

## Topic 9 Continued: Fiscal Policy

---

### Generational Issues

Already talked about using debt and unfunded pensions to steal from young.

Another topic. Ponzi schemes.



## Topic 9 Continued: Fiscal Policy

---

### Generational Issues

Stage 1: 2 people give Charles Ponzi \$1 each. Ponzi gets \$2. Ponzi promises each investor their money doubled in one month.

Stage 2: 4 people give Ponzi \$1 each. Gives each of the stage 1 investors \$2 (keeping promise). Again, Ponzi promises each investor their money doubled in one month.

Stage 3: 8 people give Ponzi \$1 each. Gives each of the stage 12 investors \$2 (keeping promise). Again, Ponzi promises each investor their money doubled in one month.

## **Topic 9 Continued: Fiscal Policy**

---

### Generational Issues

As long as infinite number of people, system works!

If it stops, last stage people get hurt. (And it always stops).

## Topic 9 Continued: Fiscal Policy

---

### Generational Issues

Social Security and Medicare: Not quite a Ponzi scheme, but pretty close.

Stage 1: Every middle aged person gives every old person \$100. Initial old just win. Each gets  $\$100 \times (\text{ratio of middle age to old})$ . Say ratio = 2. (2 middle aged for each old). Then initial old each get \$200.

Stage 2: Again, every middle aged person give every old person \$100. Initial middle age (now old) gets  $\$100 \times (\text{current ratio})$ . If ratio stays 2, each gets \$200. Depending on ratio and interest rate, could be good deal for them.

## Topic 9 Continued: Fiscal Policy

---

### Generational Issues

More Stages: As long as ratio stays same, can keep being good deal.

Change example a bit. Middle aged give  $x\%$  of **income** (instead of \$ $x$ ) to old.

Then what matters is what is happening over time to ratio of total generational income (number of people in generation  $\times$  average middle age income) not just number of people.

Again, as long as ratio doesn't fall, can be a good deal for everyone.

## Topic 9 Continued: Fiscal Policy

---

### Generational Issues

A big But. (not to be confused with a big butt.)

First generation always wins, BUT if the ratio falls, later generations get a bad deal, perhaps a very bad deal.

Incomes not rising as fast as before.

Number of children **definitely** not as high as before.

People living **much** longer. Affects ratio.

## **Topic 9 Continued: Fiscal Policy**

---

### Generational Issues

Another example: ACA (aka Obamacare).

Fact: Young adults spend hardly anything on health care compared to people my age or older. (This includes maternity care, young people getting sick, accidents. everything).

ACA doesn't allow insurers to charge old any more than 3 times what they charge young. Bad deal when young, great deal when old.

## Topic 9 Continued: Fiscal Policy

---

### Generational Issues

ACA a lot like Social Security and Medicare, but taking relatively more from young adults than middle aged.

Whether you gain from getting bad deal when young in return for good deal when old depends on how bad when young and how good when old. **That** depends on these ratios.

Again, first generation wins. Later generations not so clear.