Cross-Dynastic Intergenerational Altruism:
Will Elected Representatives Provide for the Future?

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Introduction

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- ... leads to a preference externality.

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- Literature:
  - Dynastic intergenerational altruism (Barro).
  - Altruism in networks (Bernheim and Bagwell; Bourlès et al).
  - Voluntary contribution to public goods (Bergstrom et al).
  - The "isolation paradox" (Marglin; Sen).

Model: AK with 2 households

- Welfare recursively defined:

$$W_t^1 \;=\; (1-\alpha^D-\alpha^{CD})\ln(c_t^1) \;+\; \alpha^D W_{t+1}^1 \;+\; \underbrace{\alpha^{CD} W_{t+1}^2}_{\text{: New component}} \;,$$

  with $\alpha^D \geq \alpha^{CD}$.

- Per-period budget constraint:

$$c_t^1 \;=\; \underbrace{A(k_{t-1}^{11}+k_{t-1}^{21})}_{=\; y_t^1} \;-\; k_t^{11} \;-\; k_t^{12},$$

  with $A > 1$, $k_t^{11},\ k_t^{12} \geq 0$.

- Consider Markov Perfect Equilibria.

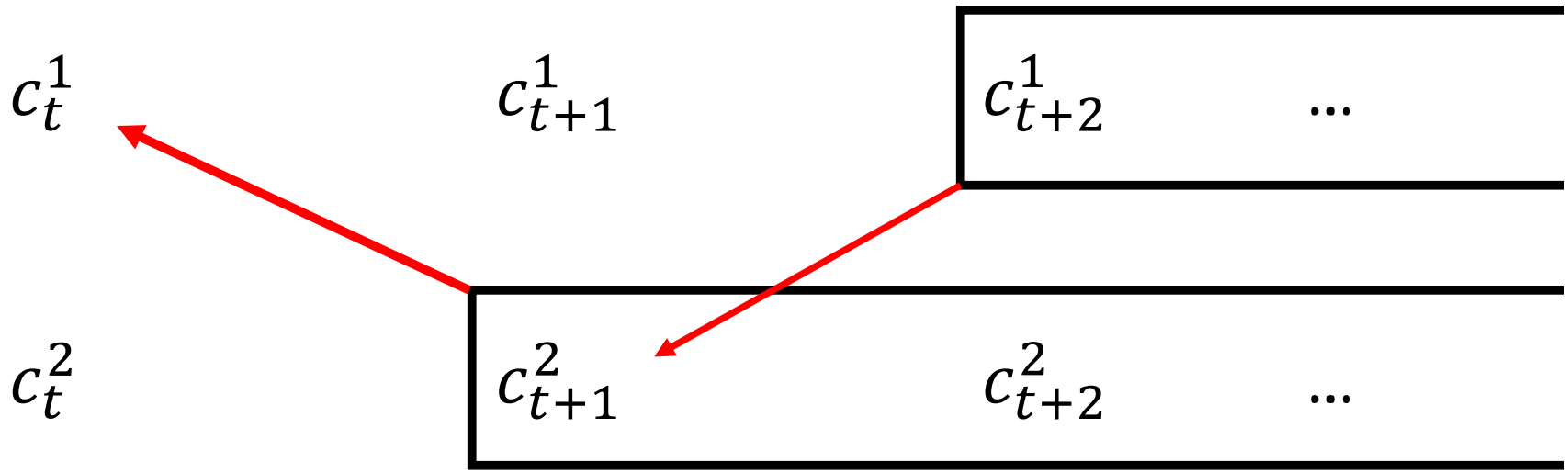
Model: Implications

c_t^1 c_{t+1}^1 c_{t+2}^1 ...

c_t^2 c_{t+1}^2 c_{t+2}^2 ...

Case $\alpha^D > 0$, $\alpha^{CD} = 0$

Model: Implications



Case $\alpha^D > 0$, $\alpha^{CD} > 0$

Results: Equilibrium

Result 1: Sensitivity

The transfers to the future are sensitive to increasing α^{CD}.

$\Rightarrow$ Critique of the robustness of the dynastic concept of intergen. altruism.

Result 2: Crowding out

Assume $y_t^1 \geq y_t^2$.

In equilibrium, household 1's intergenerational transfer to household 2 crowds out household 2's internal transfer.

Results: Political economy

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Result 3: Bargaining

Assume $y_t^1 = y_t^2$ and bargaining in expectation of future cooperation.

Efficiency implies increased transfers to the future.

Remark: "Isolation paradox" literature

Sen assumes intergen. altruism for consumption rather than welfare.

$\Rightarrow$ Time-inconsistent public transfer decisions.

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Observation: Bargaining with few instruments

A public transfer to the future crowds out private transfers.

$\Rightarrow$ Trade-off: Freedom of the present versus survival of the future.

Conclusion

- Cross-dynastic intergenerational altruism gives rise to:
  - A preference externality.
  - A technological externality due to capital investments.
- Bargaining is not necessarily a solution.
- Next steps:
  - Microfound political economy part.
  - Climate in production economy.