3. The generational welfare contract

It is common to portray the development of social policies as reflecting underlying motives of political actors (Goodin, 1996), either actively pursuing particular social policy goals such as equality and justice, or responding to structural economic or demographic pressures. If the causal chain of the argument rests here, it may well suffice to characterize the distributive processes of welfare states in static terms, involving only a one-way effect of policy on the social and economic conditions of citizens. However, in reality the distributive processes of welfare states are of course likely to be much more complex and dynamic in character. Once in place, social policies do not only transfer economic resources between the rich and the poor, or between generations. They also define important frameworks for the formation of identities and interests in society (Korpi, 1983). The development of social policies is therefore intimately related to processes of interest formation among central actors in society. Thus, due to their social consequences, welfare states profoundly affect the ways in which citizens coordinate for collective action, shape interest group formation and affect various objectives of political actors.

Notwithstanding the tremendous fiscal challenges appearing along with population ageing, we believe that it would be a much too narrow approach to formulate questions about generational equity and welfare states only in demographic terms. The nature of the old-age crisis and its causes is not only defined by demographic factors, but answers should also be sought in political economy (Cremer and Pestieau, 2000). The capacity of welfare states to sustainably satisfy standards of social justice between generations, even as they are subject to changing circumstances and structural pressures, is likely to be closely intertwined particularly with the political economy of redistribution.

In this chapter we will advance arguments for a less static and more dynamic understanding of distributive processes in welfare states. The purpose is to provide a theoretical basis for our investigations of generational politics and welfare state institutions. In relation to age-related social risks, we will formulate a hypothesis about potential positive-sum solutions in the generational structure of social citizenship, with clear relevance for social justice. We here outline four ideal-typical generational
welfare contracts. Besides providing the theoretical framework that guides much of the empirical analyses in subsequent chapters, the discussion also contributes explanatory leverage for why welfare states in an era of ageing societies and structural change have developed fundamentally different types of generational welfare contracts.

GENERATIONAL CONFLICT AND POSITIVE-SUM SOLUTIONS

The reorganization of social policy in many affluent countries, coupled with structural economic and demographic shifts, have fueled discussions about generational justice in politics and academia alike. Much of this discussion concerns relations between overlapping generations, especially in politics. One illustrative recent example is Sweden, where a series of tax deductions on earned income initiated a heated debate about divergent tax treatment of income from earnings and pensions. Particularly the Swedish National Pensioners’ Organization (PRO, 2009) was critical towards the higher tax rate levied on pension income than earnings. However, it is more common that the debate is tilted towards the other end of the age spectrum. One example is the fear expressed by the former German president Roman Herzog that older generations are about to plunder the younger ones (Vanhuysse, 2013).

Similar ideas about elderly people receiving benefits from the welfare state at the expense of the young have surfaced in scholarly debates (Beckett, 2010). This pro-elderly bias of welfare states is assumed to threaten the legitimacy and sustainability of social policies by tilting public efforts in favor of increasingly powerful elderly voters (Berry, 2012; Kotlikoff and Burns, 2012). Developments in the age-related distribution of social spending have also been framed in terms of an emerging “generational conflict” in social policymaking, a discussion that not least has been prevalent in the United States (Preston, 1984) and other English-speaking welfare states (Laslett and Fishkin, 1992; Thompson, 1998). Occasionally, the imagery used in the discussion has been even more dramatic, with reference being made to an impending “intergenerational war” (Binney and Estes, 1988; Wallace, 2001).

There are reasons to believe that the fears of unavoidable distributive conflicts between generations have been exaggerated, and that future developments are less deterministic. It is an undeniable fact that social spending on old-age benefits has increased alongside population ageing. Much of this increase in old-age benefit expenditure is also likely to be path dependent, caused by the maturation of old-age pension programs.
implemented in decades long past. Long-term spending commitments of this kind have proved to be very difficult for governments to change in the short term, and as a consequence, substantial reforms to old-age pensions often involve a transitional stage where governments gradually move new retirees into separate schemes. The growth of pension expenditure is therefore intimately related to demographic change. As the numbers of pensioners increase, so does old-age benefit expenditure (Adema, 2001; Hemerijck, 2002). However, it is often neglected that increased government spending on pensions does not automatically mean that old-age benefits for retirees have improved and become more generous. When analyses are shifted from overall levels of pension expenditures to entitlements, the positive association between population ageing and old-age benefits disappears. If anything, population ageing often coincides with new pension benefits being lower than they were for earlier retirees (Tepe and Vanhysse, 2009).

Besides being heavily biased towards a discussion of social spending patterns, we also believe that contemporary debates about generational conflicts in social policymaking have been much too concentrated on the retirement issue, ignoring fundamental social risks associated with other phases of human life. The one-eyed focus on pension reform may severely distort conclusions about generational justice as it fails to recognize that increases in pension expenditures do not always come at the expense of younger generations and their access to adequate social protection. When research on generational equity is broadened beyond the US context and takes European developments into consideration, it is actually possible to find instances where population ageing goes hand in hand with increased welfare state efforts for both children and the elderly (Pampel, 1994). Thus, social policies targeting children and elderly citizens separately may not by necessity involve generational distributional trade-offs.

Possibilities of positive-sum solutions are seldom raised in the debate about generational justice. However, such processes play an important explanatory role in the social investment discourse. Particularly policies for families with the youngest children are often viewed as part of the solution to the problem of ageing societies, which often is seen as a main driver of generational conflict (Esping-Andersen and Sarasa, 2002; Lindh et al., 2005). With the aim to investigate potential positive-sum solutions in generational politics, we will in this book move empirical research beyond an analysis of spending patterns and focus instead on social citizenship rights, as discussed in the introductory chapter of this book. In addition, we will not only focus on pension reform, but address how welfare states have responded to a greater variety of age-related needs.
THE POSITIVE-SUM SOLUTION HYPOTHESIS

Social citizenship rights are more or less stable over time and subject to negotiation and change. We expect the terms of these rights not only to be conditioned by structural factors, but also that they are strongly linked to conflicting power relations among groups of actors. In this actor-oriented perspective, citizens are viewed as rational players in the democratic struggle, with potential to organize collectively to defend and pursue their interests (Korpi, 1985). Considerations about justice and sustainability of welfare states are central in this regard because any implicit agreement about the distribution of resources is likely to depend heavily on the perceived legitimacy of policies among key groups in society.

Not only class-based struggles and power relations related to gender have the potential to change already established policies. The extent to which overlapping generations believe that the distribution of age-related social citizenship rights is fair can also be expected to influence how welfare states and social policies are organized. Whereas the role of class-based conflict and cross-class alliances in social policy (Esping-Andersen, 1990; Kangas, 1991; Korpi, 1989; Palme, 1990), as well as the gendered distribution of social citizenship rights (Hobson, 1994; Lewis, 1992; Orloff, 2009), have received considerable scholarly attention, it has been less common to analyse welfare states from a generational perspective. Nonetheless, it is reasonable to assume that welfare states both structure, and are structured by, generational relations. From this perspective, age-related social citizenship rights also respond to different concerns of social equality and justice between generations, something that includes the willingness of citizens to accept or support various age-related resource claims.

In an influential study on strategies for equality in modern welfare states, Korpi and Palme (1998) showed that high levels of redistribution are achieved foremost in countries where social policies cut across interest groups and include all, or nearly all, citizens in one common risk pool. In countries where social policy is segmented across occupational lines or heavily reliant on market forces, the degree of redistribution is substantially lower (Nelson, 2004). If we apply this line of thinking to generational relations, we should expect a link between the distribution of social citizenship rights across overlapping generations and the overall comprehensiveness of the system.

Welfare states that protect citizens against particular age-related social risks, while downplaying social rights related to other risk phases of the life cycle, are more likely to underpin conflicts of interest in society, particularly between age groups that benefit greatly from the welfare state and those who are left with weak protection. In the long term, interest
mediation, coalition making and public support for redistribution may thus be reduced, making it more difficult to expand the fiscal basis of the welfare state. Instead of positive-sum solutions, the likelihood of generational distributional conflict is substantially increased. In such scenarios, the gains of one age group occur at the cost of another, paradoxically also circumscribing the total amount of resources available for redistribution. The dynamics of such conflicts are likely to be a disadvantage for all major age-related risk groups.

It should be acknowledged that the political economy of redistribution has become increasingly complex and diversified in recent decades (Brady and Bostic, 2015). Many countries have entered vicious cycles in social development, where important complementarities between institutions of the labor market and in the political arena have gradually weakened (Barth and Moene, 2014). In this context of negative reciprocity, characterized in many countries by increased wage inequality and cutbacks to social spending, research on income distributions has recently suggested that the relationship between social policy and redistribution has changed. Welfare states that distribute resources more unevenly across risk pools seem nowadays to achieve higher levels of redistribution (Kenworthy, 2011; Marx et al., 2016; Whiteford, 2008). Although these new results urge us to reconsider earlier claims about the political economy of redistribution, there is evidence from more institutionally informed analyses that principles of universalism in policymaking are still fundamental for poverty reduction (Ferrarini et al., 2016; Jacques and Noël, 2017).

The confusion in the welfare state and poverty literature about the consequences of following different social policy principles and strategies is at least partly a result of theoretical and methodological misconceptions. Even though we will return to this issue in greater detail in Chapter 5, it is essential to stress at this point that analyses on income distributions seldom are appropriately designed to facilitate inferences on institutional designs and approach questions about the political economy of redistribution, where middle-class and cross-class political alliances are critical preconditions. Without proper consideration to institutional structures, analyses on policy outcomes based solely on income distribution data may be as much a result of population characteristics and volatility of market incomes – which in turn determines the role of social policies in the first place – as they are a consequence of how social policies are codified in legal frameworks and provide equal protection against age-related social risks.

In order to formulate specific hypotheses about welfare states and generational justice, it is fruitful to make a distinction between “unbalanced” and “balanced” contracts. Unbalanced generational welfare contracts are characterized by an uneven distribution of social citizenship rights across
The generational welfare contract

age-related risk categories, as shown in Figure 3.1. On the horizontal axis we have divided human life into three phases characterized by the different age-related social risks that we identified in the introductory chapter of this book: childhood, working age and old age. On the vertical axis we have a hypothetical measure showing the extensiveness of social citizenship rights for those risks.

Unbalanced generational welfare contracts come in the form of three ideal-typical subtypes: profiled to children (pro-child), to those of working age (pro-work), and to the elderly (pro-old). Discussions about generational conflict and distributional trade-offs in social policymaking are most often assumed to follow the profile described by the pro-old subtype, where ageing welfare states become increasingly supportive of retirees. The exact shape of the unbalanced contract will most likely differ across countries and over time, and exhibit a greater diversity of generational profiles than in the analytical simplifications we depict here. Nevertheless, the ideal-typical examples serve our analytical purpose by illustrating different scenarios where citizens in one age-related risk category benefit from the welfare state supposedly at the expense of others.

In Figure 3.2 we not only introduce a fourth ideal-typical profile – the balanced generational welfare contract – we also illustrate a scenario where the volume of resources available for redistribution is far from predetermined, but instead varies according to the overall design of the system. Our basic hypothesis should by now be discernible. Because the extensiveness of social citizenship rights hardly differs between age-related risk categories in balanced systems, it is reasonable to assume that the likelihood of positive-sum solutions in policymaking is enhanced. Interest coalitions cutting across age groups are here expected to increase the possibilities of

Figure 3.1  Ideal-typical configurations of three unbalanced generational welfare contracts

Note: The horizontal axis is divided into three age-related social risks: childhood, working age and old age. The vertical axis shows the extensiveness of social citizenship rights, ranging from high to low.
improving social policies for all. We would thus expect social citizenship rights to be more fully developed across all age-related social risks in countries where social policies are more equally protective towards the needs of different overlapping generations, as is the case with balanced generational welfare contracts.

In the perspective of the political dynamics involved in policymaking and possibilities for cross-generational political coalition formation, it is reasonable to assume that countries with clearly unbalanced systems over the long term have greater difficulties sustaining extensive public commitments in areas of social policy for any age-related social risk. Unbalanced generational welfare contracts are therefore more likely to foster distributional trade-offs and conflicts that effectively undermine the possibilities of increasing the overall comprehensiveness of the system, even among those age groups that in relative terms are treated favorably.

STABILIZING GENERATIONAL JUSTICE

Our hypothesis about positive-sum solutions in the balancing of social citizenship rights across age-related social risks does not require that every generation should receive an equivalent share of social expenditures, either in single years or over the life course. Even in the presence of stable arrangements in place to redistribute resources and balance age-related claims, the allocation of social spending will inevitably vary across generations. One obvious reason, which serves to be repeated, is that aggregate needs are very much affected by demographic processes. Each generation may differ considerably in size, reflecting the combined effects of changes in birth rates and life expectancy. In this context of changing demographics, it is
important to acknowledge that there is already a well-developed scholarly literature concerned with the specific challenge of identifying equitable distributions of welfare in ageing societies. Particularly the question of how to ensure fair and sustainable pensions under circumstances of huge cohorts entering retirement has received much attention (Lindh et al., 2005).

Several important contributions to the discussion about justice and pension reform in the context of population ageing build on Musgrave’s principles of a fair financing of social policy. Specifically, the idea of “fixed relative positions” (Musgrave, 1981, p.109) – sometimes referred to as the “Musgrave rule” – has been advanced as an attractive risk-sharing device between overlapping generations for sustainable pensions (Esping-Andersen and Myles, 2006; Myles, 2002, 2003; Schokkaert and Van Parijs, 2003). According to this principle, the additional costs of supporting the elderly that result from population ageing should be shared between the working population and the retired according to stable proportional shares, rather than allowing either workers (higher taxes) or retirees (lower pensions) to carry the greater share of the burden.

In this view, justice requires pension systems to be organized in ways that hold the ratio between per capita benefits (net of taxes) of the retired and per capita earnings (net of contributions) of the working population fixed, no matter what demographic changes there are. In other words, the relative economic positions of the working population and the retirees should remain unaffected by demographic developments. However, in the case of increasing life expectancies this can of course only happen if the retirement age is adjusted upwards. Mature Western welfare states are for such reasons already making different kinds of adjustments to their pension systems.

The principles stipulated by the Musgrave rule are clearly important to take into account when evaluating strategies for politically stable pension systems that prudently distribute resources between workers and retirees. Once again, however, we would like to stress that the particular problem of promoting sustainable pensions in ageing societies, despite its importance, only constitutes one aspect of the wider challenge of maintaining fair and politically stable welfare state institutions. The generational welfare state is more than just its pensions. If we are to promote and stabilize justice between age groups and support the willing cooperation of all generations in this endeavor, we should equally consider that modern societies do not only face demographic challenges. There are also other pressures of more immediate relevance for the social conditions pertaining to citizens that have not yet reached retirement age, including technological shifts and large-scale industrial restructuring, changes in productivity and slow-down
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of economic growth, increased unemployment, changes in the work and family balance and so forth.

When such pressures affect the ways in which welfare states redistribute resources, for example, by causing major imbalances in how social policies respond to different age-related risks, the fairness and political stability of the whole system comes under threat. Under such circumstances of potential generational conflict, sustainable cooperation between generations requires that all citizens genuinely believe that they have good reasons to cooperate (Daniels, 1988). In line with the positive-sum solution hypothesis, the likelihood of fruitful generational cooperation depends not only on the extent to which the financing of social policy is shared, but also on the presence of stable and evenly shared protection against all major age-related social risks, no matter where in the life course those risks appear.

Although the criterion of “fixed proportional shares” may be considered reasonable, we have in this chapter argued that the debate about the generational welfare state also needs to take into account protection against age-related social risks in pre-retirement ages. One main motivation behind the Musgrave rule is to support an institutional context of generational solidarity, where the current working population may feel confident that they will access equivalent levels of protection when they are retired, thereby securing their willingness to contribute. In generalizing this logic of reciprocal support to other age-related social risks, it is reasonable to assume that balanced generational welfare contracts play an important role in strengthening trust and support for resource claims of overlapping generations, at different stages of life. We have good reason to believe that public responses to a particular age-related social risk are affected by the ways in which welfare states cater for other generational needs, including those of children and people of working age. It is therefore important not to detach specialized debates about fair and sustainable pensions from empirical research on broader aspects of welfare states, including the ways in which countries have organized social policies to cover a greater variety of age-related needs.

CONCLUSION

It is often argued that social policymaking is increasingly plagued by distributional conflicts between different overlapping generations – most often between retired and younger people. We have in this chapter advanced theoretical arguments to complement and, in some respects, challenge this view. Due to the pooling of risks and resources within welfare states, it is possible to expect scenarios where positive-sum solutions are operating.
The hypothesis of positive-sum solutions concerns the distribution of social citizenship rights across three major age-related risk categories: childhood, working age and old age. We outlined four ideal-typical generational welfare contracts. Three of those are unbalanced, where social rights are tilted in favor of a particular target group: children, those of working age or old age. In debates about welfare states and ageing societies it is particularly the unbalanced generational welfare contract of the old-age type that is assumed to foment generational conflict. The fourth ideal-typical category is the balanced generational welfare contract, where the structure of social citizenship rights treats all age-related risk categories more equally.

Balanced generational welfare contracts are particularly interesting from the perspective of positive-sum solutions because they provide favorable conditions for generational interest formation. Welfare states that respond more evenly to needs associated with each particular age-related social risk are here expected to improve the possibilities for interest mediation and coalition making, thus providing more favorable conditions for raising the overall comprehensiveness of social citizenship to the greater benefit of all age groups.