

*A Behavioral Study of the Sustainability of
Intergenerational Transfers
A Presentation for the Russel Ackoff Luncheon*

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The Motivation for this Research

- What mechanism allows for the political sustainability of intergenerational transfer programs?
 - Programs such as Social Security, Medicare
- Casual observations
 - The discounted present value of these programs is larger for those closer to or in retirement
 - We observe programs in democratic and non-democratic regimes with many similar characteristics

Prior Literature

There are several theories which attempt to answer this question (a complete survey is available from Mulligan and Sala-i-Martin 2004)

Explanations include:

1. Rational majority voting

- Formation of winning coalitions in one time or repeated elections
- Browning's stationary/once-and-for-all model (1975) is the one we consider

2. Economic efficiency

- Social security as welfare
- Inducing retirement to enhance efficiency
- Social security as insurance

Rational majority voting arguments are undercut by charges of oversimplification.

Economic efficiency arguments are undercut by the benefit structure.

Stylized Model

Features of the Browning Model

- There is a one time vote
- Life consists of three periods
- The population consists of the young (age 1), middle aged (age 2) and old (age 3)
- The young and the middle aged work, the old do not
- Individuals cannot transfer wealth between periods with savings (a Samuelson consumption savings model with interest rate = -1)

Experimental Set Up

- Individuals enter the experiment as young, spend 10 minutes as young, then 10 minutes as middle aged, then 10 minutes as old
- The young and middle aged are endowed with 10 minutes of music, the old have no endowment
- All individuals can vote on a tax rate representing a transfer from young and middle aged to old
- The tax rate is determined by median voting, then everyone experiences a mix of music and silence

Next Steps

- Set up the experiment at the Wharton Behavioral Lab, collect data (tax votes, system achieved through voting)
- Test the hypotheses - tax rates are stable, tax rates are increasing with age
- Test for behavioral (non EU) phenomena - will the young vote for “high” tax rates? Will the old vote for tax rates less than 100%?