

Can we keep the pre-crisis living standards?

An analysis based on NTA profiles

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Questions

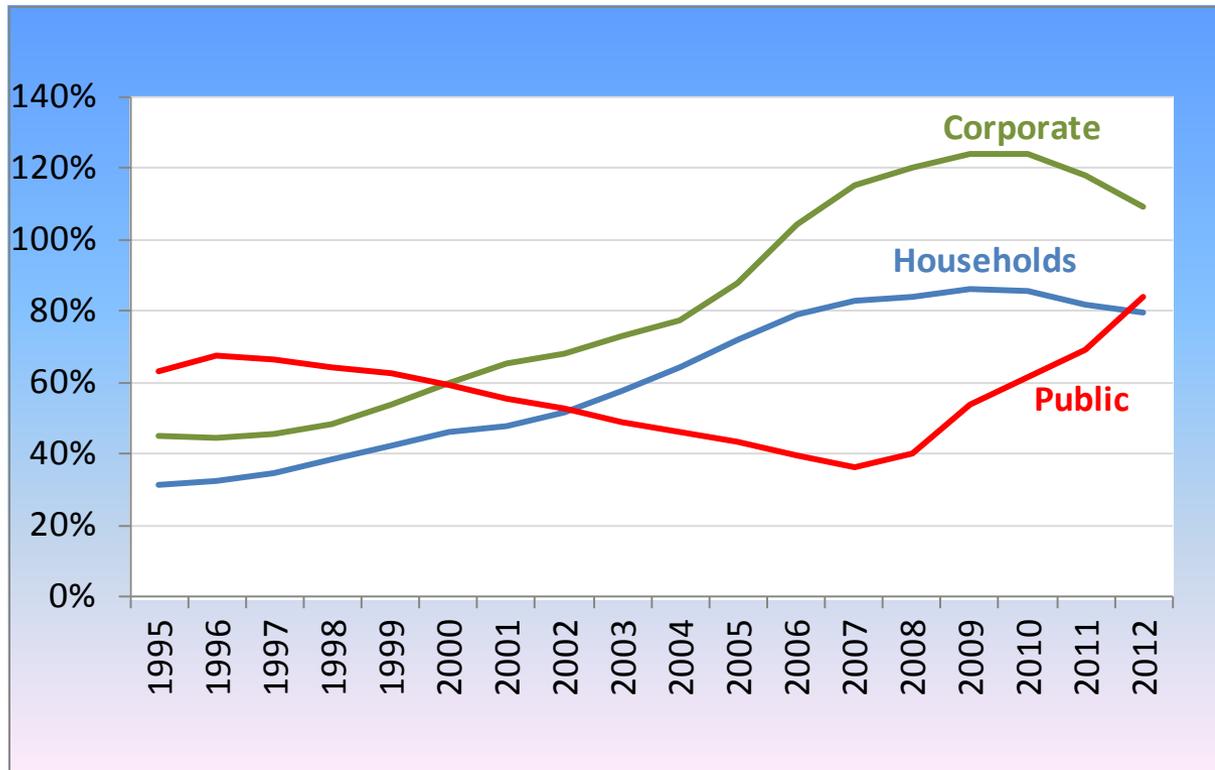
Deep economic crisis Spain is facing has raised questions about our economic situation and our perspectives for the future:

- **Have Spaniards were living beyond our means?**
- **Can we keep our pre-crisis living standards or do we need to change our way of life to make it economically sustainable?**

Macroeconomic outlook

- GDP decreased 1,3% in 2012
- Unemployment above 25%
- High public deficits since 2008, and public debt increasing sharply

Public and private debt



Total debt in 1995: 140%, and 270% in 2010.

Private debt in 2010 is three times the 1995 level !!!!!!!!!!!

The responses that NTA can offer

- NTA converts the whole set of a given year NA in age specific flows, giving a cross-sectional picture of intergenerational transfers occurring in an economy in a given year.
- NTA give us very rich information about the consumption and production patterns in society. As these patterns are obtained by age, country demographic characteristics, not only economic ones, can be taken into account.

National Transfer Accounts

$$YL + YA + TG^+ + TF^+ = C + S + TG^- + TF^-$$

Income sources = Income uses

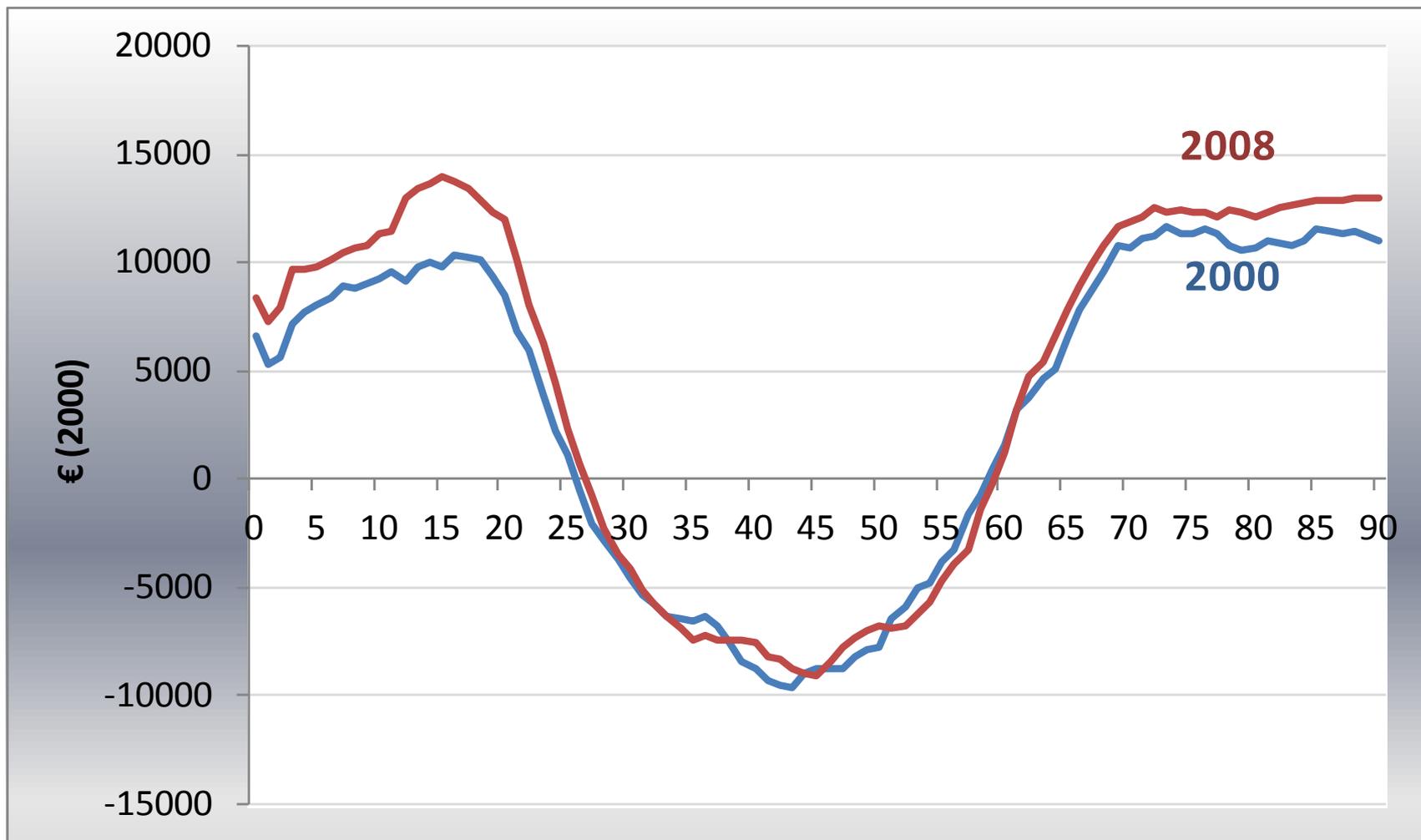
$$C - YL = (YA - S) + (TG^+ - TG^-) + (TF^+ + TF^-)$$

LCD = ABR + TG + TF

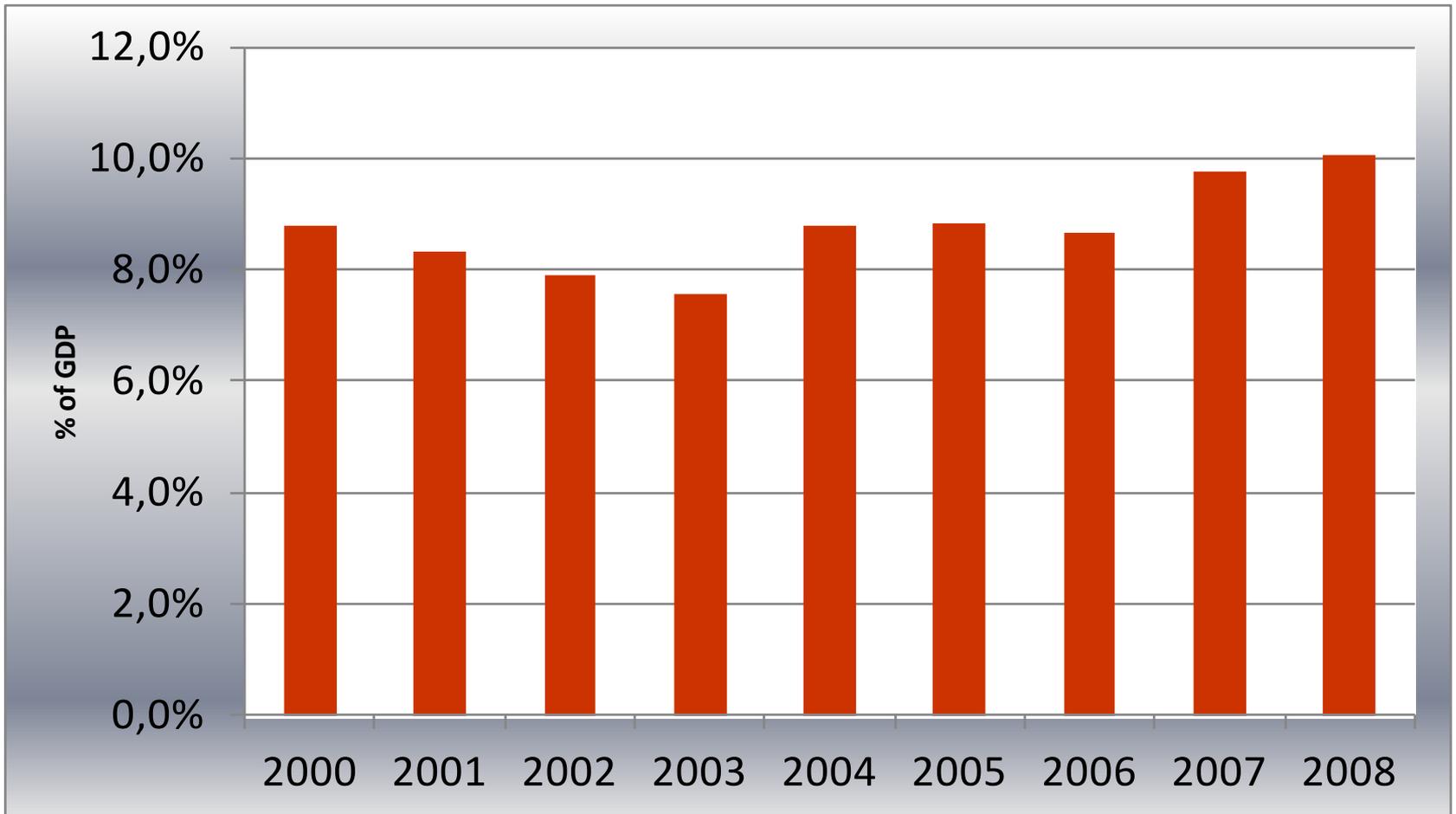
National Transfer Accounts

- Previous equations hold both for the whole economy and for any age group in particular.
- LCD can be positive or negative for each age group in particular. When negative, it needs to be financed through ABR , TG and TF .
 - ABR : mainly intertemporal redistribution
 - TG and TF : mainly intergenerational distribution
- Living standards of the whole society depend critically on the success of working-age population to generate enough resources to meet their own needs and non-working ages' LCD (through TG and TF)

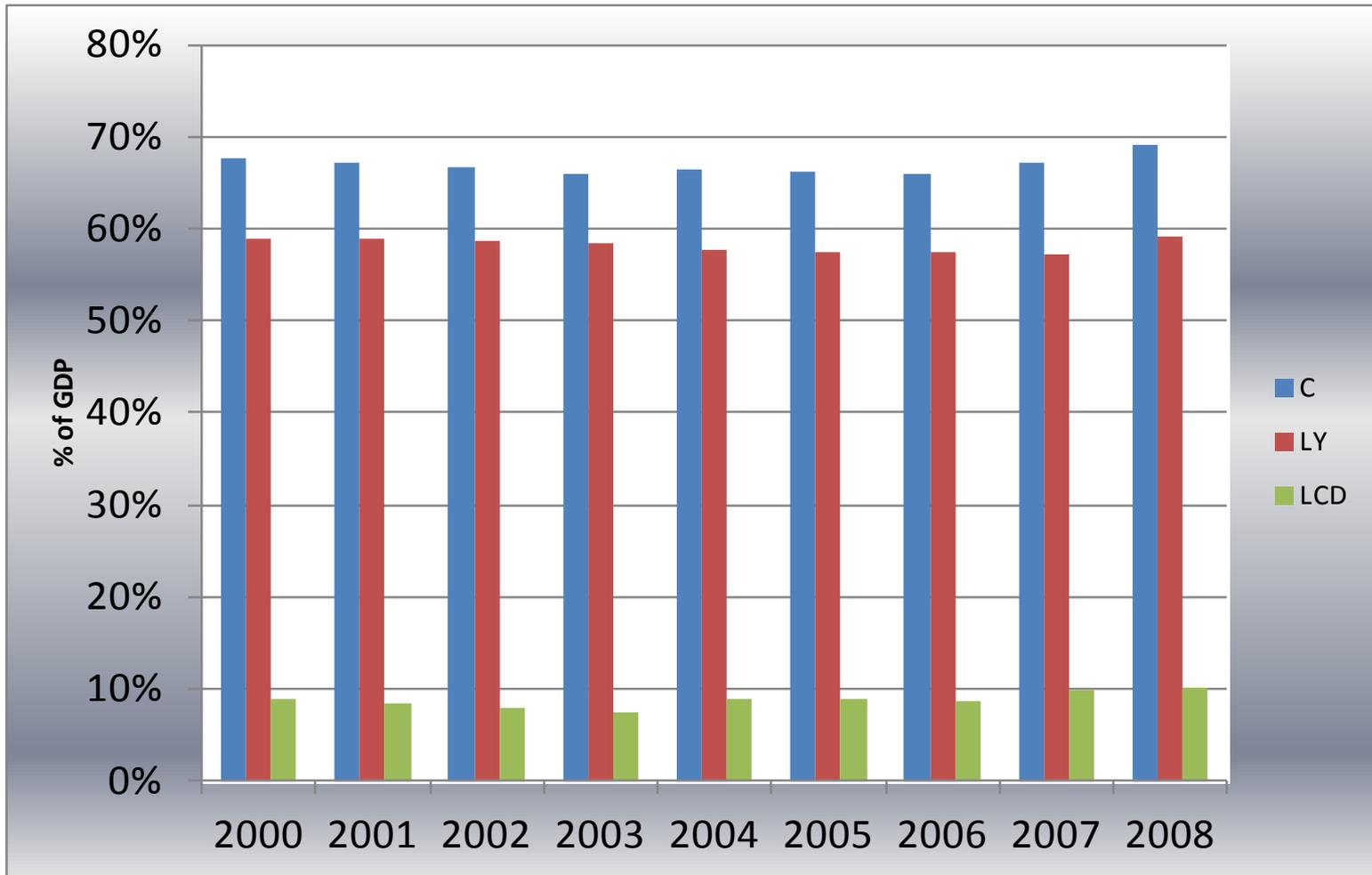
LCD per capita



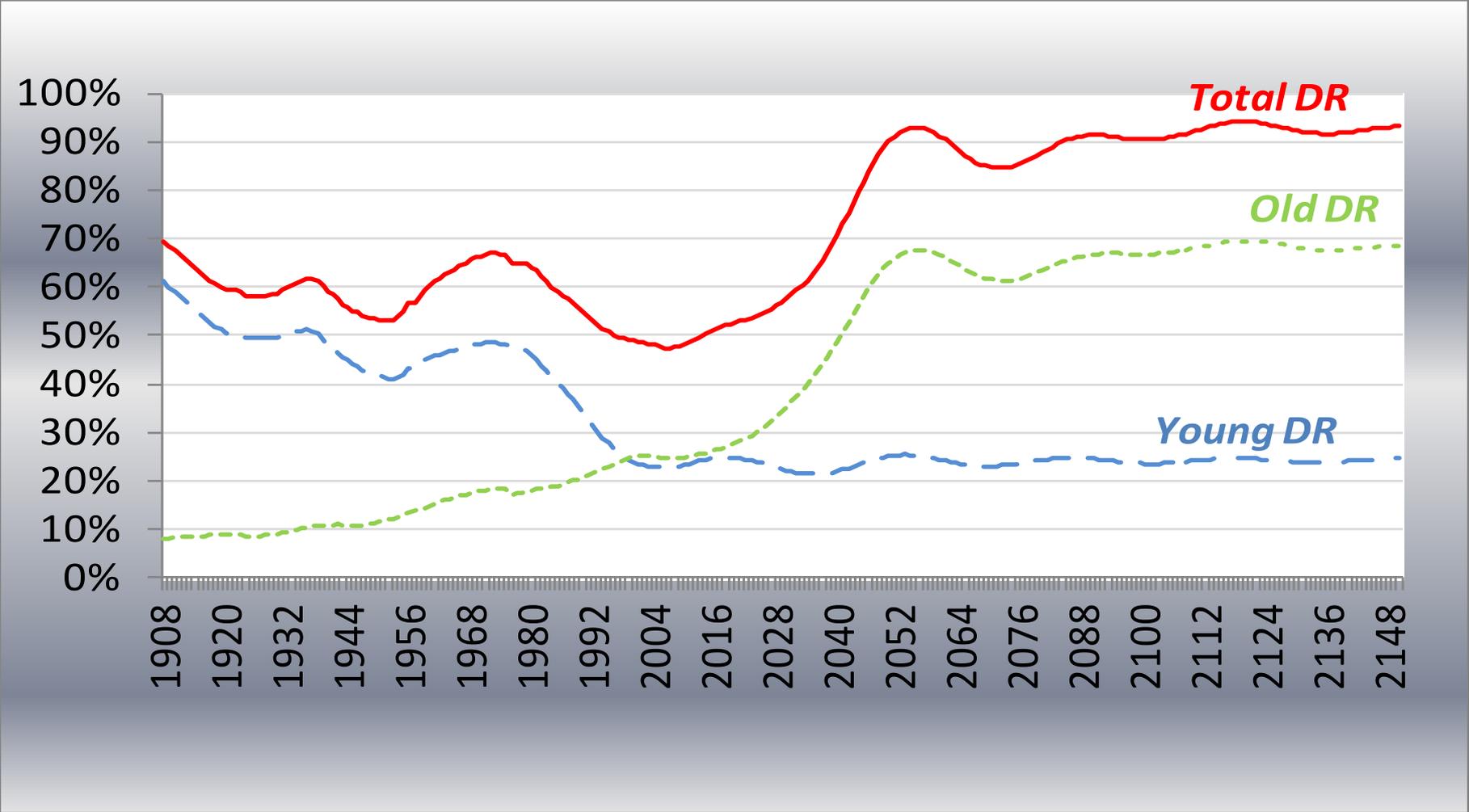
Aggregated LCD



Aggregated LCD, C and YL



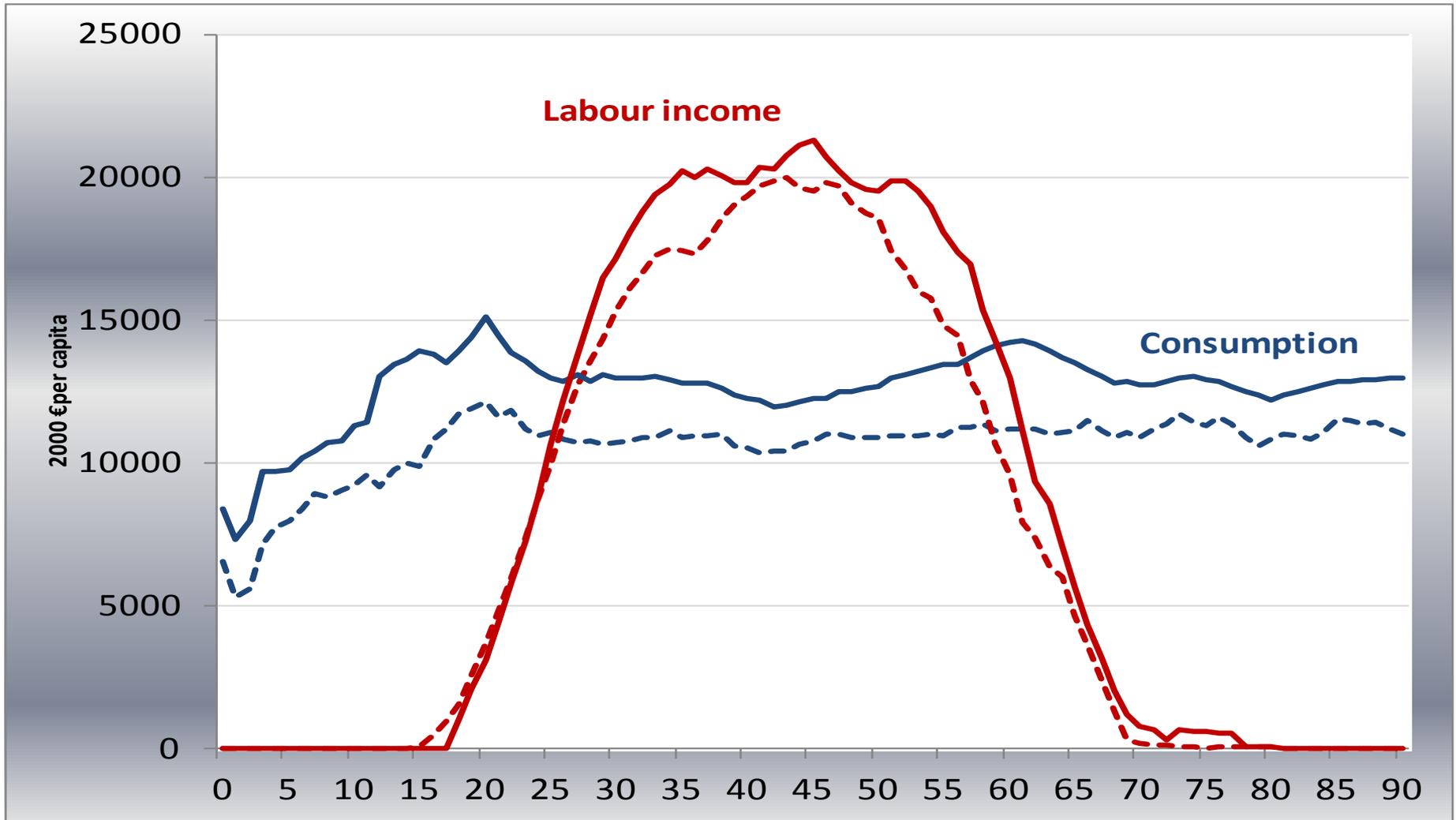
Spanish Dependency Rates



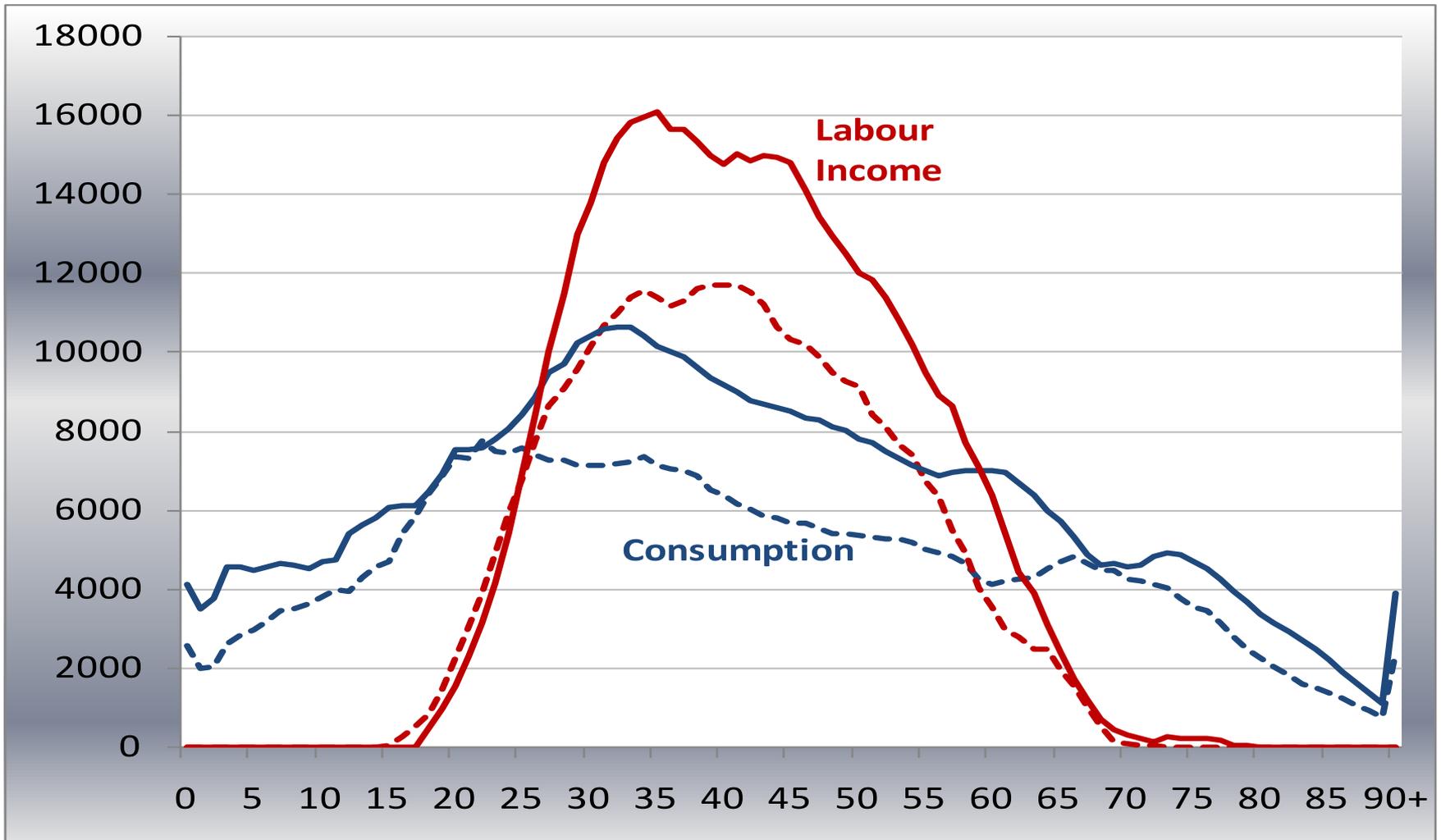
LCD in Spain...

- Total *LCD* has grown between 2000-2008 despite the very favourable population age structure
- From 2013 we will have no chances to control *LCD* with demographic factors. In fact, demographic transition will represent a hard cost that only can be compensated adjusting per capita profiles

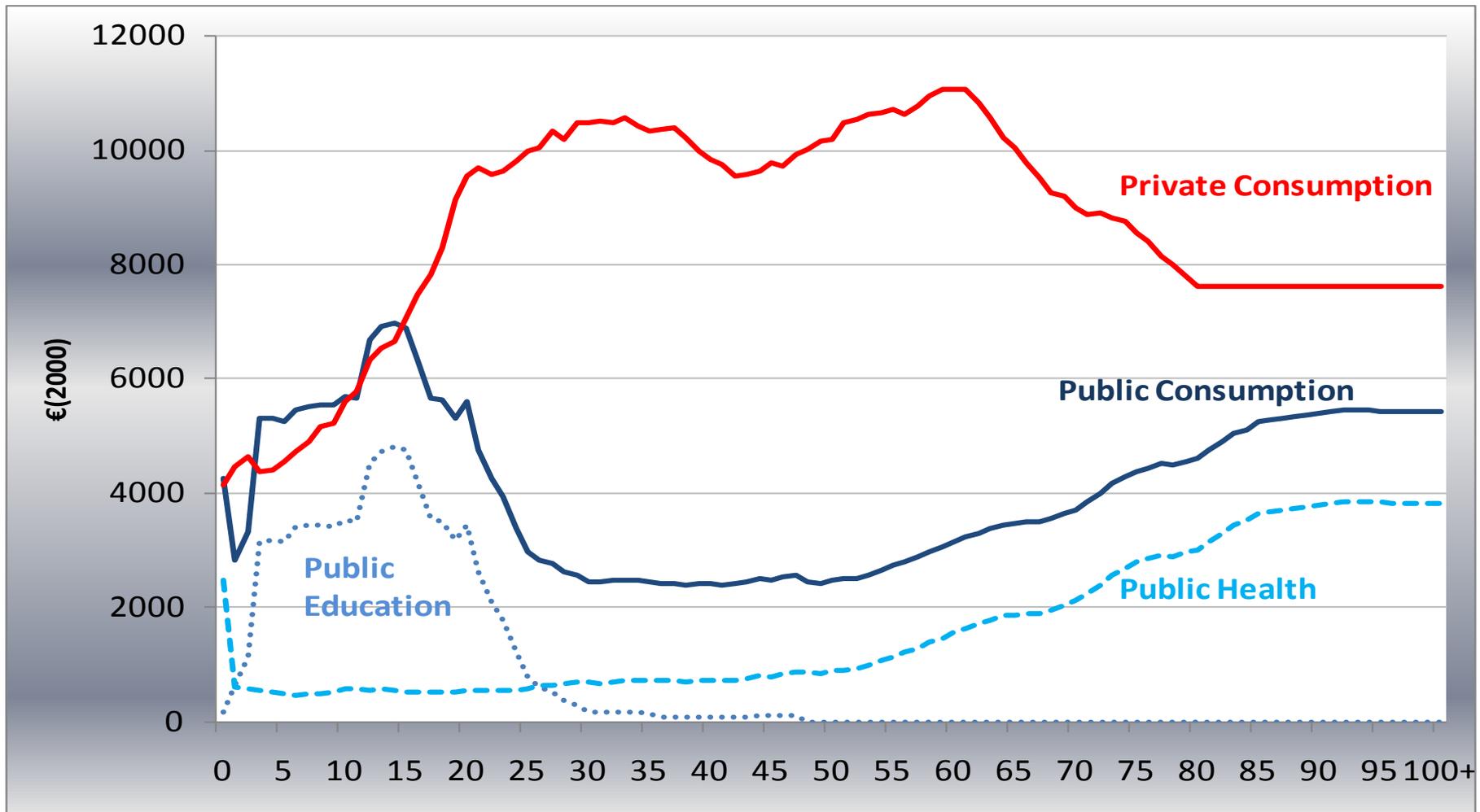
YL and C profiles (per capita) 2000 and 2008



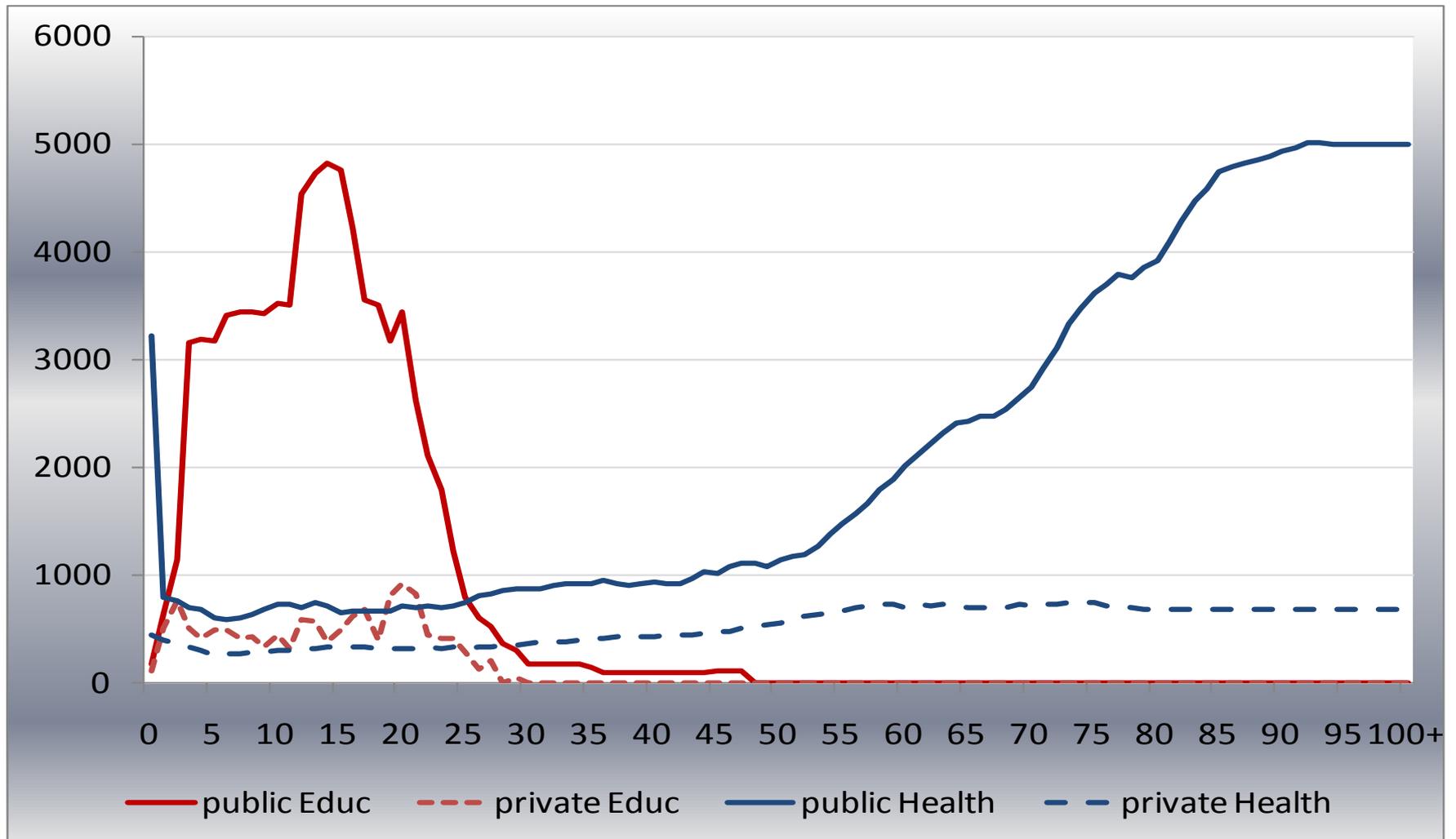
YL and C profiles (aggregated)



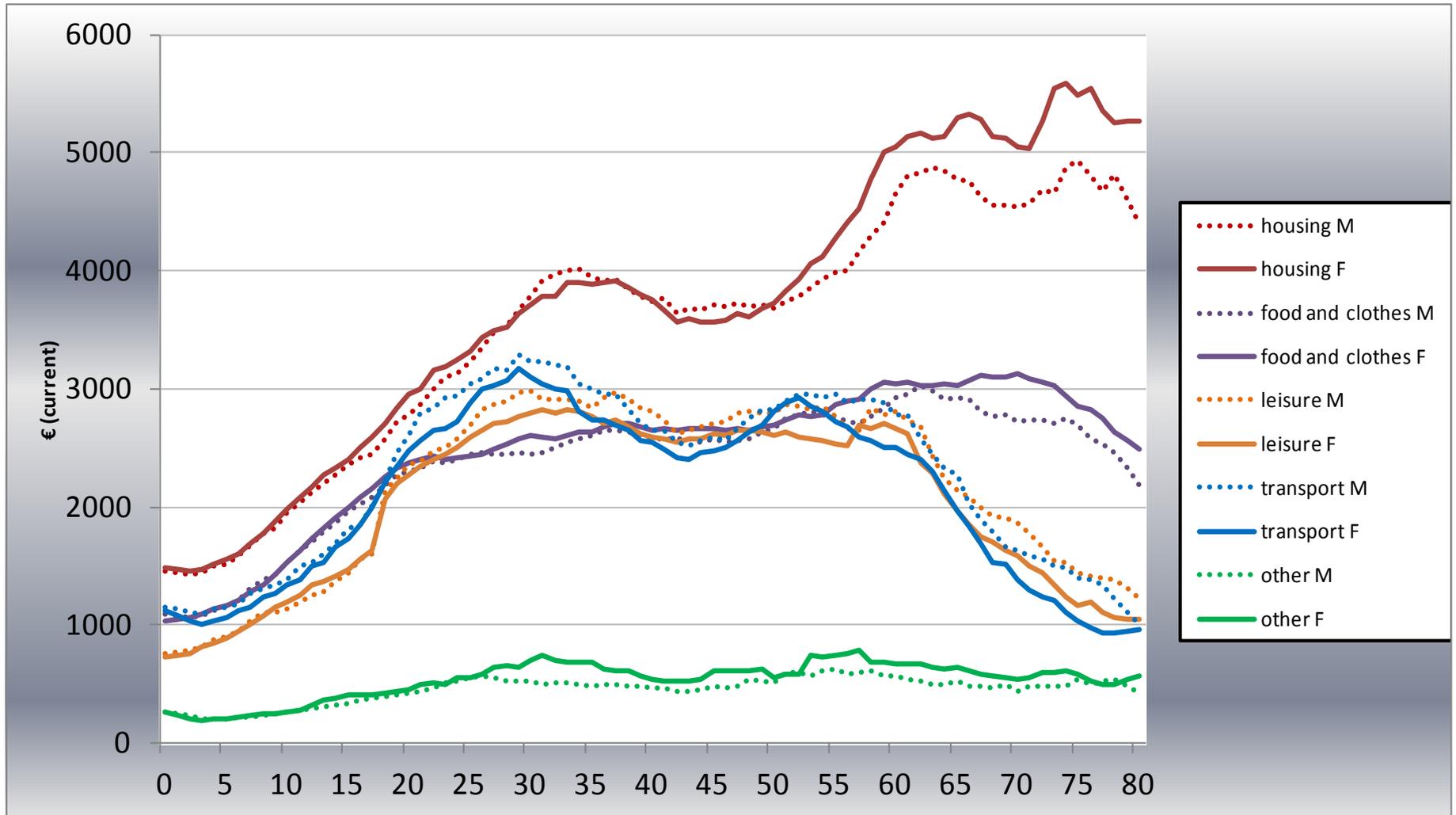
Per capita Consumption (2008)



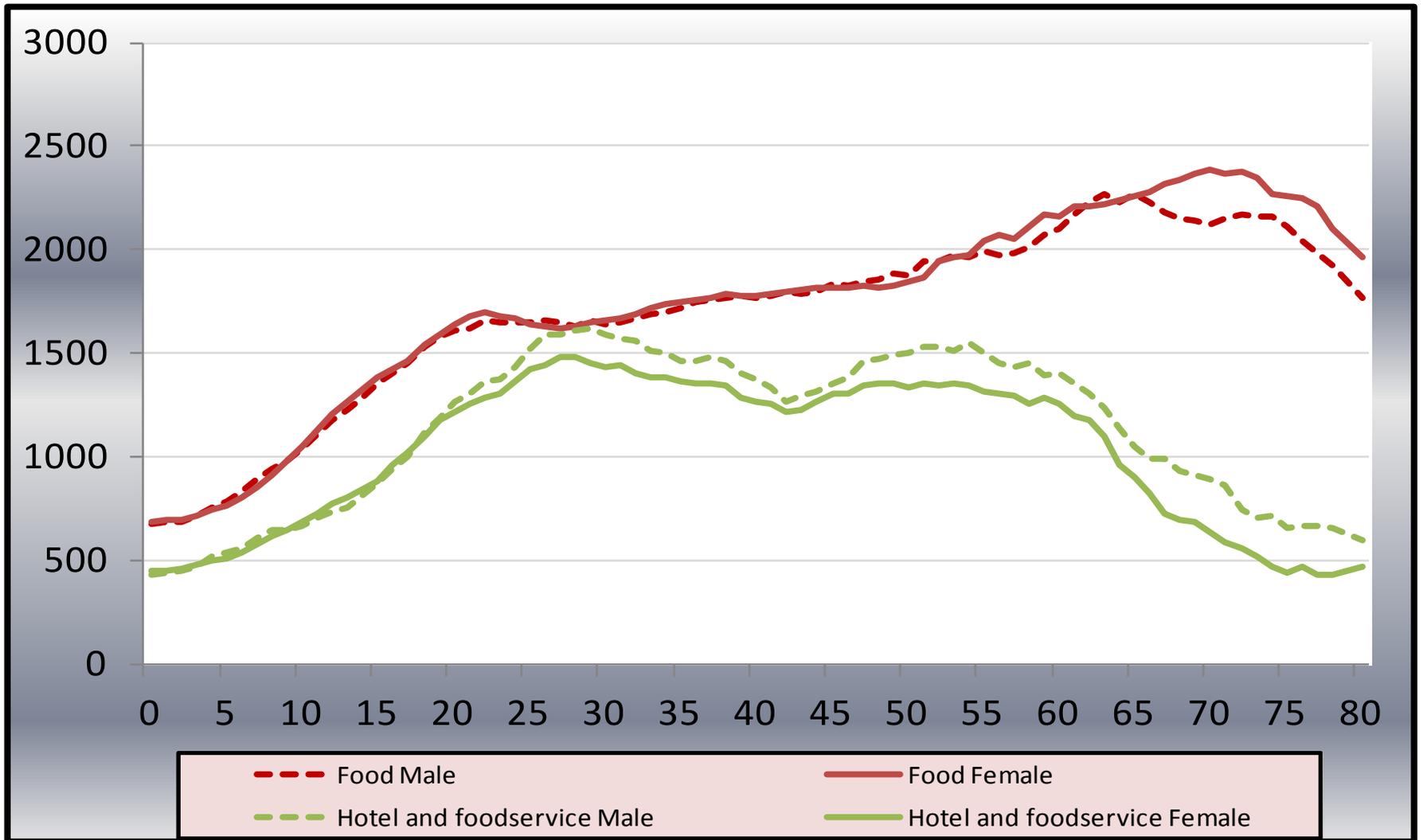
Health and Education (2008)



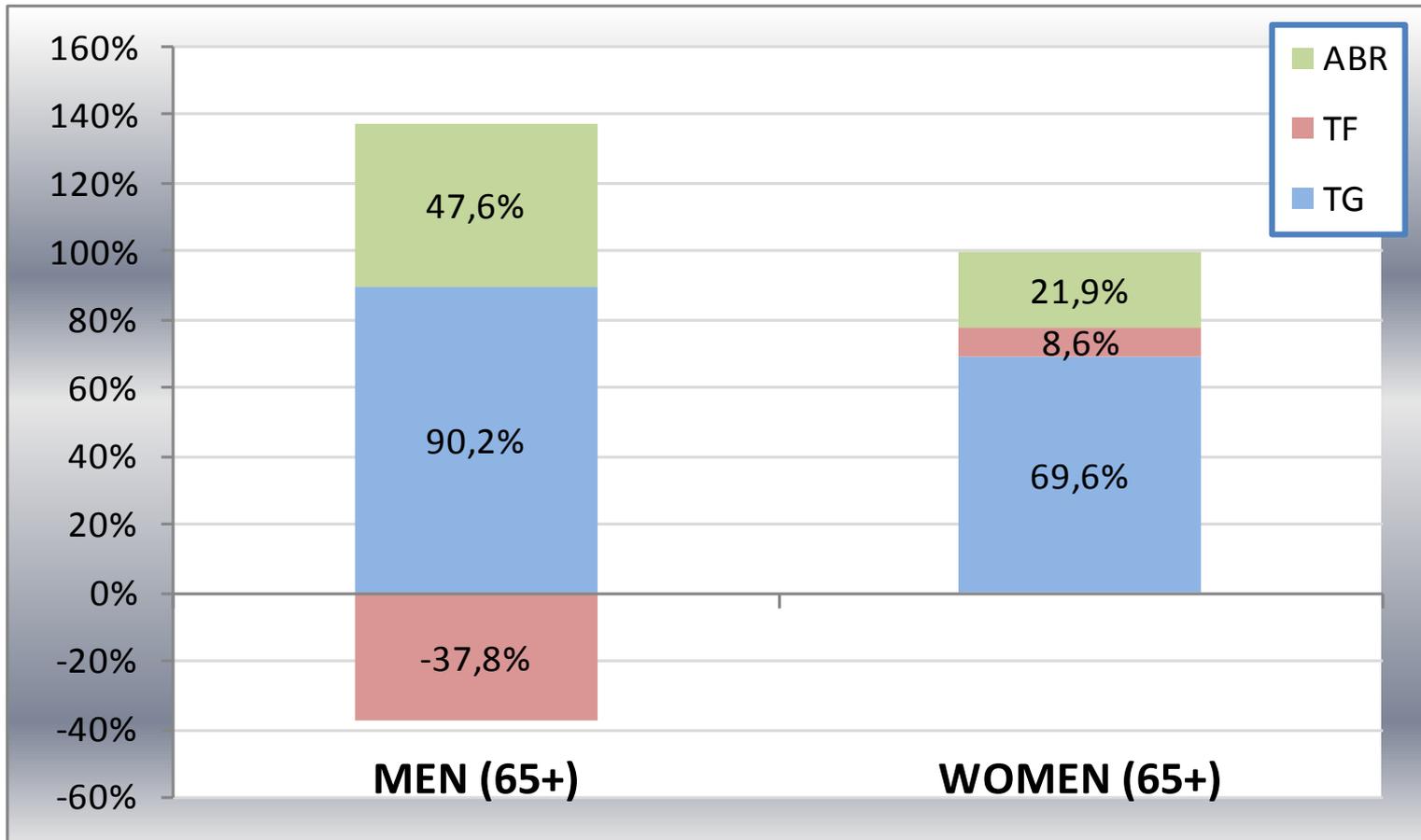
Other private consumption (per capita)



Expenditure on food



Age reallocations by sex (2008)



Final remarks (I)

- Aggregated LCD in Spain has grown during the period 2000-2008 despite the very favourable age population structure (the most favourable in two centuries)
- Looking at per capita profiles, from 2000 to 2008 an increase in the LCD of the children and the elderly is observed, not compensated by a bigger surplus of active ages
- Private consumption profile tends to decrease with age; but public consumption profile is clearly higher for older people (mainly because of health care profile).

Final remarks (II)

- Demographic projections for Spain show that the most favourable period in terms of dependency rates is just finishing (between 1983-2013).
- If per capita profile of LCD observed in 2008 keeps constant, the deep aging process in the next decades will lead to an unsustainable situation: working ages will not be able to generate enough resources to keep our way of life
- The current crisis as an opportunity to wake up and face the future....

