



An update of UK generational accounts and first steps in UK NTA's

Amier Girgis, David McCarthy and James Sefton

11th June 2010

Generational Accounts in the UK

- Originally produced in 1997 with Larry Kotlikoff (by Sefton)
- A full update in 2000 and 2004, and now 2008
- Results published annually as part of UK Long Term Fiscal Sustainability Report in the Budget
- Part of the EU wide of Eurostat pilot project commissioned by ECOFIN.

Our GA approach

- Disaggregate different programs and taxes as far as we can
- Include government (short term) projections (to adjust for business cycle)
- Allow expenditure per capita for each transfer to grow at given rates to allow for productivity growth
- Allow profiles to change over time to allow for maturation of benefit policy

The Advantages of GA's

- Straightforward and easy to implement
- Coherent framework in which to combine long term projections on welfare and health expenditure
- Is independent of accounting procedure (unlike budget deficits) and so a fair measure of sustainability

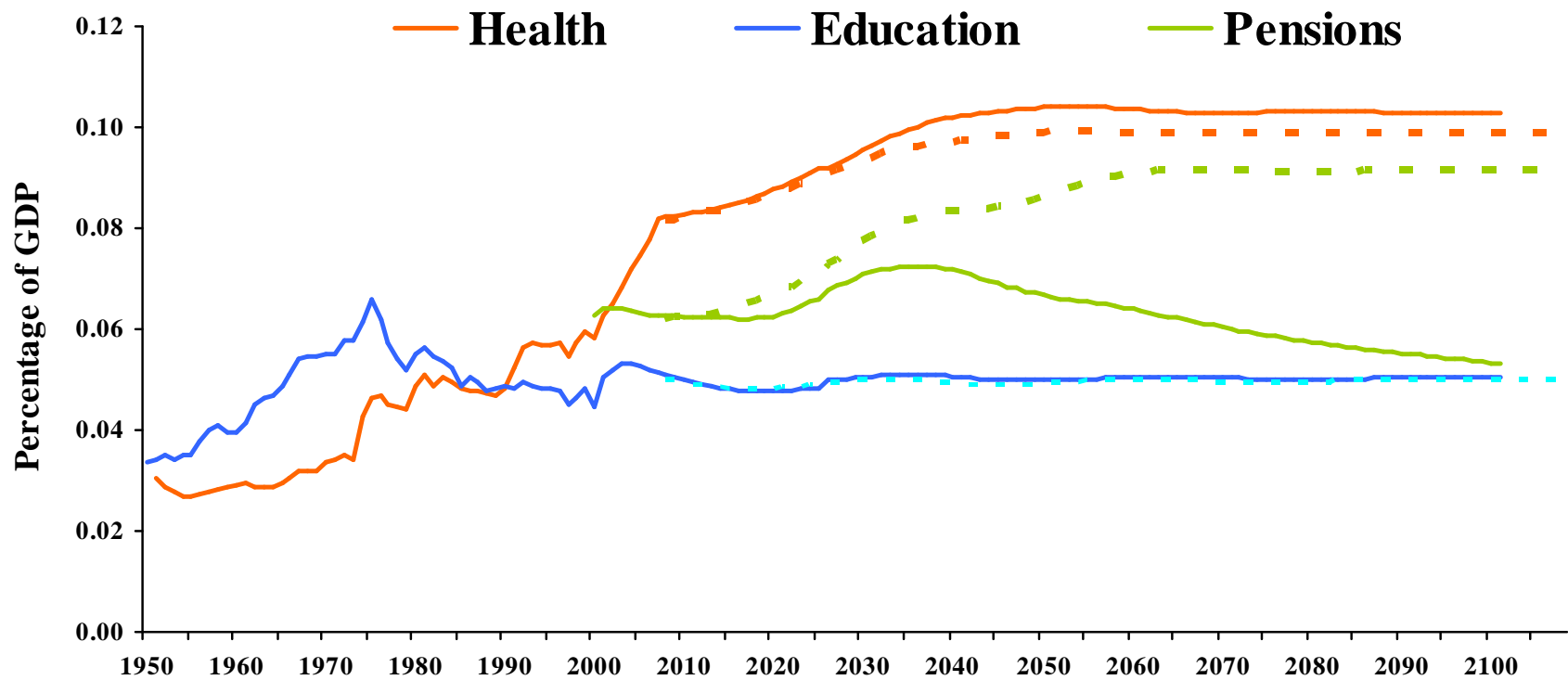
The Disadvantages of GA's

- Necessary to make long term projections (and the uncertainty that introduces)
- Sensitivity to growth rate and interest rate assumptions.
- Approach does not model the interdependence of income and benefits.
- Sensitive to how social transfer adjustments are taken into account
- Sensitive to choice of base year
- Quantifies only the relationship between the household and the public sectors, not within or between households (NTA's)

The UK Accounts

- 1 Income Tax
- 2 Other Corporate Taxes
- 3 Taxes on capital gains
- 4 Social Security Contributions
- 5 Indirect Taxes
- 6 Hydrocarbons oil
- 7 Stamp duties
- 8 Other customs and excise duties
- 9 National non domestic rates
- 10 Other taxes on production
- 11 Council Tax
- 12 Other Miscellaneous Transfers
- 13 Inheritance tax
- 14 Net Capital Transfers
- 15 Retirement Pensions: Basic
- 16 Retirement Pensions: SERPS
- 17 Unemployment Benefits
- 18 Maternity Benefits
- 19 Family Benefits
- 20 Minimum Income Guarantee
- 21 Disability Benefits
- 22 Other grants to households
- 23 Rent rebates/allowances
- 24 Net Inter. Cons.: Education :Schools
- 25 Net Inter. Cons.: Education: Further education
- 26 Net Inter. Cons.: Hospitals and Community Health
- 27 Net Inter. Cons.: Health: General medical Services
- 28 Net Inter. Cons.: Health: Long Term Care
- 29 Salaries: Wages: Education: Schools
- 30 Salaries: Wages: Education: Further education
- 31 Salaries: Health: Hospitals and Community Health
- 32 Salaries: Health: General medical Services
- 33 Salaries Health: Long Term Care
- 34 Miscellaneous Current Transfers
- 35 Subsidies
- 36 Gross capital formation
- 37 Operating Surplus

Implied Aggregate Projections in 2000 and 2008

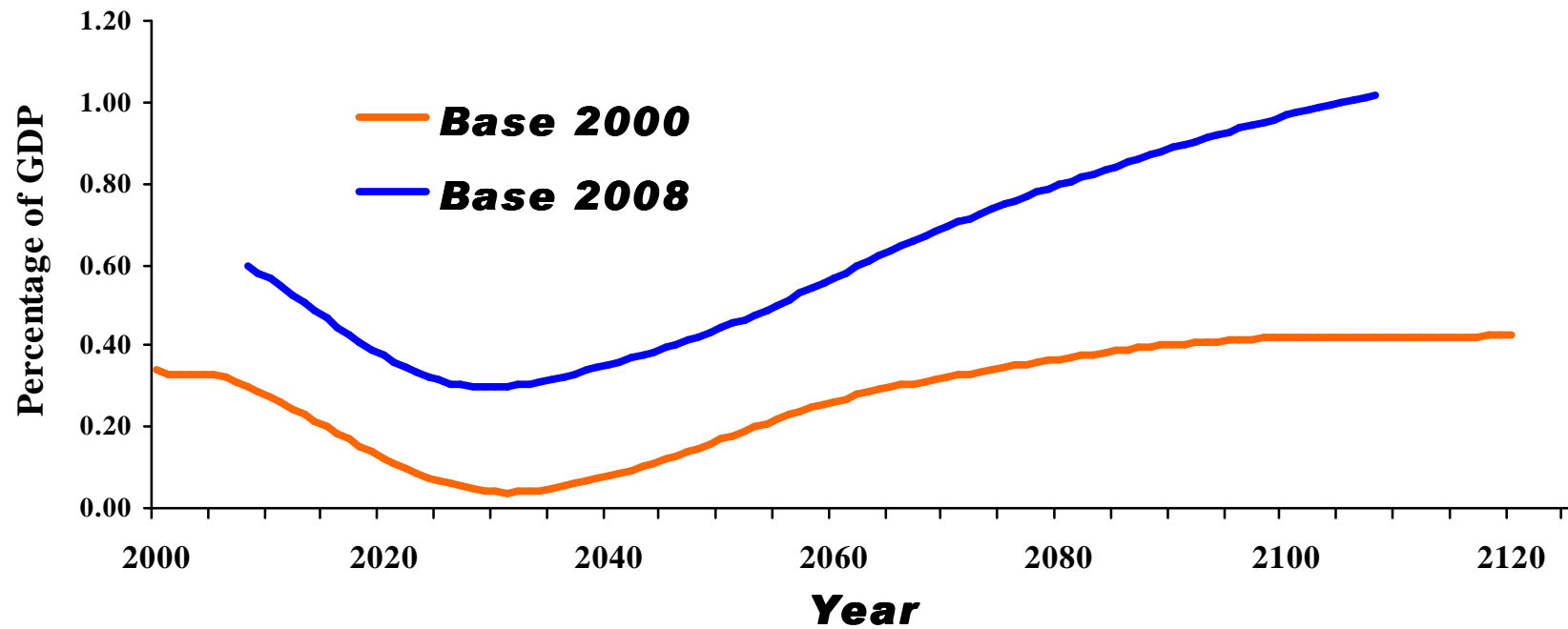


Sustainability measures

Achieving Generational and Intertemporal Balance Under Alternative Policy Scenarios

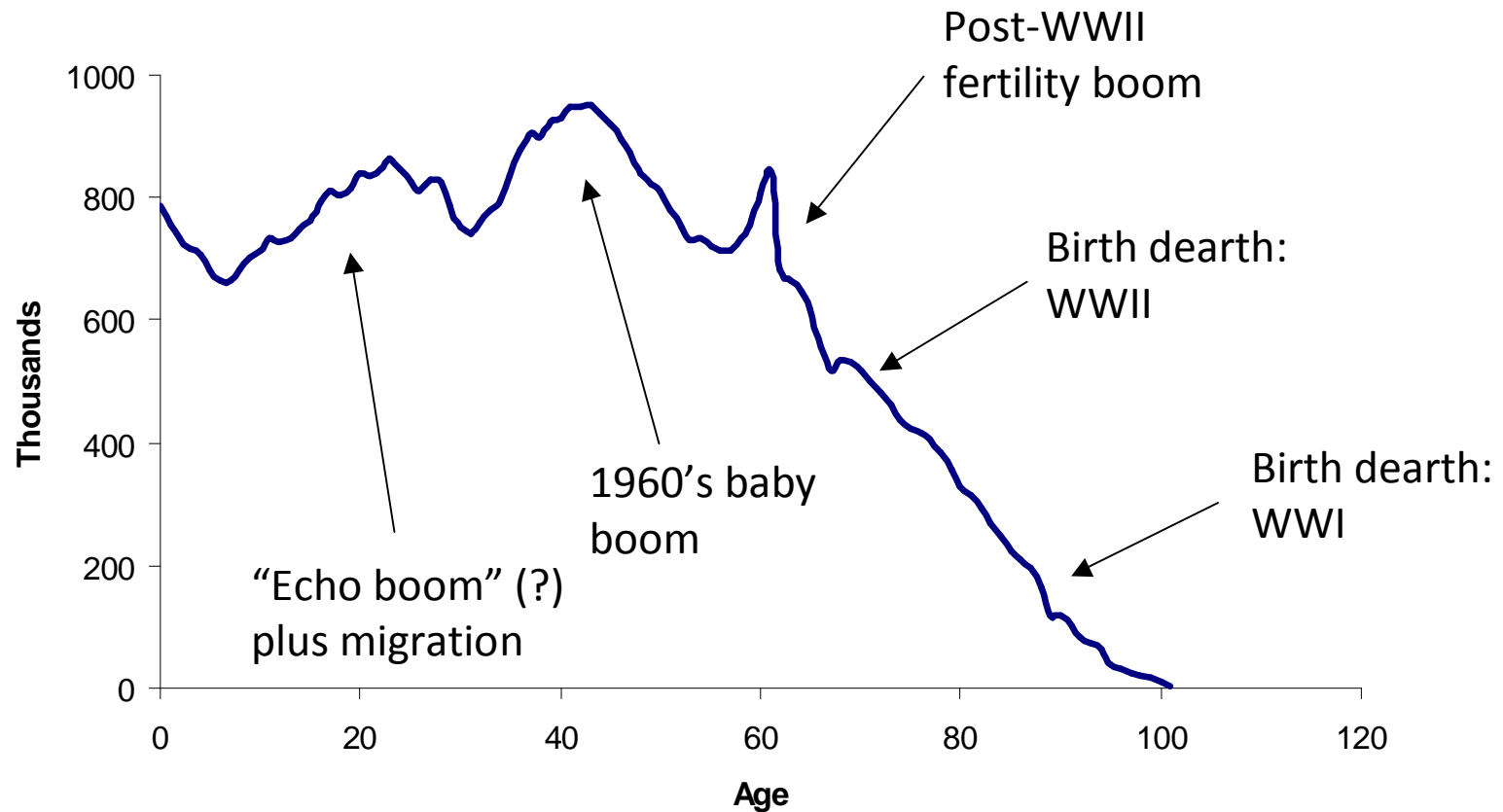
| | <i>Generational Budget Gap as a Share of GDP</i> | <i>Intertemporal Budget Gap as a Share of GDP</i> | <i>Income Tax Increase Needed to Achieve Generational Balance</i> | <i>Income Tax Increase Needed to Achieve Intertemporal Budget Balance</i> |
|-------------------------------|--|---|---|---|
| Baseline Policy - 2000 | 60.1% | 56.3% | 12.4% | 11.4% |
| Baseline Policy - 2008 | 441.6% | 321.0% | 36.2 % | 25.1 % |

Implied Debt Path given sustainability



UK NTA's: First steps

UK population age structure (2008)



UK data sources

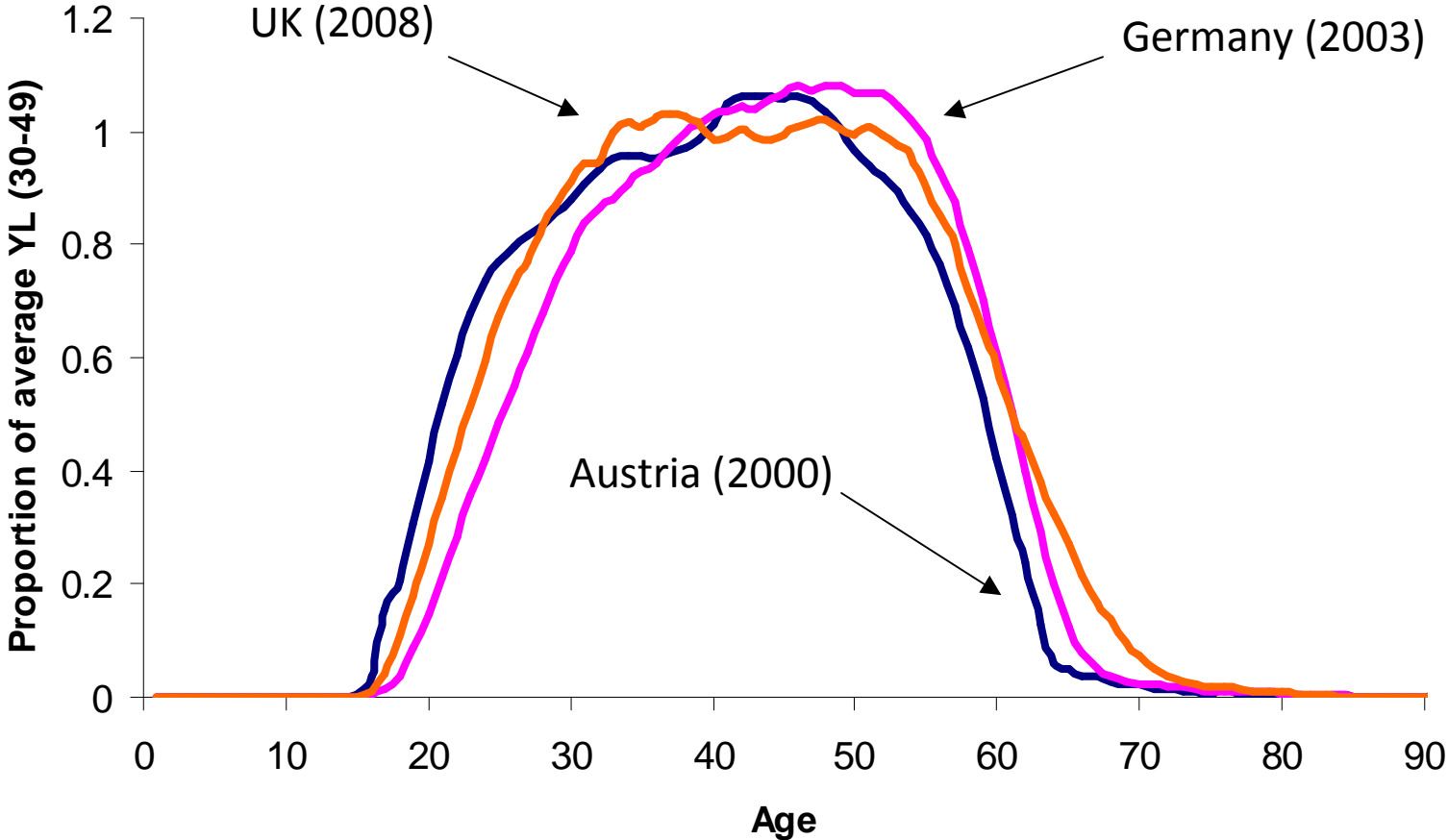
- Expenditure and Food Survey (Living and Food Survey) (2008 – 2009)
- General Household Survey (2006)
- Administrative data from Department of Education and Department of Health
- National Accounts (2008-2009) [Blue Book]
- We are still learning our way around our data and NTA methodology so all numbers are provisional

UK labour income per capita (2008)

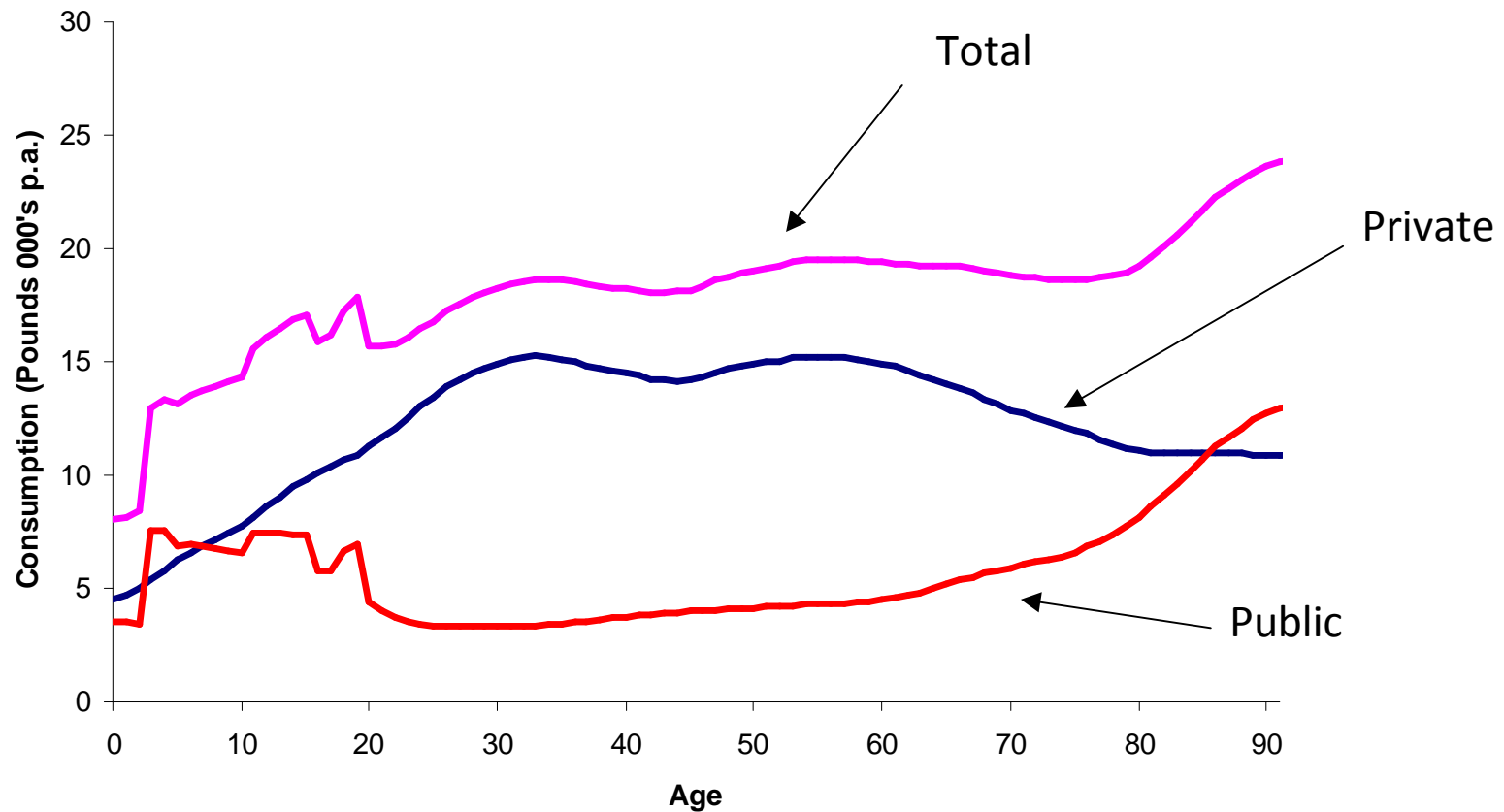


(Excludes employers' social contributions and labour's share of indirect taxes, unadjusted)

Labour income profiles, some European countries

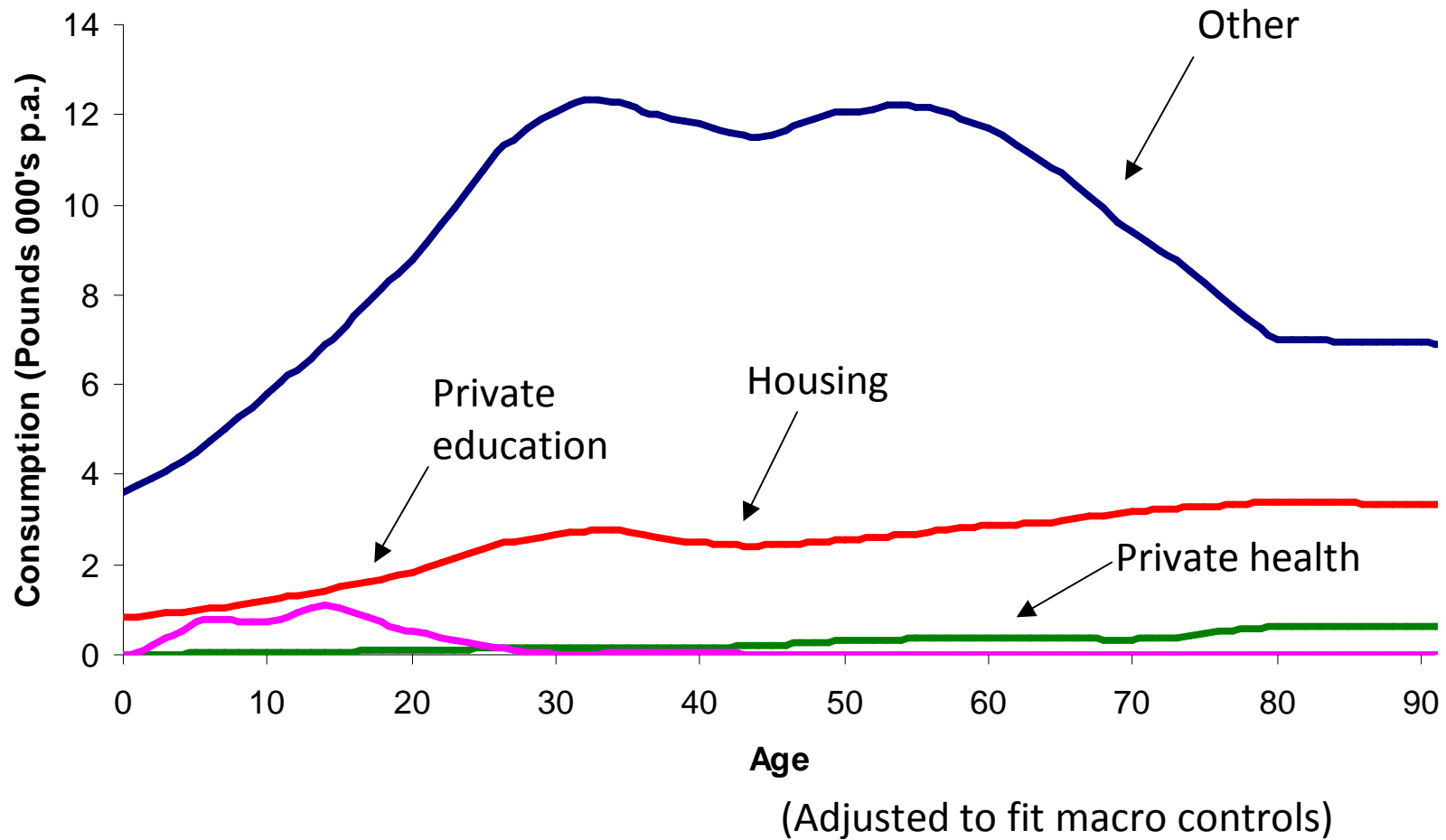


UK consumption per capita (2008)

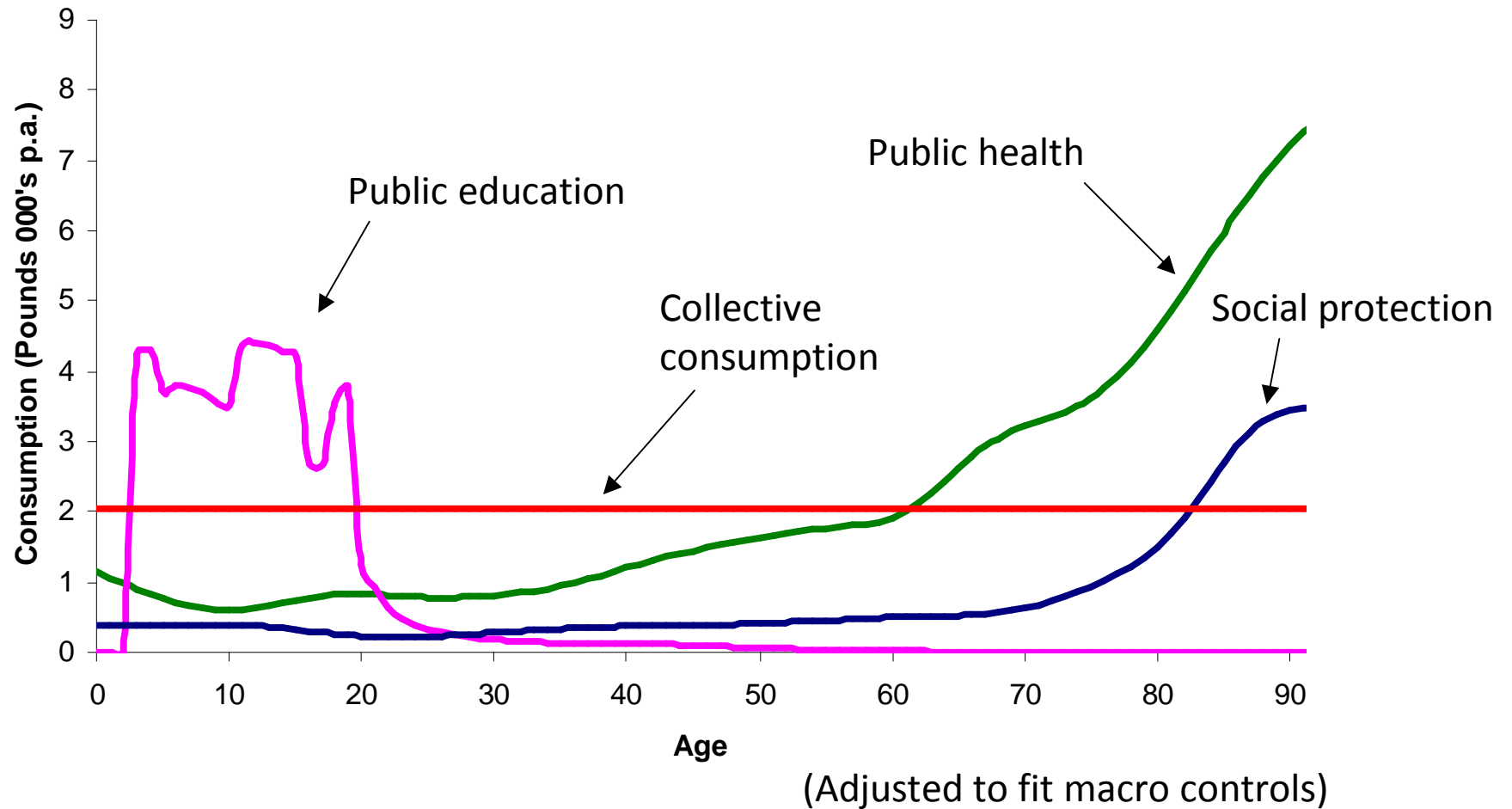


(Adjusted to fit macro controls)

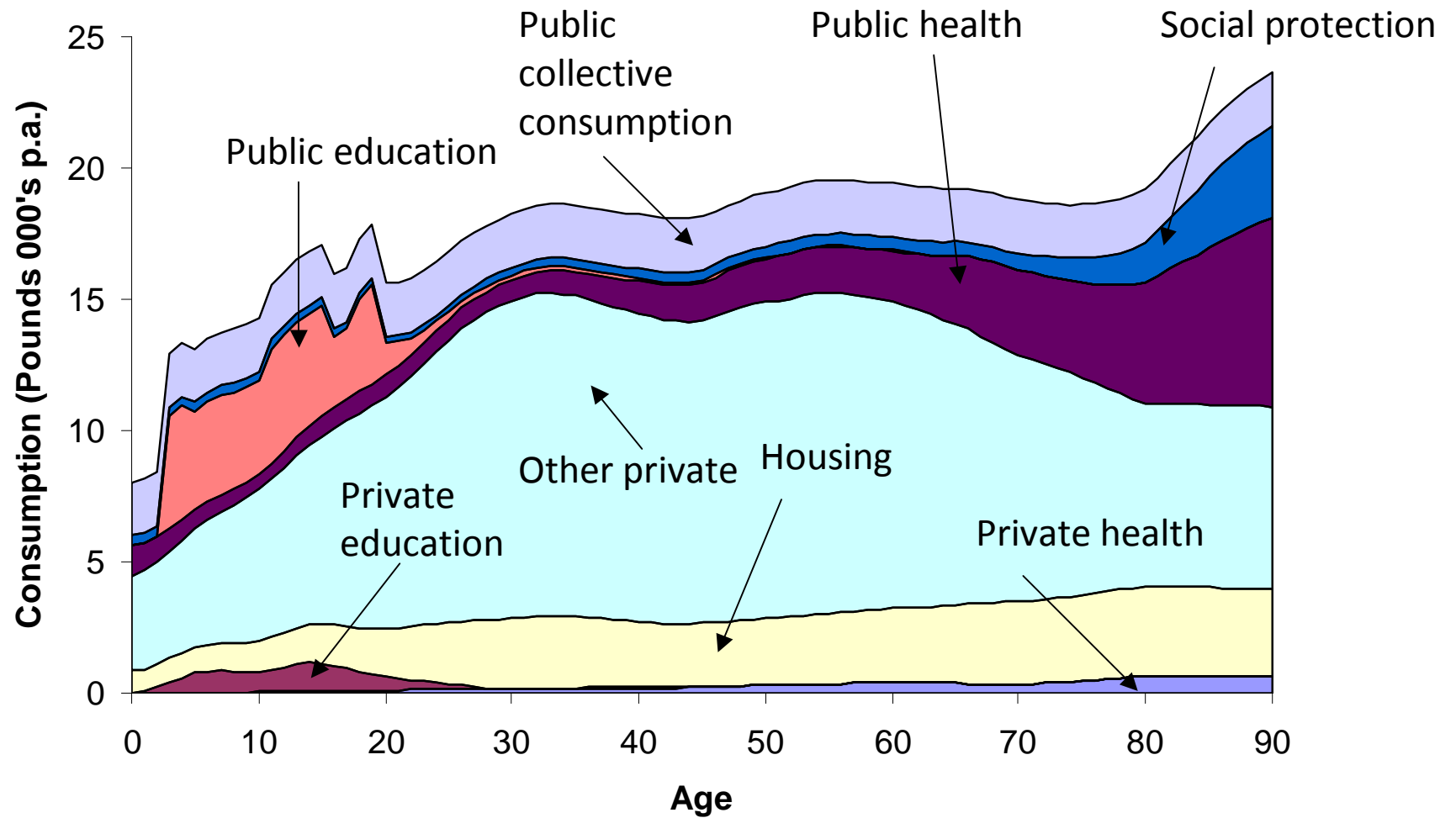
UK private consumption per capita, by component (2008)



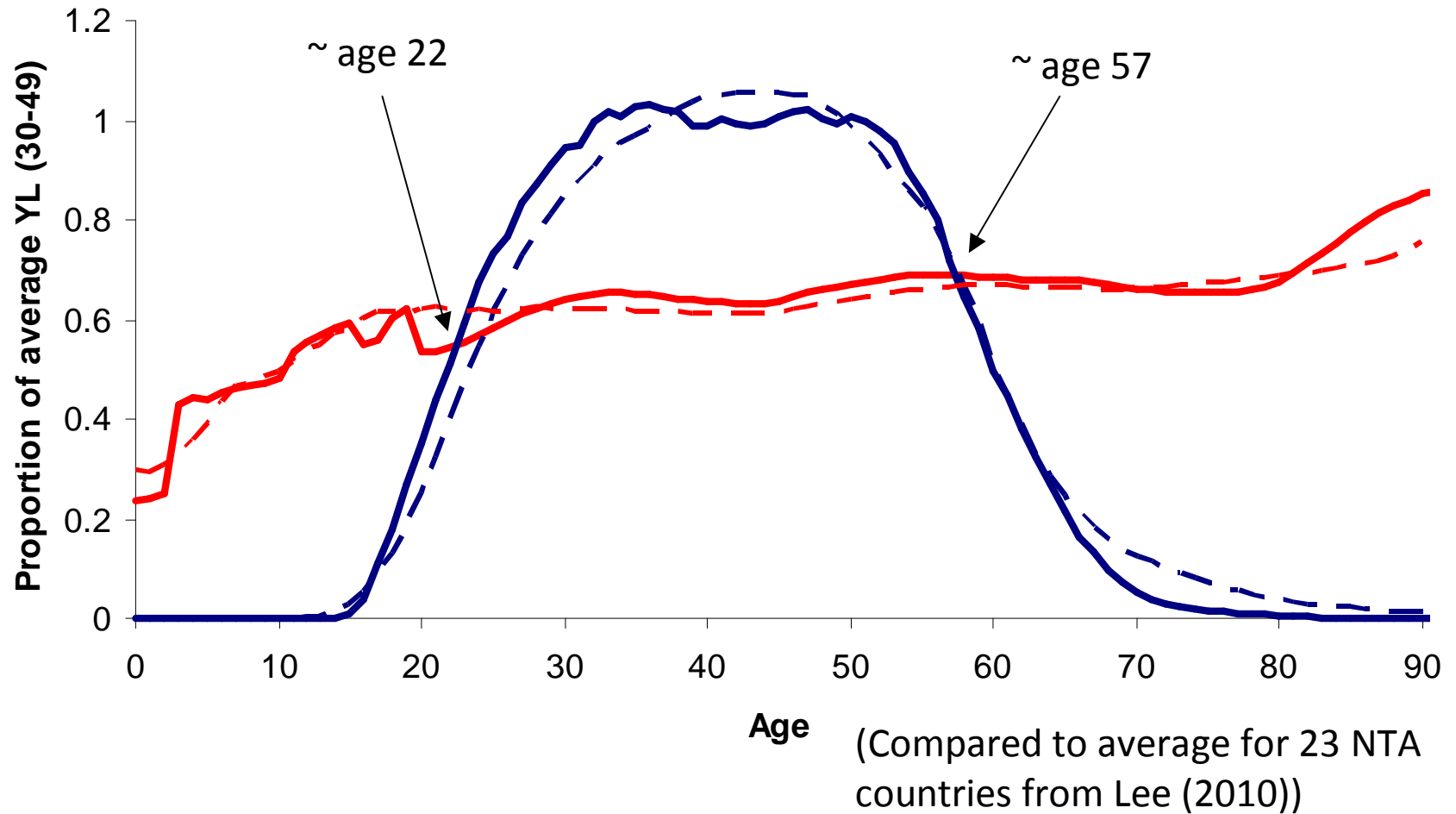
UK public consumption per capita, by component (2008)



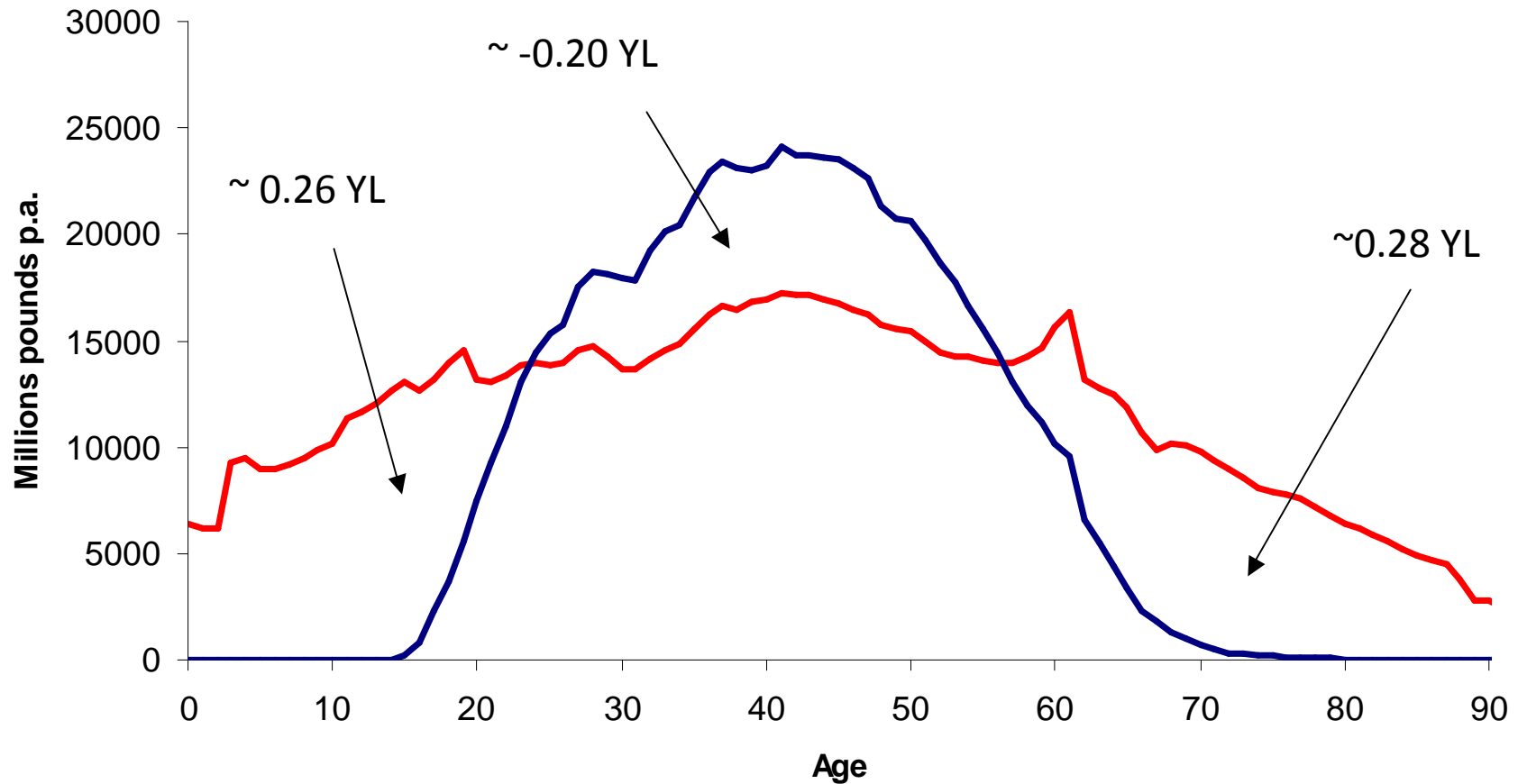
UK per capita consumption (2008)



UK life cycle deficit (2008)



Aggregate UK life-cycle deficit (2008)



Aggregate transfers shown as a proportion of total labour income

Periods with life cycle surpluses, Europe, various years

