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Discussion

A further comment on ageing and the welfare state

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Abstract

This symposium was initiated as a forum for discussion of issues about ageing and the welfare state stemming from the paper by Razin, Sadka, and Swagel, "The ageing population and the size of the welfare state", which appeared in the Journal of Political Economy in 2002 (vol. 110 (4) pp. 900–918). We here comment on the contribution of Razin and Sadka to the symposium.

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Rather than comment on the points made by other contributors to this symposium, Razin and Sadka (2007-this issue) in their paper "Ageing population: the complex effect of fiscal leakages on the politico-economic equilibrium", have chosen to expand on their previous work with Swagel "The ageing population and the size of the welfare state", which appeared in the Journal of Political Economy in 2002 (vol. 110 (4) pp. 900–918).

Specifically, their new paper slightly modifies the theoretical framework of RSS (Razin et al., 2002) by introducing an additional element of possible redistribution between labor and capital income. Elderly workers, who in the previous paper did not contribute to the financing of the lump sum transfer, now do so through a tax on capital income. The young also contribute through a tax on labor income. Tax rates on labor and capital income are assumed to be equal. As in the previous paper, agents do not perceive the impact of their current voting behavior on future policies, so that the voting game is static. The authors also retain the lump sum specification of the

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transfer to both young and old individuals — rather than a more conventional transfer to old agents only (see Simonovits, 2007-this issue).

Although an additional financial channel has been added (the tax on capital income), the paper is very similar in spirit to RSS (Razin et al., 2002). And, as in RSS (Razin et al., 2002), the overall result of ageing on welfare spending is uncertain since–depending on the configuration–either the economic (fiscal leakage) or the political effects may dominate. The paper does, however, provide an additional channel of transmission–from ageing to welfare spending–and provides also some numerical examples (we would not define them as "numerical simulations", recalling the use of this term in the RBC literature) to show the reader which of the two effects is more likely to prevail. These examples may help the reader to appreciate the different forces at work.

In the context of this symposium, the authors could usefully have pointed to the literature that provides other models where there are conflicting economic and political effects of ageing in different economic and political environments (such as Bohn, 1999, 2003; Cooley and Soares, 1996; Galasso and Profeta, 2004, among others). Many other contributions have highlighted the intertemporal link in the social security political game, including Boldrin and Rustichini (2000), Cooley and Soares (1999). See Galasso and Profeta (2002) for a survey. As Simonovits (2007-this issue) points out, failure to address this issue is a weakness of both RSS (Razin et al., 2002) and also the present paper included in this symposium.

Finally, whatever numerical examples are provided, a series of empirical studies, using both the authors' own data (Bryant, 2003, Shelton, 2005) and a more extensive data set (Disney, 2007-this issue) confirm that, for any reasonable empirical specification, ageing is unequivocably associated with a larger welfare state and that the results in RSS (Razin et al., 2002) arose from a misspecification of their empirical model. A concession of this point would not have invalidated all the more general theoretical points that the authors wish to make.

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