



# A Snapshot of Intergenerational Justice: Austria's Performance Compared to Other OECD Countries

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## Equity between the generations: A simple 29-country snapshot

*Keywords: Pro-elderly Social Spending, Aging Welfare States, Austria, OECD, Social Policy Bias*

Population aging wide across the OECD has led to a renewed popular awareness of the notion of justice between the generations, but also to renewed theoretical interest (e.g. Fishkin and Goodin, 2010; Gosseries and Meyer, 2010; Kohli, 2006; [Sabbagh and Vanhuysse, 2010](#); 2013). However, efforts to measure intergenerational justice empirically have lagged behind (but see Esping-Andersen and Sarasa, 2002; Bradshaw and Holmes, 2013). How can we improve policies when we do not know the state of affairs in terms of intergenerational justice *in practice*? At the request of the Bertelsmann Stiftung, I have developed a simple four-dimensional snapshot indicator to improve the cognitive toolkit of academics, journalists and policy-makers: the *Intergenerational Justice Index*, or *IJI* ([Vanhuysse, 2013](#)).

The aim is pragmatic and empirical: to compare intergenerational justice in practice across OECD Member States (on how empirical indicators can inform policy, see e.g. Atkinson et al., 2002; [Lelkes, 2013](#)). The unit of analysis is countries, and the *IJI* is a macro-level snapshot linked primarily to government activity rather than private behaviour. The snapshot was taken based on the years for which the most complete recent data was available for 29 countries: the end of the 2000s or the start of the current decade, depending on data availability for each dimension.

Sustainability is the moral starting point: 'enough and as good' ought to be left by each generation to the next. In aging welfare states, population aging as a demographic concept may be viewed largely as an ethically neutral development for our purposes. A society, or cohorts within it, are not morally blamed for lower fertility and longer life expectancy. But the way in which a country's public policy packages react to demographic change is not neutral from an intergenerational justice perspective.

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## Three policy outcome dimensions; one policy input dimension

**Austria ranks tenth-worst on both ecological footprints and public debt per child, but sixth-best in terms of child poverty.**

Three of the *IJI* dimensions measure policy outcomes that leave legacy burdens towards younger and future generations: (1) the ecological footprint created by all generations alive today; (2) early-life starting conditions as measured by child poverty levels; and (3) the economic and fiscal burdens on the shoulders of currently young generations as measured by public debt levels per child. Austria ranks tenth-worst in the 29-country sample on both the ecological footprint measure (on which Hungary and Poland perform best) and the public debt per child measure (on which Estonia and South Korea perform best). But on the other hand, Austria ranks sixth-best in terms of child poverty, just behind the four Nordic countries and Slovenia.

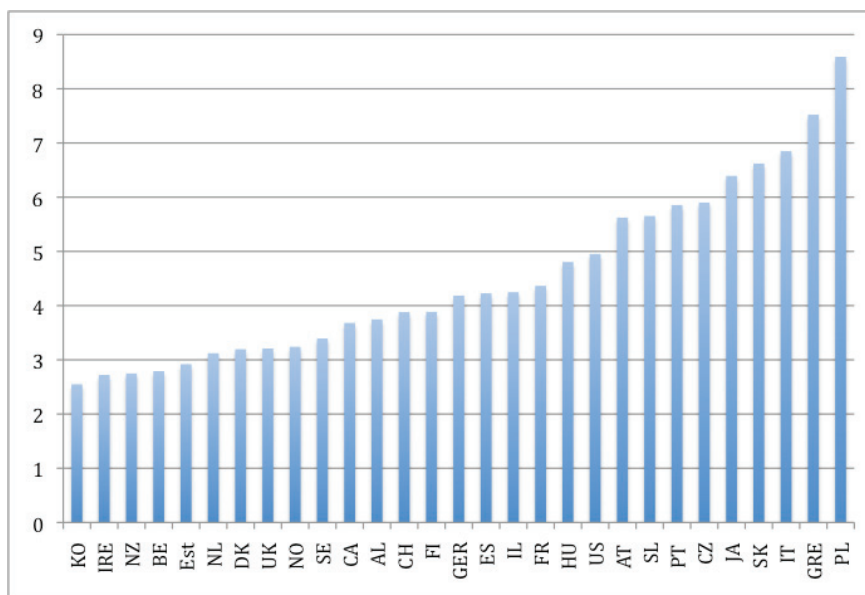
The fourth dimension of *IJI* develops a new measure of welfare states' overall pro-elderly bias in social spending, or *EBiSS* (see also Lynch, 2006; [Tepe and Vanhuysse, 2010](#); [Gamliel-Yehoshua and Vanhuysse, 2010](#)). The *EBiSS* is calculated as follows. On the *elderly-oriented* spending side (the numerator), the following public spending programmes were included: (1) old-age-related benefits in cash (pensions, early-retirement pensions, other cash benefits) and in kind (residential care/home-help services, other benefits in kind), (2) survivors benefits in cash and in kind (funeral expenses, other in-kind benefits), (3) disability pensions, (4) occupational injury and disease-related pensions, and (5) early retirement for labour market reasons. On the *non-elderly-oriented* side of *EBiSS* (the denominator), the following public spending programmes were included: (1) family benefits in cash (family allowances, maternity and parental leave, other cash benefits) and in kind (day care/home-help services, other in-kind benefits), (2) active labour market programmes (employment services and administration, labour market training, youth measures, subsidized employment, employment measures for the disabled), (3) income maintenance cash benefits, (4) unemployment compensation and severance pay cash benefits, and (5) education spending for all levels of education from early childhood to university. To adjust for demographic structure (spending need), the resulting elderly/non-elderly social spending ratio in each country has been multiplied by the country's old-age support ratio, that is, the number of persons aged 20–64 over the number of persons aged 65 or more.

As Figure 1 shows, demography is *not* destiny when it comes to social spending patterns. Instead, it is policy choices as determined by long-standing governance cultures that drive the pro-elderly bias of welfare

states (Goerres and Vanhuyse, 2012). Of the OECD's four demographically oldest societies, Italy and Japan show a distinct pro-elderly bias in their social spending patterns, whereas Germany shows only a moderate pro-elderly bias and Sweden shows relatively little bias.

**Figure 1:**  
Elderly Bias Indicator of Social  
Spending (*EBiSS*), 2007-2008

Source:  
Vanhuyse (2013: 27)



In addition to three South-European countries, East-European countries such as Slovakia, the Czech Republic, Slovenia, Poland and Hungary are all in the high-*EBiSS* spectrum of the 29-country sample, too. Legacies associated with early post-communist policies such as inadequate health-care practices, internationally very low labour market participation rates among women and older workers and historically unprecedented early and disability pensioner booms have prepared these countries badly for the coming three decades, when their societies will enter a period of particularly fast demographic aging (Vanhuyse, 2004; 2009).

**The Austrian welfare state has the ninth-highest pro-elderly bias in the OECD: it spends more than five and a half times as much on every elderly as on every non-elderly Austrian.**

Austria also has a relatively high pro-elderly bias: at just over 5.5, it has the ninth-highest *EBiSS* value in the 29-country sample. Spending on long-term care is actually not particularly high in Austria by international comparison (Rodrigues et al., 2012; Leichsenring et al., 2013; Schmidt and Rodrigues, 2010). But spending on elderly citizens is otherwise high, especially in all forms of pensions and health care. This is not surprising given the high incidence of early labour market exit through early and disability retirement (Marin, 2013), combined with high and still-rising life expectancy (Marin, 2013) and a low political inclination or ability to reform or even just re-trench pension spending (Tepe and Vanhuyse, 2012). The least pro-elderly biased welfare states are South Korea, Ireland, New Zealand and Belgium.

The spurious connection between demographic structure and pro-elderly social policy spending can also be differently illustrated. In the demographically still comparatively young Poland, the state spent 8.6 times as much on every elderly Pole as on every non-elderly Pole in the late 2000s. Yet in the equally young New Zealand society, the state spent only 2.7 times as much. By contrast, in the demographically much older Greece, the state spent seven times more for every elderly Greek as it spent for every non-elderly Greek. But in comparably old Sweden, the state spent only 3.4 times more.

## The Intergenerational Justice Index

The four *IJI* dimensions are then normalized<sup>1</sup> and aggregated into an overall *IJI* value, using a ‘benefit-of-the-doubt’ weighting method to respect the (revealed) preferences of democratically elected governments. Among the most intergenerationally just OECD countries were Estonia, South Korea, New Zealand and all of Nordic Europe. By contrast, among the least intergenerationally just countries were the USA, Japan, Italy, Greece and Canada (Vanhuyse, 2013: 37).

**Austria is at twentieth rank out of 29 OECD countries in terms of the Intergenerational Justice Index.**

Austria is situated in the lower-middle pack of the sample, at twentieth-highest (or tenth-worst) rank. This can be illustrated through the *IJI* rectangle for Austria in Figure 2 where the four *IJI* dimensions have been normalized such that a better relative performance is associated with a higher value (maximum value 1). Austria, with its comparatively large ecological footprint and its strongly pro-elderly biased welfare state, features a rather small and rather rectangular shape for the *IJI* rectangle. As regards ecology, Austria is one of the few EU countries that have failed (and significantly so) to meet the goals of the Kyoto agreement. As regards demographic structure, Austria’s old-age dependency ratio (persons aged 65+ relative to persons aged 15-64), currently at about 27%, is set to increase further to 39% by 2030 ([Gasior et al., 2011](#); see also [Marin, 2013](#)). Despite some recent reforms in disability pensions and early

<sup>1</sup> To normalize the four *IJI* dimensions (ecological footprint, child poverty, debt per child and *EBiSS*), for each country *i* and each dimension *x* the difference is taken between the maximum performance in the entire OECD sample ( $x_{max}$ ) and the actual performance of country *i* ( $x_i$ ). This difference is then divided by the difference between the maximum ( $x_{max}$ ) and minimum ( $x_{min}$ ) performance in the 29-country set. The normalized values  $x_{ni}$  can thus be expressed as:

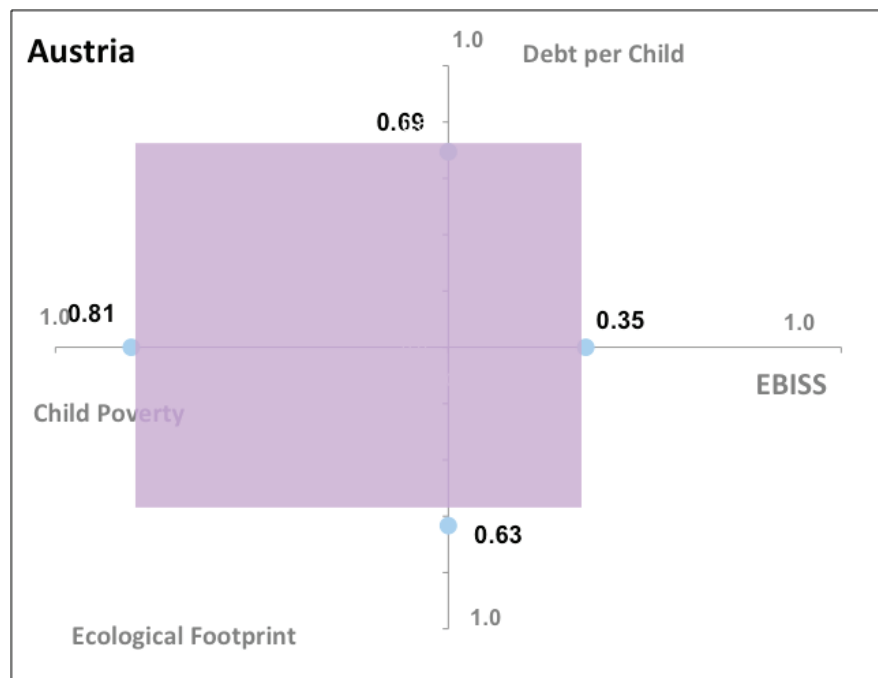
$$x_{ni} = (x_{max} - x_i) / (x_{max} - x_{min})$$

In other words, the denominator is given by the difference between the maximum value and the minimum value in the OECD country set. The numerator is given by the difference between the maximum sample value and the value achieved by the country under consideration. This implies that a better relative performance is associated with a higher value, with each  $x_{ni}$  value varying between 0 and 1 (Vanhuyse, 2013).

retirement arrangements, the Austrian pension system is not ready to cope with such challenges, and younger generations will not be entitled to equally generous pensions as their parents unless significant labour market activation policies are implemented ([Marin, 2013](#)). Today, Austrians still record very low effective retirement ages, at 59 years for men and 58 for women, and concomitantly low employment rates for older workers ([Gasior et al., 2011](#); [Marin, 2013](#)).

**Figure 2:**  
The *IJI* rectangle: Austria

Source:  
Author's computations



## Conclusions and policy options

More research needs to be done, ideally involving time series data and cohort analysis, to enrich the snapshot analysis presented here. But it seems plausible to state that unless low-*IJI* countries such as the USA, Japan, Italy, Greece and Canada can somehow guarantee fast economic and productivity growth and rapid technological innovation in the near future, not reforming current policy patterns would simply mean that a high degree of injustice will be inflicted upon non-elderly citizens. Sticking to the status quo would perpetuate a bad deal for young and future generations in these countries.

Seemingly 'obvious' policy measures that merit a new look in light of the *IJI* perspective include fiscal and social security benefits or credits to reward family members for raising younger and caring for elderly gen-

erations (often expending substantial private cost for societal benefit); the adjustment of official pension ages and pension benefits to rising life expectancy (e.g. [Marin, 2013](#)); and ecologically motivated tax frameworks such as carbon taxes (e.g. Muro and Rothwell, 2012). There is a particularly strong case for spending more on high-quality early childhood education and similar social investment policies that increase human capital and skills and bolster the fiscal basis of aging welfare states in the process (Heckman, 2000; Doyle et al., 2009; Esping-Andersen, 2008; Morel et al., 2012; Vandenbroucke et al., 2011; [Vanhuyse, 2008](#)).

But the hard power *politics* of population aging matters crucially, too (Vanhuyse and Goerres, 2012). When ‘obviously’ sound policies are not sufficiently implemented, wishfully thinking such policies into existence is not likely to be an effective strategy. Children are also *public goods* (Coleman, 1993; Folbre, 1994) and they need to be valued as such by public policies in rapidly aging welfare states. The time is ripe for at least opening a clear-headed and empirically informed democratic debate about the radical idea of giving each parent one half extra vote, to be used on behalf of each under-age child until that child reaches legal voting age. These proxy votes for children, or Demeny votes (Demeny, 1986; Sanderson and Scherbov, 2007), could be made conditional on parents guaranteeing minimum child welfare, and they could otherwise be regulated according to a host of civic requirements deemed democratically desirable. Proxy votes would add bite to the policy claims of younger generations in aging societies as they would change the incentive structure of elected policy-makers.

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