

MAKE THE DINKS PAY

James Allan Evans

A recent decision of the German Constitutional Court shakes the foundation of many age-related social insurance schemes. The Court ruled that childless taxpayers must pay more into a state-run nursing-insurance scheme than people with children. The father of 10 who brought the suit obviously is happy with the ruling. Would Canadians be if the same principle were adopted here?

En Allemagne, une récente décision du tribunal constitutionnel est venue ébranler les fondements de nombreux programmes de sécurité sociale fondés sur l'âge. On a en effet statué que les contribuables sans enfants débourseront davantage que les parents pour financer le programme de soins infirmiers géré par l'État. Le père de 10 enfants qui a engagé les poursuites à l'origine de cette décision s'en est évidemment réjoui. Les Canadiens le seraient-ils autant si l'on adoptait ici le même principe ?

Startling news has emerged from Germany. In April of this year, the German Constitutional Court ruled that workers with no children should pay higher premiums for Germany's nursing-insurance plan than workers with children. The insurance plan in question was set up in 1995 to provide care for the aged and chronically ill. It is a pay-as-you-go scheme: that is, the elderly who receive care now have their costs funded by the present generation of workers, and they in turn will benefit, when they grow old, from the payments of future workers who will in turn fall victims of ageism and benefit from the payments of a more youthful generation of workers *ad infinitum*. The infinite is admittedly hard to govern, but the planners of the nursing insurance scheme have peered into the future as far as a bureaucrat's eyes can see, and have perceived enough contributors yet unborn to support it.

However, the German Constitutional Court has ruled the plan unconstitutional because it fails to ensure equality before the law: parents of children are contributing more future taxpayers to support the scheme than singles and childless couples are. The court also ruled that the plan does not promote the family, which may seem unremarkable to Canadian readers. But inequality before the law? What an insult to the comfortable and cultivated world of the DINKS! A "dual income, no kids" policy may not provide Canada with future taxpayers, but it does support the cottage on the beach, and the Jaguar in the garage.

The case before the eight judges of the Constitutional Court concerned a father of 10 children. In Germany, fathers of ten are almost as extinct as the dinosaurs. The average number of births per woman is 1.3. Yet the German nursing-insurance plan assumes that enough children will grow to productive adulthood in generations to come to defray future costs. A father of ten is supplying the state with ten prospective taxpayers, and to do so, is accepting a lower standard of living than average DINKs can enjoy. But when the DINKs trade in their BMWs for battery-powered wheelchairs, it is the ten children of this prolific father who will support them. That, the German judges reasoned, is unfair.

German parents are already a coddled group compared to their Canadian counterparts. The Canadian Child Tax Benefit pays \$2,081 a year for the first child up to age 18, and \$1,875 for the second. This for families with up to \$21,214 annual income. Earn more than that and the amounts are reduced, eventually to zero. The German family can count on \$2,281 (Canadian dollars) for each of their first two children, \$2535 for the third, and for the prolific, there is a bonus: child number four and upwards get \$2957. The benefit continues until age 18, but if the child is still in full-time education, it can go on until age 27. It might be argued that the DINKs whose taxes help pay for these benefits are already helping to rear future taxpayers and should be left to enjoy their childless state without penalties. The German judges evidently didn't think so.

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The problem is pay-as-you-go social services. In a world without such services, population decline is no great calamity; in fact, fewer people on the globe would be an environmentally friendly development, and might even reduce pollution in the atmosphere. It is arguable that the Black Death in medieval Europe, which disposed of half of Europe's population, raised the living standards of the survivors. But pay-as-you-go social services operate on the assumption that there will always be a stable pool of taxpayers. Germany has 9.3 births per 1,000 population, and 10.4 deaths.

The Canada Pension Plan is moving away from a pay-as-you-go structure, but when it was set up, orthodox economics assumed that the birth rate would remain stable, or at least if it varied a little, then immigration could make up the difference. Germany is still over 90 per cent ethnic German, and it has never accepted the melting pot. Good German citizens are born, not naturalized. The Turkish emigrants whose muscle helped bring about the German economic miracle after World War II still wait for German citizenship after two or three generations. Yet, though lowering the barriers to immigration may have other good results, it is a poor solution for funding shortfalls for social services. Even in Canada, which accepts immigrants readily enough, they are a long-term investment. Unless they are ideal newcomers: young, healthy, well-educated and anxious to pay Canadian taxes, it will be 20 years or more before their contributions to Revenue Canada pay back the cost of the services they have received, and if they or their children join the brain drain, they will never pay it back.

Then there is the old-fashioned solution: save for your own old age. But Germans have tucked away only \$C191 billion in private pension plans compared to the \$C1.9 trillion which, for example, the British have saved. And Britain has a birth rate of 11.7 per 1,000 population, a percentage point *higher* than its death rate. Britain is an exception, however. Her pension savings are greater than those in the rest of the EU put together. It probably is no great comfort

for the Germans to know that they are in the same boat as most of their EU partners.

The German judges did not demand immediate changes to the nursing-insurance plan. In fact, they thought it wise to give the government a grace period to consider the impact of their ruling. For the moment, they recommended that the flat-rate impost of 1.7 per cent of gross wages for the nursing-insurance plan continue unchanged until the end of 2004. Thereafter single people and childless couples should pay more. Just how much more, the judges did not say, but one would expect DINKs to be hit hard. Fecund couples who accept a lower living standard to provide their fatherland with future taxpayers will have their service recognized. The German birth rate might even go up a little, though hardly enough to matter: German women would have to have 3.8 children each to stabilize the population age structure. Even India, which has a high birth rate by modern standards, does not quite reach that level.

But what if these state-subsidized children turn out to be crooks, or dope addicts? Or, worse, emigrate to Canada or the United States after they have received their education at German expense, thus adding to the German brain drain? Canadians are familiar with the argument: It is the battle cry of the DINKs when they oppose greater tax breaks for families with children.

There are few completely safe investments, and children have never been among them. (They fall between G.I.C.'s and Nortel stocks.) Yet when governments establish programs on the assumption that there will always be enough taxpayers to finance them, they must either supply the taxpayers or adopt some other strategy. The German judges have merely done the arithmetic, and outlined one such alternative strategy.

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Soak the rich A unique advantage of being very rich is the power to bring about single-handedly the sort of change that would otherwise require a broad social movement. Bill Gates's campaign to get the poor vaccinated is one example. That should make the rich attractive allies for anybody trying to shape society—and indeed they are increasingly being sought out, albeit often in secret. The main consequence of the bash-the-rich rhetoric of much public discourse, particularly outside America, may be to discourage them from putting their wealth to use for the common good, or to drive their giving underground. How much better to welcome the wealthy into public life with open arms, and to debate constructively with them how best to put their resources to work.

Matthew BISHOP, *The Economist*

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