure to meet the redistribution targets originally set. In major societies, an anonymized system is frequently unavoidable, and is subject to substantial potential misuse. Very often – as experience goes to show – a welfare state designed along generous lines is accompanied not only by 'an underlay of misallocation' but also almost invariably by a number of unwelcome distribution effects.[2] And the likelihood of undesirable developments increases, the more the socially-oriented state develops into an all-embracing welfare state.

[1] Cf. for example Deutsche Bundesbank, *Monthly Report*, December 2001, pp. 29-44 and November 2003, p. 65.

[2] Cf. Olsen, Mancur, *Aufstieg und Niedergang von Nationen*, 2nd ed., Tübingen 1991, p. 226 f.

Moreover, the almost universal phenomenon today of an expanding underground economy must be construed as an abuse of the welfare state, especially if it implies merely curtailment of the financing of social security, while lots of benefits continue to be claimed. That applies, for instance, to state-welfare benefits unrelated to contributions, or to health care services. The situation is different, however, under pension systems strictly related to contributions. There, unless corresponding contributions are paid, there is no increase in pension expectation. The widely apparent strong growth of the underground economy today must be seen not least as a sort of flight from tax authorities whose redistribution intensity has seemingly exceeded the bounds implicitly set by the prevailing notion of justice. Logically enough, this has had an adverse effect on people's willingness to contribute to the financing of tasks motivated by solidarity. Such rational behaviour on the part of individual economic units, accompanied by increasing activity in the underground economy, thus acts as a natural curb on any more far-reaching state redistribution – a natural protective mechanism against the out-of-control leviathan. (Fig. 1, p. 424).

These problems – already inherent in developed welfare states – will be greatly exacerbated in the foreseeable future by the demographic changes. Certain limited effects are already evident. For instance, the life expectancy of many people is increasing as a result of declining infant mortality, improved standards of hygiene, more intensive medical care, greater emphasis on prophylactic treatment and the like. This is reflected in Figure 1. Judging by the UN projection, the difference between industrialized countries and the world as a whole will decrease only very slowly.

Welcome though increasing life expectancy is, and although it reflects generally rising prosperity in which many have a share, its implications must be clearly appreciated as well. In the first place, it implies that (if the traditional entry-point of pensions is retained) a longer and longer proportion of life is going to be spent outside the labour force. The periods in which pensioners will be dependent on the output of the current labour force will then be correspondingly lengthy. (Fig. 2, p. 425).

A second consequence is illustrated in Figure 2: the population is on average getting older and older (since birth rates are declining as well). This has the result that what is known as the age quotient – here defined as the number of persons aged 65 and older relative to the number of persons of working age (i.e. between 15 and 64) – is rising perceptibly. In Germany – which in this respect may be regarded as typical (see Fig. 3, p. 426) – growth is expected from about 26% today via around 44% in 2030 to about 50% in 2050.[3] It must be remembered in this context that all these demographic projections are not conventional economic forecasts with all their uncertainties, which may likewise come out better than is currently expected. Most of the people included in these calculations have already been born. Hence these demographic prospects are largely certain and inescapable.

In the various areas of social security, especially in the fields of retirement pensions and health care, the current financial bottlenecks have hitherto hardly reflected these demographic upheavals. The dominant factors in these bottlenecks have mostly been, on the expenditure side, overly generous regulations and, on the revenue side, slower economic growth and structural dislocations on the labour market, which have become especially obvious in periods of sluggish business activity. However, these ongoing problems will be greatly exacerbated by the outcome of the demographic changes, most of which still lie ahead. At least in a number of European countries, this growing accumulation of problems has meanwhile strengthened the conviction that massive reforms are imperative, especially in the social security systems. This is of paramount importance if the burdens due to demographic developments are ever to be mastered in the future. Hitherto, though, the adjustment intensity of the welfare state has varied very considerably.

In the concrete area of state-regulated health insurance and state-organized medical care, the problems in sight are particularly complex. The market for health care is characterized to a particular degree by information asymmetries favouring those offering services, which asymmetries permit a certain supply-side expansion of demand. In other words, the insurance system is exposed to special moral hazard problems, which result in an inefficient increase in services. Finally, in practice it is hardly possible to distinguish between an inefficient increase in services, on the one hand, and a rise in supply, in line with the preferences of demanders and their willingness to pay, on the other. But state-organized health care systems likewise often have difficulty in providing efficient and low-cost services.

[3] The Federal Statistical Office comes to similar results. *10th coordinated population forecast, Variant 5* (median life expectancy, net immigration of 200,000 persons per annum), Wiesbaden 2003.

2.3. *The Economic and Social Implications of the Crisis*

The implications of the current and still-growing problems besetting the welfare state are of momentous social significance. In many countries nothing less than an erosion of the economic foundations underlying the welfare state is looming. The challenge due to demographic developments is compounded by the fact that the labour market is in disequilibrium, especially in many European countries. This is not so much because of a current bout of economic weakness. What is more problematic is the fact that the unemployment rate has risen over a long period from cycle to cycle – in Germany, too. This is shown, for instance, in estimates of the inflation-adjusted unemployment rate, which disregards purely cyclical influences on unemployment (see Figure 4, p. 427).

It is also because of structural problems on the labour market that the regulatory deficits, escape responses and potential abuses of the social security systems have increased distinctly. In many countries, the inducements to retire early have been enhanced over many years, and they are still generally strong today. It seems that those bearing political responsibility are still hoping to lessen or defuse labour-market problems by reducing the workforce at the cost of the pension funds.

This is, however, merely a short-sighted strategy, not only because it destroys the production potential represented by older members of the workforce; it also disregards the repercussions on the labour market of the problems faced by the social security systems. If contributions are tied to the production factor 'labour', the already problematic wedge of official levies, which further raises labour costs, thus exacerbating employment problems on the cost side, is broadened by early retirement. In this way, the overloading of the real economic basis by an overstretched welfare state turns into a classic instance of a vicious circle.

This finding must be seen against the backdrop of national and, above all, international competition, which has been mounting steadily for a long while, and will presumably continue to grow. This is due partly to falling transport and communication costs, and partly to the policies of deregulation and the opening-up of markets. The latter factor induces some observers overhastily to blame what is known as the policy of globalization for the problems besetting the welfare state. As a matter of fact, globalization is being accompanied by enhanced transparency and comparability of the economic and social policy conditions obtaining in the respective states, and by increased competition between them. In such an environment, the redistributing national welfare state finds it more difficult to realize its objectives, in particular because capital and, to an increasing extent, the better-qualified part of the production factor labour can now change its location fairly easily. 'Voting with one's feet' is now becoming a challenge to national social security systems that must be taken seriously. Those systems have to be, and remain, competitive with respect to the organization of intergenerational solidarity as well. If, in connection with globalization, compulsion to be a member of such a society disappears, the pressure to justify redistribution will increase. The consequence will be competition between the social security systems that may well be salutary.

For the rest, it is among the accepted tenets of economics that openness and free trade enhance the prosperity of nations. Moreover, globalization is only to a minor extent a process deliberately initiated by policy makers. Distinctly more important are the advances in communication and information technology and in the opening-up and democratization process following the collapse of the so-called iron curtain. Striving for the international exchange of goods, financial assets and above all ideas and information can be suppressed only temporarily, but never permanently. Human ingenuity cannot be subjected everlastingly to state control.

The problems faced by welfare-state systems, as described to date, are mainly those affecting industrialized countries. Even so, understanding them is instructive for less developed economies, too, since many of them are aiming at a welfare state on the pattern of the more developed nations, or at least are moving in that direction. It is to be hoped that they will duly learn their lessons from these unwelcome developments, or from the failure of the industrialized countries to adjust.

However, the crisis of the welfare state must not be viewed in isolation. In the final analysis that crisis has, as mentioned, far-reaching implications for all society. Hence we should beware of allowing the pendulum to swing from one extreme to the other. The out-of-control welfare state cannot, and should not, be superseded by the caretaker state. It would be disastrous if the needful adjustments led to solidarity within society being completely undermined, and to state social security systems being run down or even entirely dismantled. Properly-organized and properly-judged social security, by lessening elementary risks to life, paves the way for an economic and social system, based on the division of labour, that is mobile and durable. What is needed, therefore, is not the wholesale dismantling of the welfare state, but rather its redesigning in such a way that it becomes durably functional again. That will entail returning the welfare state, which has expanded out of all proportion in many countries, to the status of a socially-oriented state committed to the subsidiarity principle as well as to the solidarity principle, and to accepting individual responsibility. That must be the aim of the overdue reforms.

3. Some General Guidelines for Reforms

Reforms of the social security systems are imperative and urgent in many countries, especially in Europe. Although this general statement is widely agreed today, at least among experts, the debate usually becomes controversial once definite measures are discussed.

Furthermore, the politicians – notably in Germany – currently often give the impression that they are responding to acute problems primarily with ad hoc measures, without sufficiently considering the interactions between the various elements of the systems, and especially with the labour market. In the short run, politicians can gain time in this manner; but in the long run, confidence in their problem-solving capability increasingly wanes. The Societal and Social Change Commission of the German Bishops' Conference has recently drawn attention to the urgent need for long-term reforms in an 'impulse text' entitled 'Rethinking social issues', and has tried to provide some relevant guidelines. On the basis of an orientation, in principle, to individual human beings, subsidiarity and solidarity (in the sense of helping people to help themselves) are advocated as models for the requisite reforms.[4] Only on the basis of individual responsibility, as a right and an obligation, can the principle of solidarity be invoked in the long run in a humane and freedom-loving society. That goes equally for intergenerational solidarity.

In my view, however, such intergenerational solidarity is not just a matter of the relationship between those who are now young and at work and those who are older and retired, but also of the relationship between those who have and rear children and those who have not. There likewise arises, via conservation of the natural environment, the question of how society as a whole should treat its collective legacy, and which stock of material, non-material and cultural goods it is able and willing to pass on to succeeding generations. Only if the three-generation analysis also includes these points does an overall picture of intergenerational relationships emerge.

[4] German Bishops' Conference: Societal and Social Change Commission (December 2003).

But the question then immediately arises as to what the subjects of the often-invoked intergenerational contract must and can be. Which areas of life should and can be the subject of provisions extending beyond single generations? According to which principles are rights and duties to be defined? Under which conditions can intergenerational (distributional) equity, material living standards and economic efficiency be lastingly reconciled?

An attempt to provide guidelines in this complex area was made by the German Bishops' Conference and the Council of the Protestant Church in Germany back in 1997 in a Joint Statement on the Reform of the Retirement Pension System.[5] In that paper, intergenerational solidarity is subsumed mainly under the concept of sustainability. 'The present generation must not engage in economic activity, consume resources, undermine the functionality and efficiency of the economy, run into debt and pollute the environment at the expense of its children and grandchildren. Future generations, too, have a right to live in an intact environment, and also to exploit its resources'. The paper largely refrains from making concrete recommendations as to detailed reforms; but, together with a call for a long-term orientation, a key criterion of a 'socially equitable' policy is declared to be the maintenance of the freedom of future generations to take their own decisions. In short: among the features of social equity are the fact that the future is not fenced in, and that sufficient degrees of freedom are preserved.

In economic terms, the (implicit) social time-preference rate is a highly critical factor in intertemporally relevant political decisions. After all, the state, too, is subject to an intertemporal budget restriction, which in the long run rules out a negative cash value of its net assets. Though one generation may be able to evade this restriction with greater or lesser success, for the totality of generations there is, as a rule, no way out here.[6]

A widely accepted approach today is that of the differential principle, as advocated by Rawls.[7] For intergenerational relations, the principle of equitable saving follows from construing equity as fairness: every generation would wish that the preceding generation had accumulated capital to ben-

[5] Cf. German Bishops' Conference and Council of the Protestant Church in Germany: Responsibility and Farsight – Joint Statement on the Reform of Retirement Pensions in Germany, Bonn 1997.

[6] Cf. Issing, Ottmar, "Staatsverschuldung als Generationenproblem" (Public Debt as a Generational Problem). In: Immenga, U., Möschel W., Reuter, D. (eds.), *Festschrift for Ernst-Joachim Mestmäcker*, Baden-Baden 1996, pp. 191-209.

[7] Cf. Rawls, John, *Gerechtigkeit als Fairness* (Equity as Fairness), Frankfurt a.M. 2003.

efit it. According to Rawls, the requisite saving for that purpose is equitable if, even under the 'veil of unknowing' (i.e. without having any information as to which generation one belongs to), one can consent to the principle of saving. Such a rather philosophical approach may, however, be helpful in the concrete political debate if, for instance, the older generation has to let itself be asked whether it would have accepted the burden of taxes and other official levies that is being imposed on the younger generation today and tomorrow on account of the ruling welfare-state provisions.

Given the challenges I have specified, a new balance will have to be found between the generations. In this connection, the aforementioned question arises as to which principles need to be adopted. In the first place, the distribution of roles between market and state must be reassessed. Hitherto, the welfare state has always included a paternalistic element as well. 'The poor' are to be educated a bit, and 'forced' to their own benefit. These features are no longer timely today. These days, by contrast, the model can only be that of the responsible citizen, who has a right to assistance under certain circumstances but who can and must also bear a far greater degree of personal responsibility than before. When the socially-oriented state came into being, unemployment or sickness, for example, were literally matters of life and death. Saying that this is no longer the case today in the developed industrialized nations is not belittling the problems. Today, even the households of most recipients of welfare benefits are owners of goods that only 30 years ago were tokens of affluence (such as cars, television sets, telephones or refrigerators). In addition, the capital and insurance markets have developed tempestuously, so that the old hypothesis of allocative market failure seems less and less persuasive.

Under these altered conditions, a new policy mix of solidarity postulate and equivalence principle must be found. If the wholesome efficiency of the market is to exert its influence in the fields of retirement pensions or health care as well, more importance must be attached to the balance between service and quid pro quo. Hence the instruments by which the welfare state is to be reformed must be gauged not least by the criteria of compatibility with incentives and conformity with market conditions.

4. Some Conclusions for the Reform of Retirement Pensions

For retirement pension systems, it follows from what has been said above that neither the level of insurance nor the range of benefits must any longer be taboo. Tomorrow's pensioners will no more be the poverty-stricken old people of the past. Just think of the wealth that generation will very probably inherit and bequeath some day. In general, such people can therefore reasonably be expected to accept a lower level of collectively-secured pensions, also because they will be able in most cases to compensate by means of provision of their own.

With regard to the financing method and financing mix, this implies that the element of individual capital cover is bound to increase in significance in provision for old age. This is not a matter of a complete changeover to a fully-funded system. Instead, the inevitable and foreseeable adjustment of benefits in pay-as-you-go systems will automatically augment the importance of individual capital cover. This not only makes sense from the standpoint of diversifying risk but also involves intergenerational redistribution to the detriment of the older generation and in favour of the younger one.

Pay-as-you-go systems of provision for old age are already increasingly coming up against the limits of their financibility, and this will soon become even more obvious. The present debate in Germany is strongly marked by the cyclical and structural problems affecting the labour market, which are leading to an erosion of the financial basis of pension insurance. At the moment, we are experiencing a 'demographic interval' because the high-birthrate post-war years are still in the work-force, while the pensioner age groups are relatively weak owing to World War II. But dramatic changes are to be expected after the year 2010, when the post-war 'baby boomers' will retire. Even so, the current financing difficulties have helped to enhance awareness of the problems posed by the demographic changes.

But these developments are not confined to Germany. In many other countries, such as Sweden or Italy, similar steps have already been taken or are under discussion. The financibility of pay-as-you-go systems is everywhere approaching its natural limits, which can no longer be talked away, masked or diverted, as in a marshalling yard. Difficult though political implementation is, it seems that in many countries willingness is growing to curtail the level of benefits paid by the state pension systems, and at the same time to make more room for fully-funded individual provision. Such reforms act mostly in the right direction, even if it remains to be seen in many cases whether their scale is adequate. However, policy makers' responsibility for creating stable underlying conditions for a smoothly-functioning international financial system is growing with the mounting significance of the capital market.[8]

[8] Cf. Auerbach, Alan J. and Hermann, H. (eds.), *Ageing, Financial Markets and Monetary Policy*, Berlin/Heidelberg/New York, 2002.

5. Some Conclusions for the Reform of the Health Care System

Where health services are concerned, the markets do not function efficiently in shaping prices. In many cases the distribution of information is asymmetrical, enabling suppliers to control demand themselves to some extent. This owes something to the inadequate transparency and the anonymity of the health care system. But any greater inclusion of the patient, and thus the creation of greater consumer sovereignty, presupposes a higher level of involvement by the insured person. Among the service-providers, barriers to competition of various kinds are to be seen in many countries. In this context, it undeniably takes great political courage to cut the Gordian Knot. This is partly because it is not only a matter of intergenerational redistribution in the field of statutary health insurance; other redistributions of an interpersonal nature (e.g. with respect to sex, marital status and earning behaviour) likewise play a part. However, the intergenerational aspect will increase in significance here, too, because – unlike in the case of pension insurance – demography comes to bear not only via the number of recipients of benefits but also via the average level of expenditure per payment.

The faster pace of ageing will undoubtedly subject health care as well to further adjustment pressure. But the prospects here are much more difficult to interpret than in the case of old-age pensions. True, the age-specific expenditure profiles of health-insurance companies show that spending on health is all the higher, the older the policy-holder is. Yet the conclusion that this applies equally to an ageing society is disputed. Some surveys suggest that spending on health depends less on the absolute age of the policy-holder than on his distance in time from death.[9] The steepest rise in expenditure regularly occurs when the final, ultimately vain efforts to prolong life are made. Thus it is not the case that, with rising life expectancy, this final phase of life is bound to become any longer; often it will only be deferred. Many health economists have held the view that it is not the age structure of a society in itself that determines health spending, but primarily advances in medical technology, which only rarely result in cost-cutting innovations and much more often in cost-boosting innovations.

[9] Cf. Freyer, Friedrich and Ulrich, Volker (2000), "Gesundheitsausgaben, Alter und medizinischer Fortschritt: eine Regressionsanalyse" (Spending on health, age and medical progress: a regression analysis), *Jahrbücher für Nationalökonomie und Statistik 220*, pp. 1-17.

Even so, the question arises as to who is to finance, and how, the growing volume of prophylactic, medical and care services. It must be remembered in this context that the lids on expenditure often advocated by policy-makers are frequently inappropriate. After all, there is a risk that new goods and services will not materialize, and innovations fail to emerge, which individuals would have been quite willing to pay for.

In the area of health care, no uniform international trend can be made out as yet. Relative to old-age pensions, the network of groups involved in health care is much more complex, and possible solutions were and are correspondingly more manifold. They range from a national health system, as in the United Kingdom, to a health insurance system largely left to the market, as in the United States. In the United States, expenditure on health amounts to about 14% of the gross domestic product, whereas the ratio in the U.K. is only about half as high. How is that to be judged? A glance at life expectancy in the two countries does not show an advantage for the U.S.A. – rather the contrary. Needless to say, such a comparison is not sufficient for a final verdict. Instead, human well-being, which is so hard to measure, is no less important.

A conspicuous feature of the debate on intergenerational solidarity is the fact that the question of the appropriate financial contribution of older citizens to their health care is being raised more and more often. In a dwindling population, not only the share of older people in the population but also the share of deaths increases. Regardless of which hypothesis of demographically-induced cost rises is given greater weight, spending on health will continue to go up. At the same time, older people as a rule pay only a relatively small contribution to their state health insurance. This 'subsidizing of the old by the young' is currently being debated vigorously in Japan and many other countries, as well as in Germany. Usually there are calls for increasing the financial contribution of the older generation. In this connection, however, the repercussions of individual provision for old age on possible cuts in the benefits paid by the state-pension system, and the additional requirements for personal provision for old age, must be taken into account.

6. The Urgency of Long-Term Adjustments

Rapid, but above all lasting, solutions to the problems are urgently required. The pressure for adjustment, which is already high, can be expected to increase markedly before long.

With regard to the matter of urgency, it must also be remembered that any requisite changes interfere with legally-guaranteed, or at least credibly-promised, rights, and therefore can be implemented in states founded on the rule of law only with substantial time-lags or transitional periods, on account of the needful protection of confidence. After all, one must not turn a blind eye to politico-economic restrictions either. Once pensioners come to represent the manifestly dominant group of electors, the likelihood will decrease that reforms demanding sacrifices of them can be implemented by democratic means. The long-term effect of deferred adjustments, let alone of any failure to reform, is substantial, and the costs which society would have to bear in that event would be correspondingly high, on account of the 'compound-interest effect'.

Only really convincing reforms will be able to restore the confidence in economic and social policy which is needed if clear prospects and stable expectations are to take shape again. In such a clarified and calculable environment, the new economic dynamism which is required to cope with future challenges, and which is essential as an economic foundation for a modernized welfare state, can emerge more effectively even in the 'older' industrialized nations.

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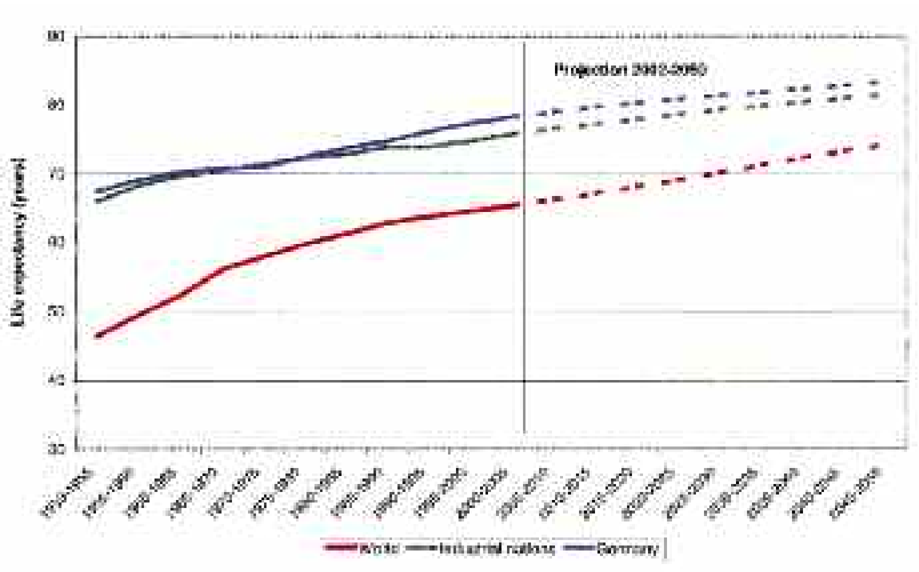
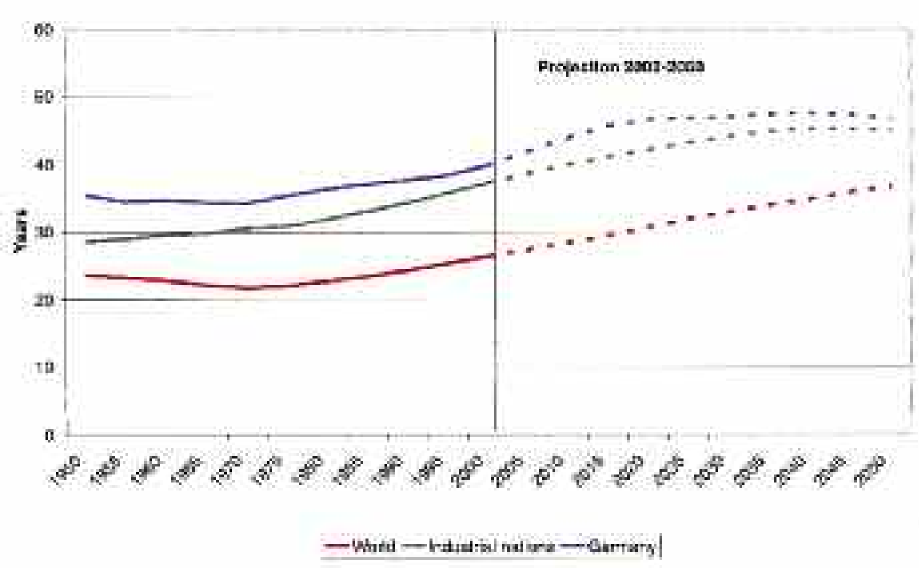
Figure 1.
LIFE EXPECTANCY OF NEW-BORN CHILDREN IN SELECTED REGIONS, 1950-2050. PROJECTION 2002-2050



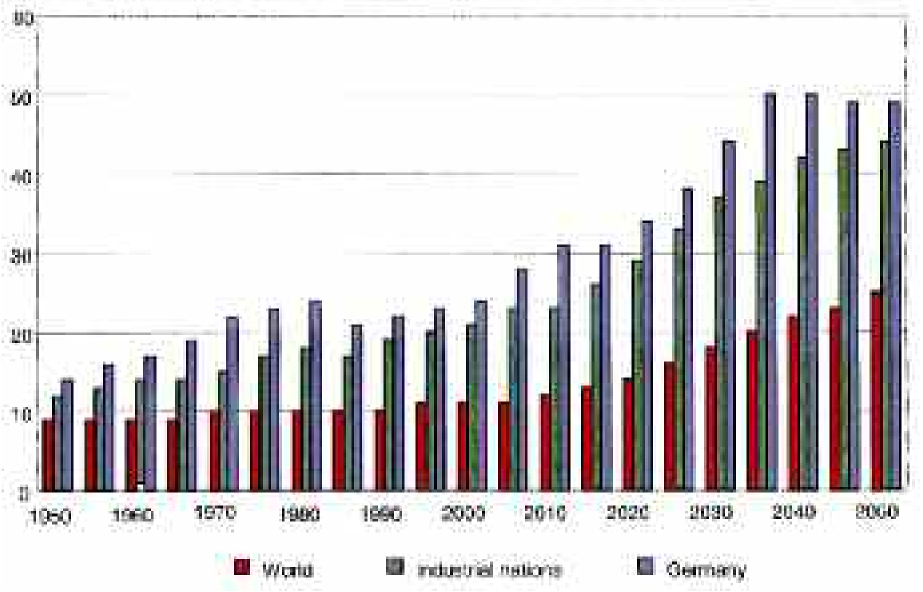
Source: UN Population Division: World Population Prospects: The 2002 Revision, Medium Variant.

Figure 2.
MEDIAN AGES IN SELECTED REGIONS, 1950-2050*



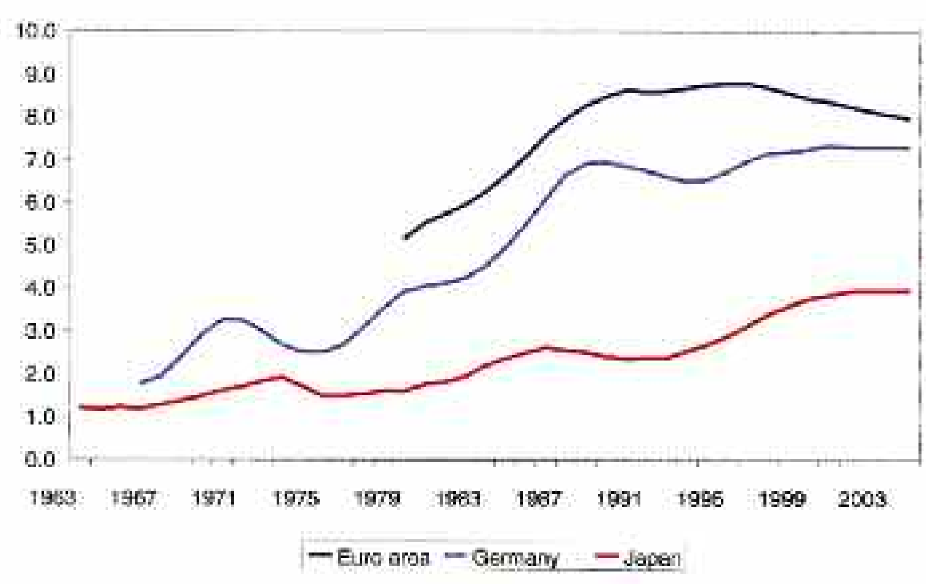
Source: UN Population Division: World Population Prospects: The 2002 Revision, Medium Variant.

Figure 3.
AGE QUOTIENTS IN SELECTED REGIONS, 1950-2050
(RATIO OF THOSE AGED OVER 65 TO THE GROUP OF 15-64 YEAR OLDS)



Source: UN Population Division: World Population Prospects: The 2002 Revision, Medium Variant.

Figure 4.
THE INFLATION-ADJUSTED UNEMPLOYMENT RATE IN SELECTED COUNTRIES/REGIONS



Source: OECD, Economic Outlook No 74, Paris 2003.