



Are the elderly a threat to educational expenditures?

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ABSTRACT

Empirical research has given cause to fear that the demographic ageing in industrialized countries is likely to exert a negative impact on educational spending. Although this line of research shows in many cases a negative correlation between the proportions of the elderly and educational expenditures, a causal link is difficult to prove. To further analyse this topic, this paper uses a unique and representative survey of Swiss voters of all age groups. Results show that elderly people have a clear tendency to be less willing to spend money on education. They rather prefer to spend public resources on health and social security than on education. Furthermore the paper shows that although the elderly are more conservative and in general less inclined to pay for expenditures in the public sector as a whole, there is still an age effect on the willingness to pay for education after controlling for these factors.

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1. Introduction

The demographic ageing process in most industrialized countries will reverse the demographic pyramid within the next few decades. While the number of young people in education will decrease, the proportion of people beyond the retirement age will almost double within the next forty years. Research in some countries has analyzed the effects these demographic changes will have on educational spending. The existing body of empirical research has so far – with a few exceptions – analyzed the relationship between demographic change and educational spending with cross-sectional or panel analyses of educational spending. Although most results show a negative correlation between the share of elderly in the population and educational spending per pupil, these papers – due to the level of aggregation of the data and the limited number of observable characteristics – do not provide direct evidence that the elderly are less inclined to spend money on education. Therefore, and not surprisingly, these findings have been challenged by a number of empirical and theoretical papers. The present paper reassesses the question of an intergenerational conflict over educational spending by directly looking at the expressed differences in the public spending preferences of Swiss voters. The data-set was constructed specially for the purpose of this analysis and simulates public votes on educational and public finance issues.

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The paper is organized as follows: [Section 2](#) devotes some space to the theoretical discussion about age and the preferences regarding educational spending and lists the most recent empirical literature. [Section 3](#) presents the hypothesis tested and the methodology applied in this paper. The fourth section presents the data and provides some descriptive statistics. The empirical results are presented in [Section 5](#) and the conclusions drawn in regards to education policy are given in the final section.

2. Are the elderly less willing to spend on education?

The share of the elderly population is increasing in relation to young people or children in school age and there are reasons to expect that this trend will continue in the future. This demographic shift will have consequences in the way public funds are distributed among different areas. In the median voter theorem the government provides the amount of goods chosen by the median voter (see [Downs, 1957](#)). Assuming that each individual in a democratic process is likely to push for his or her own interests, and that public budget is limited, one might expect the ageing median voter to show less support for policies which do not directly benefit the elderly. To the extent that an older median voter favors allocating funds to areas that benefit the elderly, many studies have focused on the effects this behaviour might have on the financing of public services targeted to families or children such as education.

If we concentrate on people who are near or already over retirement age, the age group that will increase the most over the next few decades, it is safe to assume that they will not get any direct benefit from continuing or starting a formal education. Moreover, most of them have children who already left the formal education system. Thus, following strictly their personal interests, older people most probably have less of an interest in spending tax money on education. At the same time, public resources are scarce and limited and older people might prefer to spend public money in favor of policies that benefit them, like health or social security, thereby increasing the pressure on educational spending without directly voting against it.

Still there are some arguments discussed in the literature, as to why the elderly might choose to continue supporting education in the same way as other age groups.

1. Positive intergenerational externalities: This might produce an effect whereby the older population has a stake in a well-educated population whose higher productivity is essential in financing transfer benefits (old age pensions, healthcare system, etc.), the greatest beneficiaries of which are the elderly. This primary argument is based on the rationale that even a purely egoistical voter will not tend to lower spending on education because that would undermine his or her own interests. This line of argument assumes that the median voter understands this relationship and that his actions are not solely based on thoughts of short-term gain¹. However, the latter is a strong argument against this view considering that older voters are more likely to be interested in the short-term rather than the long-term consequences of their behavior, given their shorter life expectancy.
2. If there were a kind of intergenerational altruism that more or less ensures that older people feel bound by a generational contract (see e.g. [Poterba, 1996](#)), the elderly would enable the younger generations to enjoy the same funding that was afforded to them during their own youth.² One could furthermore assume that the older generation feels more bound by the generational contract the more they themselves rely on funds from younger generations that fund public goods that are generally consumed by the older generation.
3. U.S. studies in particular indicate a positive correlation between the quality of schooling and housing prices³. On the basis of this frequently observed relationship, it might be assumed that older citizens (many of whom are property owners) would try to maintain the value of their property by supporting spending on education. This argument is based on the circumstance that today's property market is dominated by newcomers to an area, who are likely to have school age children and therefore willing to pay higher property prices in order to secure a higher-quality education for their offspring. It is uncertain whether this argument will continue to apply in the future when, due to demographic ageing, more and more potential homebuyers will not have school-age children and will therefore not take the quality of the local schools into consideration when deciding where to buy a new home.
4. As a variant of the above mentioned arguments one could also imagine, that the number of older people in a community has no impact on the per-pupil funding but leads to a geographical sorting of people according to their age and respective preferences. In a [Tiebout \(1956\)](#) framework, people would sort into the community that best fits their preferences. According to this line of argument the elderly might choose to live in communities with fewer school age children and with less taxes spent on education. If this sorting takes place, one would not detect a correlation between the shares of elderly in a certain geographical area and per-pupil spending on education. However, if one would measure the correlation between the shares of the elderly and per-capita spending on education, one would find a negative relationship.

¹ [Konrad \(1995\)](#) and [Kemnitz \(1999, 2000\)](#) put forward this argument, for example.

² [Berkman and Plutzer \(2004\)](#) show that the emotional "bond between generations" can only be found for longstanding older residents, whereas elderly newcomers in a district lower spending on education. The results seem to indicate that social capital in the form of "bonding" can be an asset for educational expenditures.

³ [Harris et al. \(2001\)](#) use this argument to explain their empirical results, which identified a negative impact of the number of senior citizens on educational spending at State-level but no negative impact on local (County) educational spending. Declining spending at local level would have more of a negative impact on property prices than spending at State-level. [Harris et al. \(2001\)](#) use this argument to try and reconcile the different results of [Poterba \(1998\)](#) and [Ladd and Murray \(2001\)](#). Capitalization effects have been argued for and shown also by [Brueckner and Joo \(1991\)](#), [Brunner and Balsdon \(2004\)](#) and [Hilber and Mayer \(2004\)](#). The capitalization argument also highlights the importance of the financing and decision making mechanisms. The more governments are centralized, the less age dependent regional or even local differences in the level of spending on education is possible. This also means that the level of aggregation of data has to concur with the degree of centralization of political decision making and that empirical results can not be transferred easily from one political system to

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