

## Youth Transitions in Latin America: Generational Economy

Family support, network, aspirations, and expectations play a crucial role in youth transitions. The ability of the family members along with associated social policy schemes is put to test when young citizens start their way into emancipation. The role of the family and the policymakers is to make this transition worth the investment along the educational and training period.

The National Transfer Accounts (NTA) represent a promising tool to measure the role of Latin American families in supporting youth transitions. The type, amount and reach of the generational economy are key to understanding the level of support and the type of expectations and aspirations of Latin American families toward their members in youth transitions. The NTA could contribute to measuring, through the private and public transfers of the generational economy, the reallocations of resources and so, the intentions in each period of time of the investments in education, training, and services towards preparing the transition.

The paper will try to briefly present the NTA, its origins, method, and challenges. It will also present the NTA applications and connotations and explore some national realities and challenges. And lastly, some recommendations that may be done based on the regional data availability. The data and literature has been retrieved from the World Bank repository, the United Nations Statistical Commission and the NTA database.

### Origins of the National Transfer Accounts

The National Transfer Accounts (NTA) was born in 2004 and it is recognized up until today as a well-established empirical tool for understanding the generational economy<sup>1</sup>. There are 80 participating countries involved in the project that are providing data, most of it come from government records and surveys matching in their aggregates the widely used System of National Accounts (SNA)<sup>2</sup>.

The main concept recognized in the NTA is the relationship between individuals who have economic resources to give and those who need them, those who incur a life cycle deficit during their youth and old age, when their consumption exceeds their labor income, and a life cycle surplus during their working years when their labor income more than covers their consumption. The eventual resource reallocation created between generations and across time can be consistently quantified and linked to the economic and social development of every family and society as a whole<sup>3</sup>.

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<sup>1</sup> Mason, A. & Lee R. (2011).

<sup>2</sup> National Transfer Accounts. <http://ntaccounts.org/web/nta/show>

<sup>3</sup> D'Albis, H. & Moosa, D. (2015).

The NTA adds the subtle dimension of age and time to how we see economic flows: dependents who need various forms of financing to survive and thrive, and workers who finance them. The degree of such flows when seen through age and time is significant. For example, in 2004 older persons in Germany, continued to be net givers of private transfers, though small, they received public transfers equal to 10% of the country's GDP, which is totally different to the small 1% received by Mexican older population. In this regard, the flows, captured by the NTA are representative of the demographic differences between countries and more importantly for us of the varying roles of the state, the markets and of families, all of which influence resource reallocations<sup>4</sup>.

The rapid population growth seen in the second half of the 20<sup>th</sup> century concerned academics and politicians and provoked an intense debate on the developmental consequences of such rates, particularly for low-income countries. Experts warned of food and land shortages due to the increasing demand, potential rise of unemployment, deterioration of income and capital formation, degradation of natural resources and the general fall of human welfare<sup>5</sup>.

Reports and Commissions around the world recommended actions in low-income countries to stabilize their rapid population growth rates, prevent effects on poverty and improving policies on education, childcare services, and family planning<sup>6</sup>. Since then, the fear of the effect of population growth on economic development was negatively perceived and the literature reflected the view that population growth control is a necessary condition to sustain human welfare and human rights<sup>7</sup>.

However, in 1960s the world's population growth rate reached its peak and international concerns switched to population aging. Old age dependency increased and raised questions about healthcare and retirement. Rapidly, experts started to relate demographic structure to classical macroeconomic models in order to see the economy through the lenses of several generations and turn to the role of intergenerational transfers to lifelong transitions<sup>8</sup>.

## **The Methodology of the National Transfer Accounts**

The NTA project comes into this context and helps to quantify the allocation of economic resources between ages, in a unified and standardized manner. The National

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<sup>4</sup> D'Albis, H. & Moosa, D. (2015).

<sup>5</sup> Coale, A. & Hoover, E. (1958).

<sup>6</sup> The Pearson Report: A new strategy for global development (1970).

<sup>7</sup> Population and the American Future. Technical report (March 1972); Population Planning: Sector working paper. Technical Report 11067 (March 1972); World Population Plan of Action. Technical report (1974).

<sup>8</sup> Samuelson, P. (1958).

Transfer Accounts are based on a, age-specific, flow identity that captures economic movements at each point in time. In this way, it can be differentiated from the STAs while introducing age to the aggregate data. It marks the essential role of intergenerational transfer while disaggregating the major components of income, consumption, and savings by age.

In the future, with much more national accounts completed, the role of families, government and market can be better measured in the age reallocation of public and privates resources. Plus, it can provide realistic estimates of intergenerational flows that have been of interest to researchers and policymakers for many decades as alternatives or complements to public policy. Through a standardized dataset available for many countries, the NTA becomes particularly useful when analyzing a wide range of issues such as social security, pensions systems, intergenerational equity, human capital accumulation, and youth unemployment.

The NTA method captures those economic flows and pinpoints the aggregate budget constrain for individuals of certain age by adding two variables to the life cycle model: age of the individual and the relevant time period. So, the economic life cycle model at a certain age, summing both public and private flows and capturing at the same time those domestic and international, can be see as follows<sup>9</sup>:

<b>Inflows</b>	<b>Outflows</b>
$L(x,t) + K(x,t) + P(x,t) + T(x,t) + C(x,t)$	$= L(x,t) + K(x,t) + P(x,t) + T(x,t) + C(x,t) + S(x,t)$

L (value of labor income inflow received for age (or age group). K (capital income inflow. P (property income flow, received (+) and spent (-)). T (flow of transfers net of paid taxes received (+) and spent (-)). C (consumption). S (savings from the residual between the various types of income net of consumption).

If the identity of inflows and outflows is re-arranged, the result shows the economic life cycle for each age and thus, the mechanism to determine the resources reallocated across generations,

<b>AGE-REALLOCATIONS</b>		
<b>Lifetime deficit</b>	<b>Net transfers</b>	<b>Asset-based reallocations</b>
$C(x,t) - L(x,t)$	$= [T+(x,t) - T-(x,t)]$	$+ [A(x,t) - S(x,t)]$

The lifetime deficit (or surplus) is the difference between consumption and labor income for every relevant age or age group and funded by -or distributed through-

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<sup>9</sup> L (value of labor income inflow received for age (or age group). K (capital income inflow. P (property income flow, received (+) and spent (-)). T (flow of transfers net of paid taxes received (+) and spent (-)). C (consumption). S (savings from the residual between the various types of income net of consumption).

transfers and asset-based reallocations for each age at each point in time, where asset income inflow (**A**) represents the sum of capital and net property income.

In this regard, the lifetime deficit, as the key concept of generational economy, includes households' private and public consumption of various goods and services, private and public education, healthcare and other extra-curricular activities for the members of the family. While, labor income tries to reflect salaries, bonuses, and benefits, along with self-employed and unpaid family members income.

### **Youth transitions: Family support, networks, expectations and aspirations**

Family support is a recognized social protective function during the transition periods of emancipation or dependency. Many families experience uncertainty and vulnerability during these phases, especially when their young members move into adulthood, procure access to employment opportunities and decent work while seeking their autonomy<sup>10</sup>. However, the rapid socio-economic transformations, often combined with the eroding capacity of the State to protect households through social policy interventions, leave a large number of families poor and vulnerable<sup>11</sup>.

The role of families in social inclusion and integration is indispensable for the social inclusion of all individuals, especially youth. There is a rising necessity to support youth transitions as a key component of social inclusion and poverty eradication<sup>12</sup>. Nevertheless, the challenges faced by parents and young members of the family are growing. Either because families with strong intergenerational support and reliance are declining in numbers or, because many young people postpone marriage, stay single and live longer with their parents<sup>13</sup>, or even because the changing population age structures is attracting more attention to older persons<sup>14</sup>.

The family role and the state social scheme effectiveness are put to test when the youth emancipation is in process. Families and policies are called to demonstrate their ability to support the transition, the responsiveness of the family and institutional networks and the expectations and aspirations for the best outcome. In this regard, family support may improve employment options, career perspectives, and educational, skills and training development. Also, the access to family, social,

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<sup>10</sup> Third Committee Draft Resolution, Follow-up to the tenth anniversary of the International Year of the Family and beyond, A/C.3/73/L.19/Rev.1, 2018, PP. 3.

<sup>11</sup> Report of the Secretary-General, Follow-up to the tenth anniversary of the International Year of the Family and beyond, A/66/62-E/2011/4, 2011, OP 24.

<sup>12</sup> Report of the Secretary-General, Follow-up to the tenth anniversary of the International Year of the Family and beyond, A/73/61-E/2018/4, 2018, OP 71.

<sup>13</sup> Report of the Secretary-General, Follow-up to the tenth anniversary of the International Year of the Family and beyond, A/66/62-E/2011/4, 2011, OP 4.

<sup>14</sup> Mason, A, Lee, R., Stojanovic, D., Abrigo, M., Syud, A. (2016)

professional and recreational networks might improve the choices and timeline to have employment opportunities<sup>15</sup>. Finally, the expectations and aspirations can play a motivational role in the job search while fostering competitiveness, supporting role models and setting wage goals.

Unfortunately, family support, networks, expectations, and aspirations are variables difficult to measure. The intensity and extent of the family implication is not clearly reflected in the data available. Nevertheless, if we would be able to determine the type, amount and reach of the generational transfers intended to support the youth transition at a time period and age, we would be able to translate that investment into the support, expectations, and aspirations of parents-grandparents regarding the future of their children in Latin America.

When families spend a great deal of money on the education and training on their children, they usually cultivate great expectations and secure that investment along the growing period. But also, families dedicate a great deal of time and effort during the transition period. The first is intended to be more effective in the long-term and with better outcomes, while the latter tends to prioritize the effectiveness over the goal.

The NTA is a great tool to trace the dynamics of the so-called lifetime deficit through three different periods of individuals' lives: the deficit period of children in the family that do not work, but consume more than they produce; followed by a surplus period when the youth enters in a working-age and start to accumulate wealth, so producing more than consuming; and the deficit period where older persons retire or do not earn enough to cover their consumption.

In this cycle, our attention is turned to the generation who is transitioning from a deficit period to a surplus period, from childhood into youth. Other generations in the family as of parents, grandparents or siblings (of older age) would have given their support or will be keen to do so in order to ensure this transition. With their support, the other generations in the family will inspire the young ones to become those working-age individuals, who enjoy life cycle surpluses and not only fund their own consumption but also provide transfers and asset-based reallocations for children and elderly.

Thanks to the ability to calculate the age reallocations of net transfers and assets, together with the variables of consumption, especially in education, training and services we can be able to measure the level, quality and extent of the support of parents (in the surplus period) and grandparents (returning to the deficit period) to the future or ongoing transitions into adulthood. Furthermore, we can determine the expectations and aspirations of the family members regarding their youth while tracing

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<sup>15</sup>Ali, Amjad, Shafiqa Ahsan and Sophia F. Dziegielewska. (2017). *Social and family capital and youth career intension: a case study in Pakistan*. *Cogent Business and management* 4, p. 12.

the age reallocations of consumption in areas such as training, services, and extra-curricular activities.

The convenience of this intergenerational exchange perspective, where various forms and mechanisms of economic support are shown, is very useful<sup>16</sup>. First, *transfers* -as reallocations of resources between individuals that do not involve a formal, explicit *quid pro quo* can be made within the family or through the public sector, via the collection of taxes and the allocation of government spending<sup>17</sup>. Together the private and public transfers are complimentary and are important in most societies. For example, the extension of public education expands a public in-kind transfer system that benefits all covered school-age children.

Plus, another class of reallocation is *asset-based reallocation*, as the accumulation and reduction of financial and physical assets over the lifetime. So, for example, in many Latin-American countries, real estate and financial markets have become more accessible and the current younger generations of adults are accumulating more assets than their parents' generation, allowing them to support themselves when old<sup>18</sup>.

These *transfers* and the *asset-based reallocation* show the implications and effects of various types of family support according with intergenerational reallocations. Their components can be measured, studied and compared between Latin-American realities.

Although in Latin America private transfers finance more than 60% of the consumption of young people<sup>19</sup>, there are cases of heavy reliance on public transfers too, such as Uruguay, Brazil, with generous and extensive social security coverage and extensive public primary education programs, respectively<sup>20</sup>. For instance, *the private transfers* in Chile are substantial, as in many societies, Latin-American countries are mostly familial transfers those supporting children, teenagers, and young adults. As Annex 5 shows, the generations under the age of 27 in 1997 are net transfer receivers. One of the reasons that may explain the level and age distribution of familial transfers in Chile is that, although the country has a fairly extensive coverage of public education and government transfers to children are quite significant, these transfers cover only a fraction of children' total consumption, hence the need for substantial familial support<sup>21</sup>.

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<sup>16</sup> Report of the Secretary-General, Follow-up to the tenth anniversary of the International Year of the Family and beyond, A/73/61-E/2018/4, 2018, OP. 45.

<sup>17</sup> These transfers are given or received in cash or kind as good and services.

<sup>18</sup> Bravo, J. & Holz M. (2009).

<sup>19</sup> Regarding annex 6 and including Chile, Costa Rica, Mexico and Uruguay.

<sup>20</sup> Turra, C., Queiroz, B., Rios-Neto, E. (2011). Bucheli, M. & González, C. (2011).

<sup>21</sup> Bravo, J. & Holz M. (2009).

In Ecuador, substantive efforts have been made to support youth transitions with a conjunction of public and private transfers<sup>22</sup>. While in Colombia and Costa Rica the focus on the family support has been set to the time spent at home in unpaid care work arrangement. The dynamics reflect the transfers of unpaid activities done by one generation to another. At the same time, it is an opportunity to measure the expectations and aspirations of the dedication of time at home related to the outcomes after the transitions<sup>23</sup>.

For El Salvador, the applied methodology of the NTA goes into the details of the private transfers. The Central American country describe the commitment and support of the family from the very beginning of the deficit lifetime and describes the tuition expense, supplies, uniforms, texts, school shoes, parents' quota, monthly fee, refreshments as part of the private transfer<sup>24</sup>.

## CONCLUSIONS

The measurable age reallocations of transfer and assets contribute determining the role of families in supporting youth employment outcomes. The more data availability provided in Latin American in this regard, will contribute to the public and private sector support to the transitions from childhood into adulthood.

Moreover, the capacity to track the transfer between generations among the family will contribute to achieve the Sustainable Development Goals, especially while “substantially increase the number of youth (and adults) who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship”<sup>25</sup>.

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<sup>22</sup> Fretes-Cibilis, V., Giugale, M., Somensatto, E., editors (2008).

<sup>23</sup> Urdinola, P. & Urdino, J. (2017). Jimenez-Fontana, P. (2016).

<sup>24</sup> Werner Peña, S. & Rivera, M.E. (2016).

<sup>25</sup> Sustainable Development Goal 4, Target 4.4.

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## ANNEX

### Annex 1. A classification of National Transfer Account age reallocations

	Asset-based reallocations		Transfers
	Capital	Property	
<b>Public</b>	Negligible	Public debt Student loan programmes Sovereign wealth funds Currency stabilization funds	<b>Public education</b> <b>Public health care</b> <b>Unfunded pension plans</b>
<b>Private</b>	<b>Housing</b> <b>Consumer durables</b> <b>Corporate profits</b> <b>Partnerships and sole proprietorships</b>	<b>Consumer debt</b> <b>Land</b> <b>Sub-soil minerals</b>	<b>Familial support of children and parents</b> <b>Bequests</b> <b>Charitable contributions</b>

Source: Mason, A. R. Lee, A. Tung, M. Lai, and T. Miller (2009). "Population Aging and Intergenerational Transfers: Introducing Age into National Accounts." Pp. 89-122 in *Developments in the economics of Aging*, edited by D. Wise. Chicago: NBER and University of Chicago Press.

### Annex 2. Per capita Consumption by Children and Older Persons

	Year	Private (% per capita private consumption age 25–64)		Public (% per capita public consumption age 25–64)		Combined (% per capita combined consumption age 25–64)	
		Age 0–24	Age 65+	Age 0–24	Age 65+	Age 0–24	Age 65+
		<b>LATAM-Caribbean</b>		61	100	157	132
<b>Argentina (ARG)</b>	2010	58	97	143	121	87	105
<b>Brazil (BRA)</b>	2002	54	103	126	112	70	105
<b>Chile (CHL)</b>	2012	67	107	182	164	82	114
<b>Colombia (COL)</b>	2008	60	106	156	143	82	114
<b>Costa Rica (CRI)</b>	2004	57	97	141	151	69	105
<b>Ecuador (ECU)</b>	2011	59	88	161	120	71	92
<b>El Salvador (SLV)</b>	2010	57	102	120	141	62	105
<b>Jamaica (JAM)</b>	2002	62	93	170	139	74	98
<b>Mexico (MEX)</b>	2010	73	86	181	114	84	89
<b>Peru (PER)</b>	2007	61	111	181	100	74	109
<b>Uruguay (URY)</b>	2013	61	108	166	143	75	112

### Annex 3. Support Ratios, Fiscal Support Ratios, Human-Capital Spending.

	Year	Support Ratios (effective number of producers per 100 effective consumers) <sup>a</sup>			Fiscal Support Ratios (projected tax revenues relative to public transfers as % values in 2015) <sup>b</sup>		Human-Capital Spending (% average annual labor income of a prime-age (30–49) adult) <sup>c</sup>		
		2015	2035	2055	2035	2055	Private	Public	Total
<b>LATAM-Caribbean</b>		56	57	54	94	83	156	245	401
<b>Argentina (ARG)</b>	2010	51	52	51	100	93	86	475	561
<b>Brazil (BRA)</b>	2002	59	58	52	88	75	82	218	300
<b>Chile (CHL)</b>	2012	54	51	46	84	69	222	258	480
<b>Colombia (COL)</b>	2008	63	62	58	91	81	160	285	445
<b>Costa Rica (CRI)</b>	2004	57	56	50	87	71	72	252	324
<b>Ecuador (ECU)</b>	2011	57	60	60	94	85	80	194	274
<b>El Salvador (SLV)</b>	2010	58	62	58	102	92	186	120	306
<b>Jamaica (JAM)</b>	2002	59	58	54	105	102	180	169	349
<b>Mexico (MEX)</b>	2010	53	57	56	U	U	350	232	581
<b>Peru (PER)</b>	2007	55	56	54	92	74	139	195	334
<b>Uruguay (URY)</b>	2013	53	53	51	97	88	162	299	461