

Inequality in National Inter- Generational Transfers: Evidence from Colombia

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The National Transfer Accounts-NTA System

- NTA is a comprehensive approach to measure aggregate economic flows across age and time
- It makes all estimations consistent with National Income and Product Accounts
- The accounts measure how each age group produces, consumes, shares, and saves resources

The National Transfer Accounts-NTA System

- Two forms of economic flows:
 - Transfers between age groups
 - The use of assets accumulated earlier in life
- These flows arise primarily because of the economic lifecycle:
 - children and the elderly consume more than they produce through their labor

Motivation

- Impact and direction of intergenerational transfers are a relevant policy issue.
 - It is a source to sustain and smooth consumption over the life cycle, while providing protection for potential socioeconomic risks.
 - Particularly important in countries with an ongoing demographic dividend process
- Understand if and how social protection is provided to the poorest portion of the population

Motivation

- NTA methodology study's intergenerational transfers by analyzing the level of education of the household head (HHE).
- Alternatively we use Multidimensional Quality of Life Index (MQLI): an indicator that summarizes different socioeconomic characteristics

Motivation

- HH income is provided by two or more members.
- HHE approach tends to underestimate current poverty.
 - Income correlates with education but, in the short run, it may be true that even educated household heads are affected by income shortages or even unemployment.
 - The MQLI overcomes this shortcoming because it is based on aggregate household variables that reflect structural wealth.

Objective

- We use the National Transfer Accounts (NTA) methodology to quantify the intergenerational transfers in Colombia.
 - It is a source to sustain and smooth consumption over the life cycle, while providing protection for potential socioeconomic risks.
 - Particularly important in countries with an ongoing demographic dividend process
- Understand if and how social protection is provided to the poorest portion of the population

Why study inter-generational?

1. Inter-generational transfers system which depends on the **demographic dividend**
 - The East Asian experience shows evidence for their fast economic growth rate in part due to the demographic dividend.
 - Second demographic dividend: an ageing population preparing for retirement has incentives to accumulate assets. As a result, unconditional on where these assets are invested, national income will rise

Why study inter-generational?

2. From a generational dynamics point of view, interested in the political economy of aging

- Are generational inequalities similar to those observed in the overall population?
- if transfers are due to altruism and efficiency concerns, cooperative action between generations may lead to governments with increased public expenditures in education for the young and pensions for the old.
- Total transfers from one generation to another can reflect the political power of the leading demographic group.

Why study inter-generational?

3. Intergenerational transfers have an impact on savings and economic growth
 - The need and impact of social security reforms, for instance, has been matter of ample study in the literature (Feldstein and Samwick, 2001; Feldstein, 1998; Krueger and Kubler, 2002).

Why study inter-generational?

4. Policy implications of aging

- An aging population at a relatively low level of development will have a negative effect on income
- A State's inability to support the elderly via a proper pension system requires a valid substitute for their survival.
- In Colombia relies on younger family members.
- If such family members are also poor, the problem acquires a larger dimension.

The Colombian Economy

- Third largest country in Latin America currently experiencing its demographic transition.
- Poverty and inequality is an issue:
 - Over 37% of the population is officially poor.
 - The Gini Index reached 58; 50 in the early 1990s.
 - Health coverage, in contrast, has improved. In 2009 over 80% of the total population had access to health.
 - The pay-as-you-go pension system covers 25% .

Data

- Microdata: 2008-Living Standards National Survey (*Encuesta Nacional de Calidad de Vida-ECV*), DANE.
- Covers all standard household and socio-demographic characteristics
- Includes income-expenses per individual and household in all topics of our concern: education, health, consumption and some transfer programs

Data

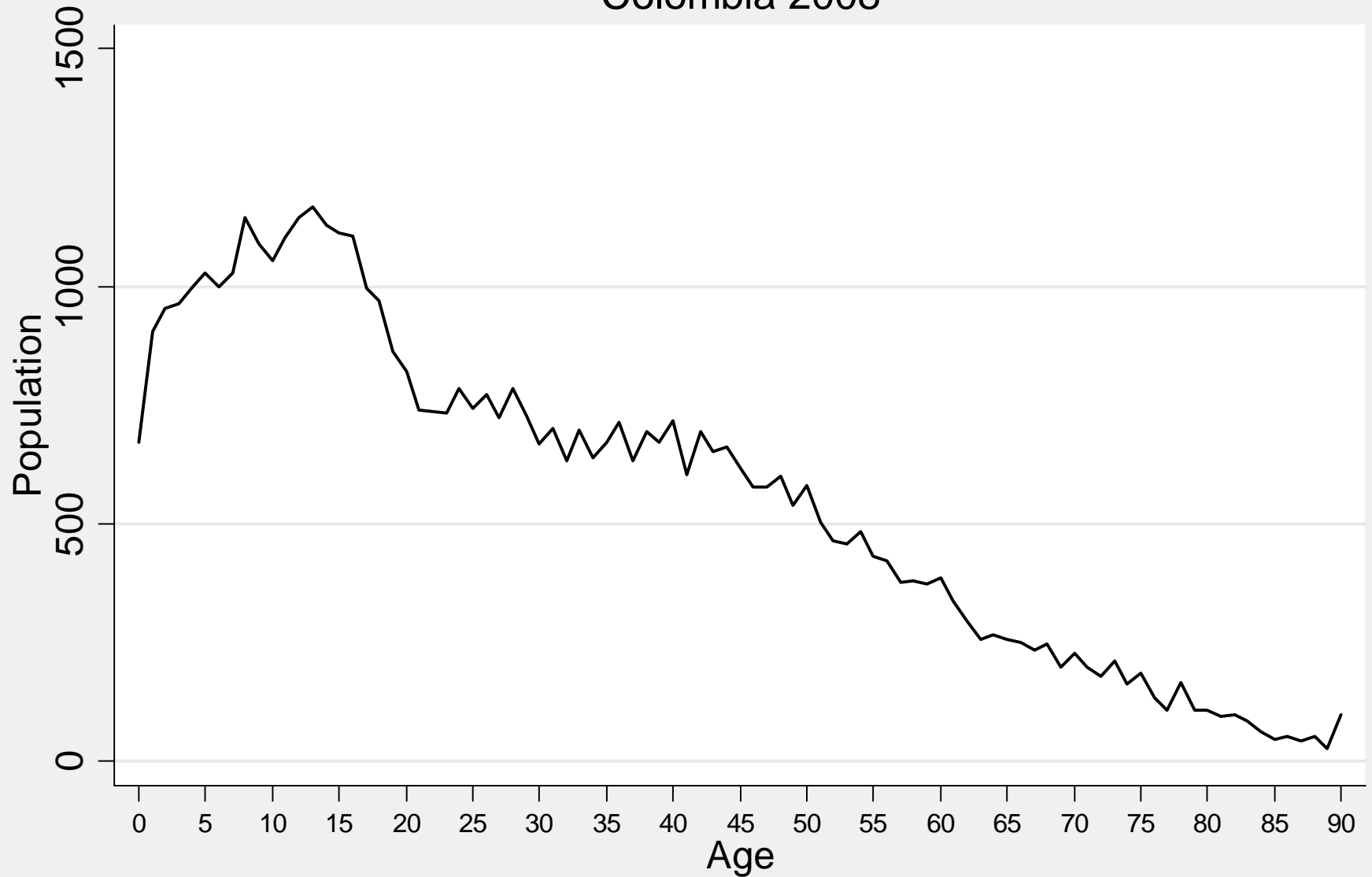
- Macroeconomic data: System of National Accounts (DANE); GFS accounts from International Monetary Fund (IMF); Balance of Payments, Financial and price data from Colombian Central Bank (*Banco de la República*); Central Government Income and Expenditure Balance, Expenses per program and Public Finances from Ministry of Finances and Ministry of Health (*Ministerio de la Protección Social*)

NTA-Profiles

- The following Figures are presented in monthly Colombian pesos (COP).
- All profiles are presented in single age groups and the open ended group is 90+
- Population from (ECV-08) portrays the age distribution found in the latest census (2005):
 - Large proportion of young and adults, declining proportion of the youngest and slightly increasing portion of the oldest

Population Age Structure

Colombia 2008



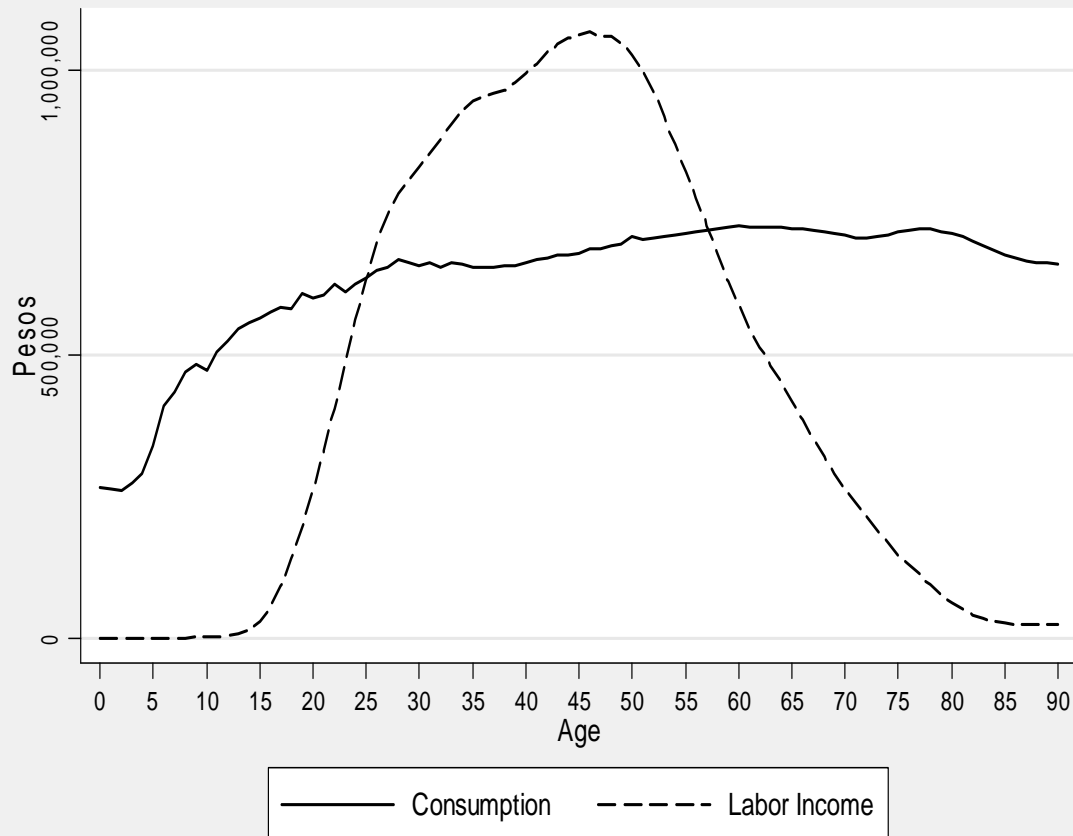
Source: Living Standards Survey

NTA-Profiles

- NTA methodology allows for the creation of many age profiles.
 - We focus on income, consumption, health and transfers.
- Profiles by HHE and MQLI are presented
 - The index ranges from 0 (extreme poverty, i.e. the worse quality of life) to 100 (the best quality of life).

Consumption and Labor Income Age Profile

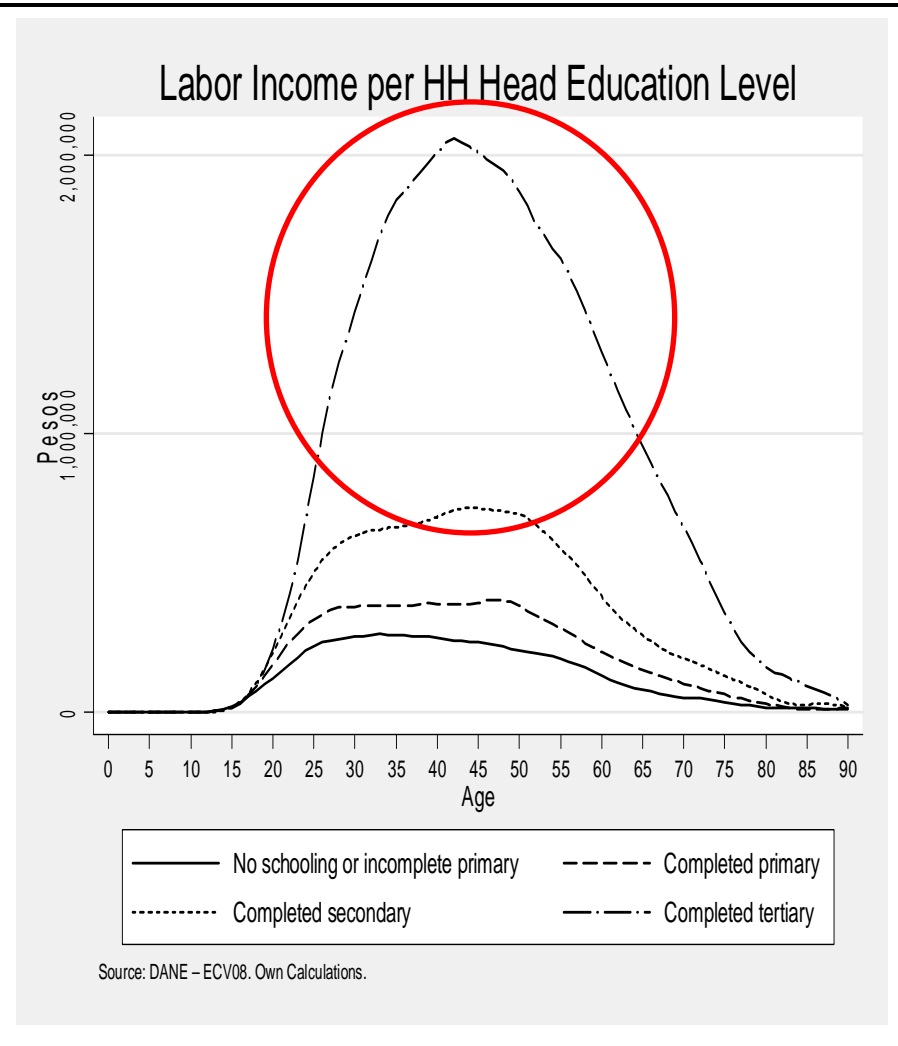
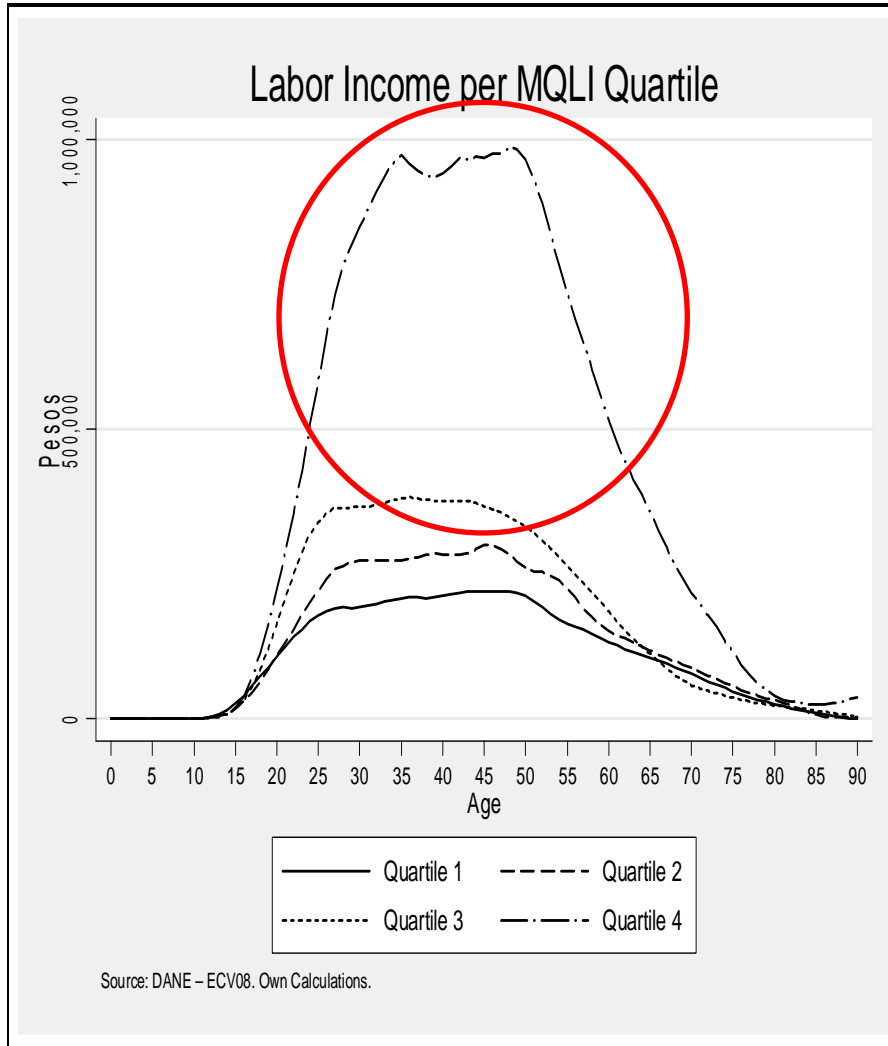
Colombia 2008



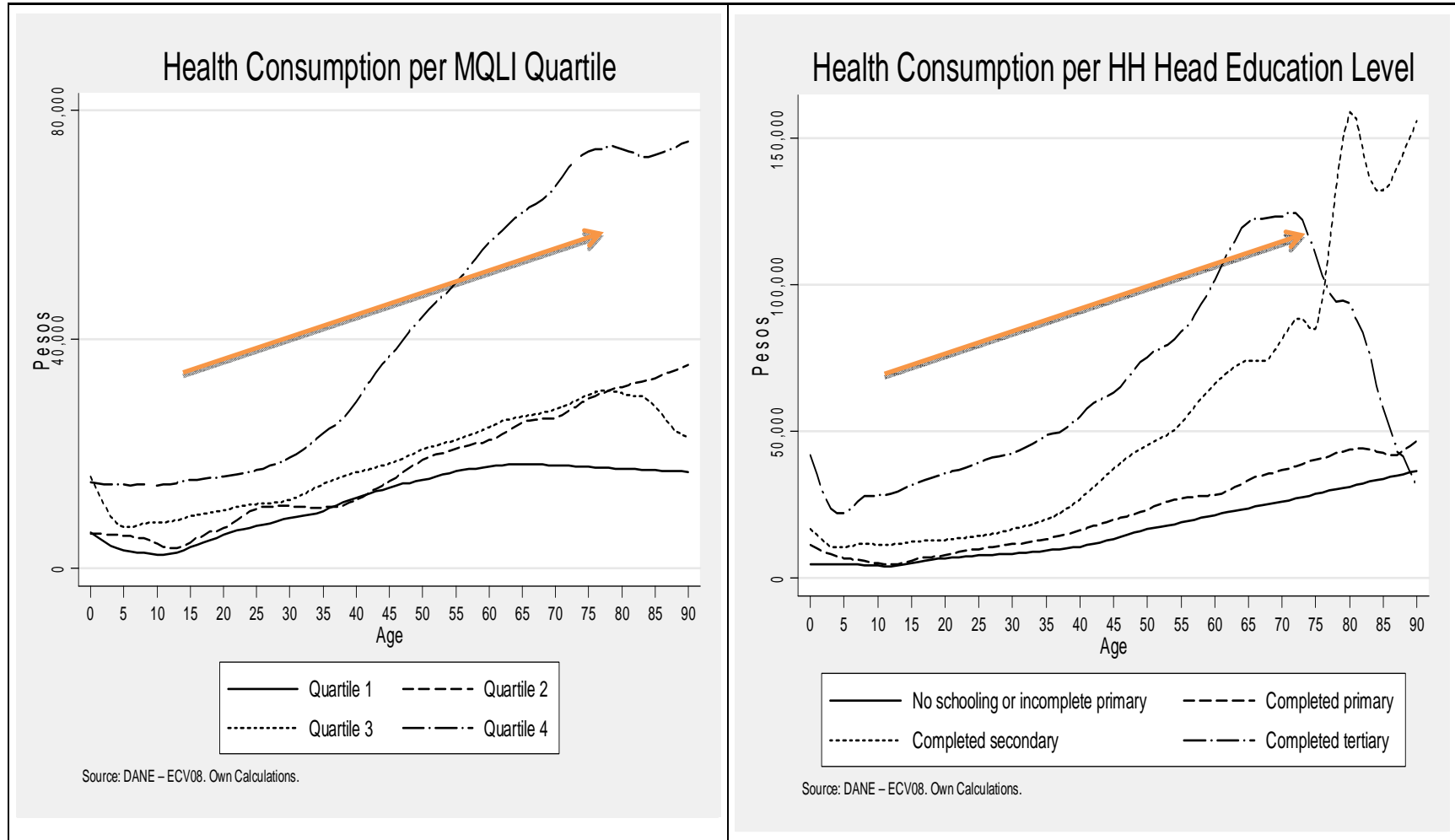
Source: Living Standards Survey. Own calculations
Macro Adjusted

- Large savings rate should not be expected given the small amount of time over which income exceeds consumption
- Consumption never declines over the years; it even slightly increases at age 60
 - This contradicts the theoretical models on life cycle deficit
 - It gives relevance to the study of inter-generational transfers: fiscal impact of ageing may be even greater for developing countries with small saving rates.

Inequality

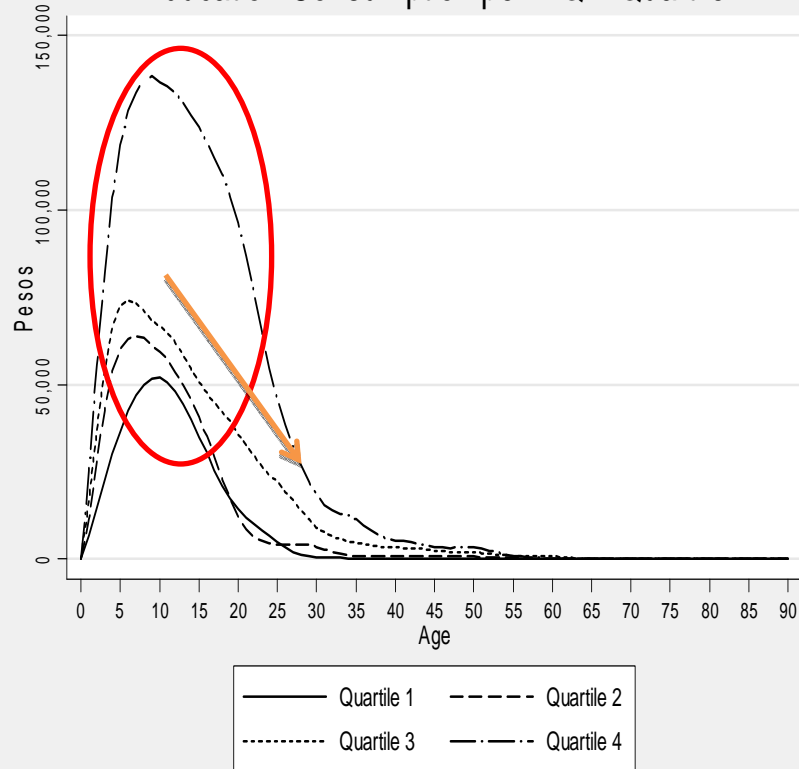


Inequality



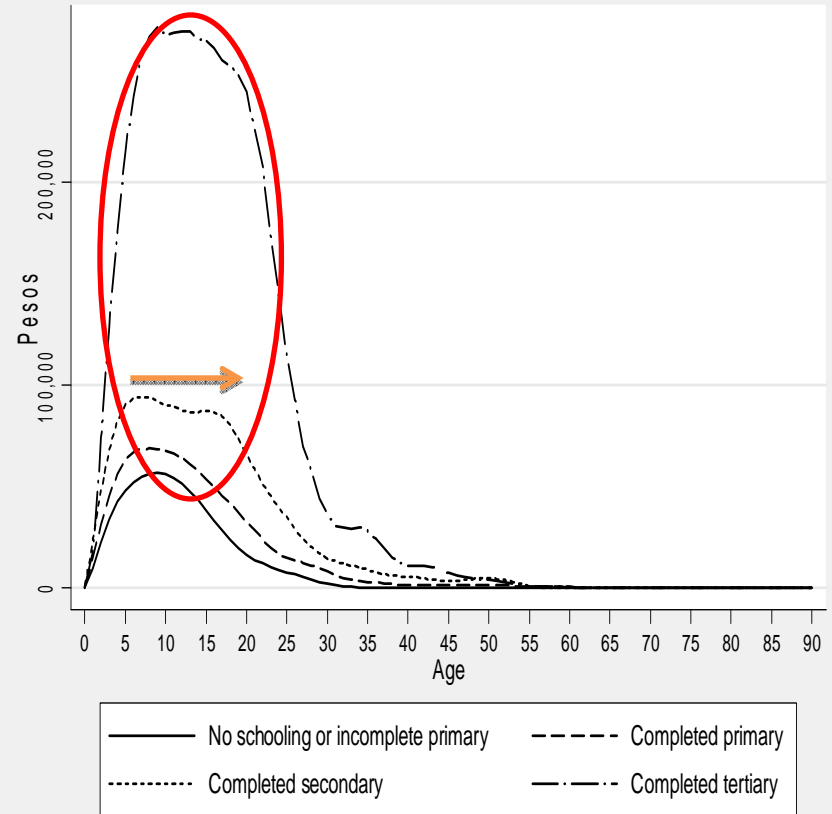
Inequality

Education Consumption per MQLI Quartile



Source: DANE – ECV08. Own Calculations.

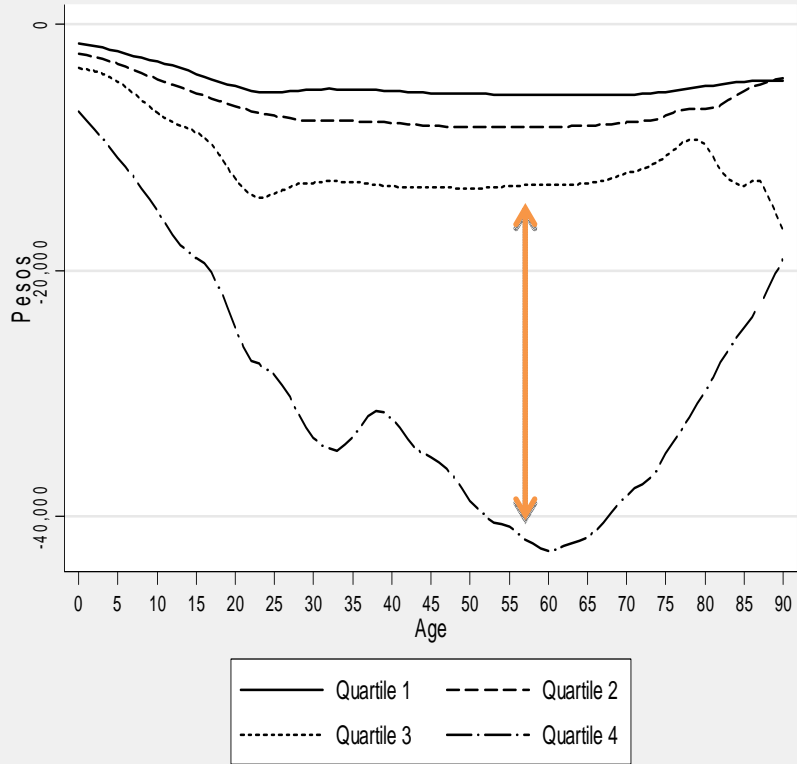
Education Consumption per HH Head Education Level



Source: DANE – ECV08. Own Calculations.

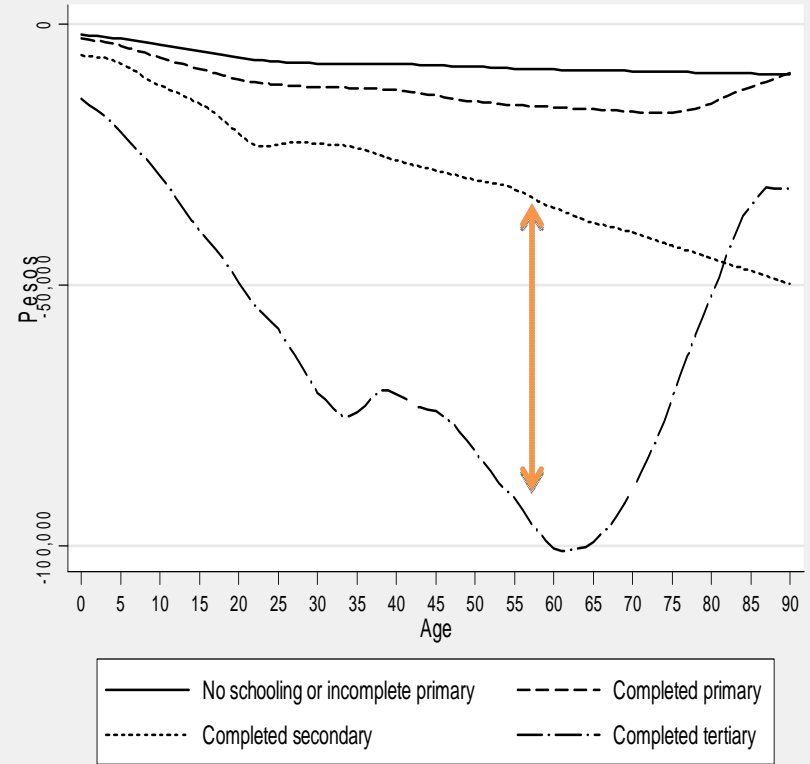
Transfers

Public Transfers Outflows per MQLI Quartile



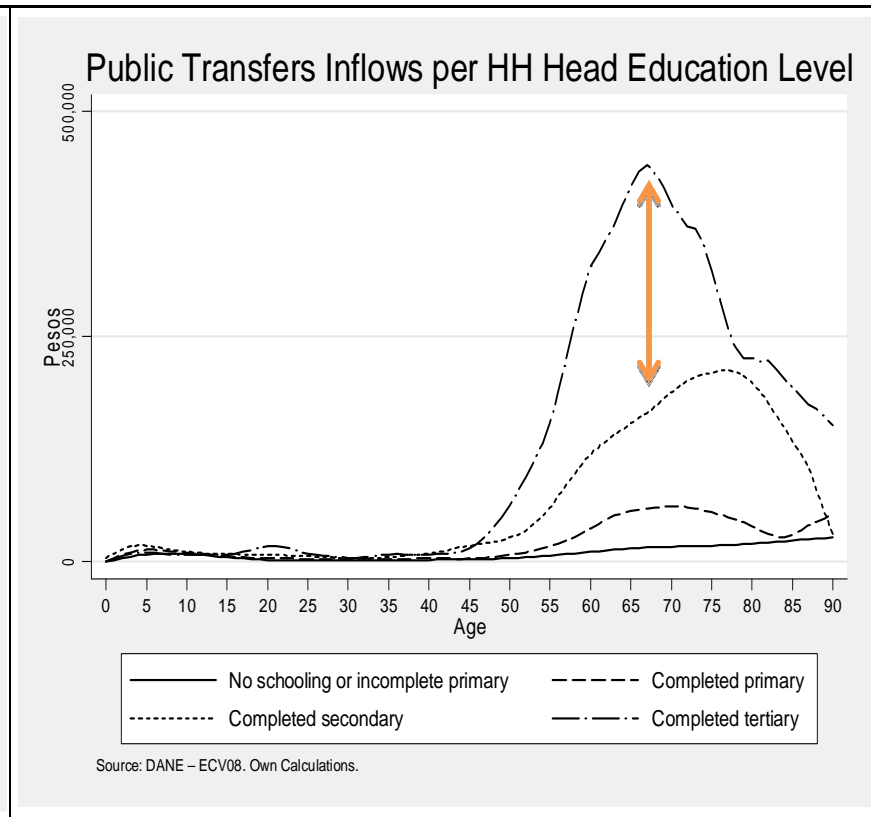
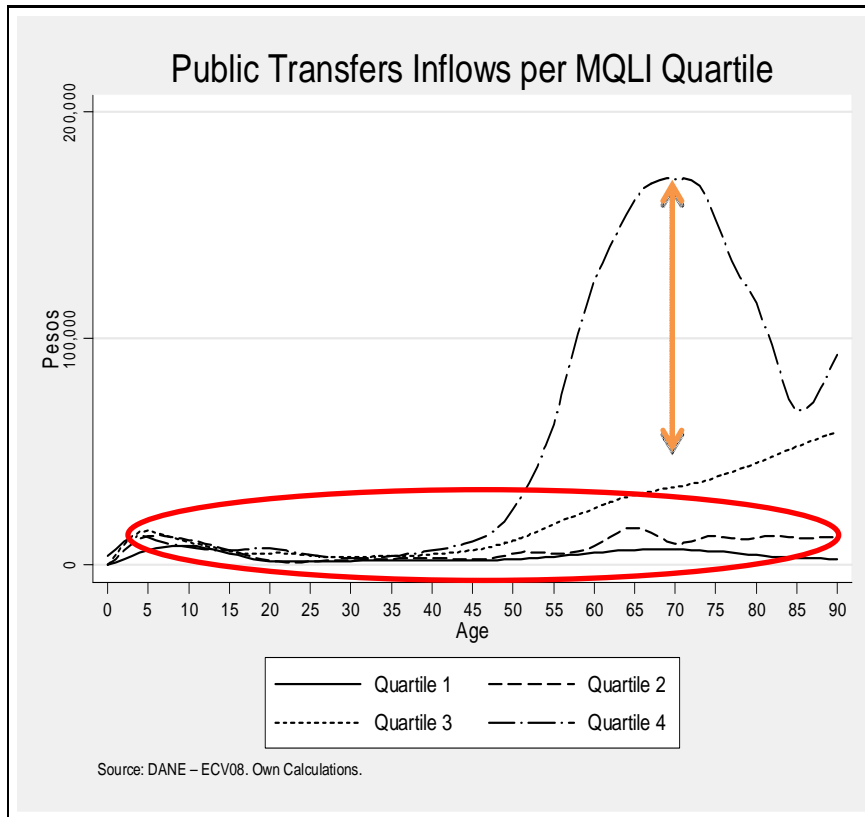
Source: DANE – ECV08. Own Calculations.

Public Transfers Outflows per HH Head Education Level



Source: DANE – ECV08. Own Calculations.

Transfers



Conclusions

- Perspectives of poverty and inequality in Colombia are disturbing.
- Education is key in breaking this cycle:
 - Need to increase transfers towards kids and adults.
 - As resources are limited and health consumption will increase driven by the aging process, the challenge is whether inflows should be increased, in order support larger outflows or how to redistribute current resources

Conclusions

- Transfers lower to the youngest and disproportionately large toward the elderly
- This result is a concern in a country like Colombia whose population has not finished the demographic transition
- It reinforces the existence of inequality across ages in favor of the eldest at expenses of children.
- If this trend continues the fiscal burden will be too high and the perpetration of both poverty and inequality will lead the country to a certain poverty trap

Conclusions

- MQLI preferred over HHE.
- Differences in Interpreting Poverty
 - Not only richer people have higher incomes, higher private transfers inflows and higher levels of public outflows, but inequality is high implying regressive effects on human capital investments
- MQLI
 - Customizable across countries
 - It provides a direct estimation of inequality