An increasing life expectancy, low birth rates, early retirement, and moderate economic growth trigger public pension deficits. Policy makers respond by raising retirement age and lowering replacement rates. A move can be observed, from contributions-related to flat-rate and pre-funded pension systems. If pensions are flat-rate, earnings-related contributions are equivalent to a labour supply distorting tax. For efficiency reasons, it is then but a short step to demand a thin public pension system, with minimum pensions targeted to the needy. In their book, Cigno and Werding (p. 166), however, argue “that externalities, credit rationing, and insurance considerations justify more substantial public intervention,” and suggest a second best policy with two central elements: a child-benefit scheme together with a program that makes the active generation qualify for future pension entitlements through both, paying pension contributions and/or investing in their children’s human capital. The book’s message: If you think about financial sustainability of your country’s public pension system, do not restrict your attention to expenditures. Keep also future revenues in mind, as more and better-educated children enlarge the system’s future contributive capacity.

“Children and Pensions” consists of two parts. For a selected set of OECD countries, the first part (Chaps. 1–4) surveys demographic trends and projections, as well as public support regulations targeted to the old, families and children. These data form the background of the theoretical and empirical analysis in part two (Chaps. 5–8). Chapter 5 surveys alternative theories on life-cycle adjustments and intergenerational transfers, which again are confronted with empirical evidence in Chap. 6. Policy conclusions are drawn in Chaps. 7 and 8.

The first part of the book starts with a compilation of stylized facts on demographic trends for several industrialized countries (the United States, Japan, and UK, Germany,
France, Italy and Sweden). Except for the United States, these countries have experienced a significant fertility decline over the last decades. For example, contemporary fertility rates in Japan, Germany and Italy are only about 1.4 (the situation is similar in other EU countries like in Spain or the Czech Republic). At the same time, life expectancy is on the rise. If no reforms are undertaken, fiscal deficits of pension systems are expected to rise dramatically over the next decades. Yet, population ageing and shrinking is not an irreversible trend. Cigno and Werding stress that policy may influence a key demographic variable, fertility; induced fertility changes may open “some room to maneuver, and [...] make a difference to what will happen toward the end of the twenty-first century” (p. 12).

Chapter 2 offers a classification of pension systems along several dimensions, e.g. the role of the government, the extent and level of coverage, defined-benefits versus defined-contributions, pre-funded versus pay-as-you-go, and the way individual contributions and benefits are interconnected (Bismarckian vs. Beveridgean pension scheme). This classification serves as a guide to investigate incentive effects of alternative institutional arrangements, and the financial consequences of demographic change on pension systems. It also proves useful to clarify confused issues in current political debates. For example, public discussion frequently proceeds on the assumption that pay-as-you-go pension schemes involve intergenerational transfers, thus mixing up the issues of funding and the political will to redistribute. Yet, “strictly speaking, the only intergenerational transfer necessarily implied by a pay-as-you-go pension scheme is that in favour of the very first generation” (p. 17).

Chapters 3 and 4 detail numerous telling examples concerning public policies addressed to families and children as well as child-related elements in public pension schemes. The authors show, that child-related benefits are implemented in many pension schemes, especially of the Bismarckian type. A flood of different policies, various reforms and outdated official data on country regulations turn out to make a serious up-to-date summary and monetary quantification of such transfers challenging (p. 56). For example, the book’s reference year is 2001/2002. Since then, in Germany alone child benefits have been raised (2002), new tax deductions for childcare costs have been introduced (2006), and a new transfer devoted toward parents, the so-called parent money („Elterngeld“, 2007) has been implemented.

Chapter 5 develops a constitutional theory of the family. This theory relies upon the idea that a family can be described by a set of self-enforcing fundamental rules (the ‘constitution’). In Cigno (1991, 1993) it is shown that a self-enforcing family constitution exists where all family members have an interest to go on with the transfer amounts prescribed by the family rule, so that intra-familiar transfers can be interpreted as a “mutually beneficial arrangement” (p. 82). In the constitutional framework, savings and child rearing are alternative strategies to provide for one’s old age, and “a person might use the family network as an alternative to the market in making provision for old age” (p. 93). The authors theoretically explore the impacts of various policy instruments—pension coverage, pension subsidy, child benefit—on savings and fertility in four models: the life cycle and the dynastic model with exogenous fertility, and in the constitutional and dynastic model with endogenous fertility. This general analysis is most welcome as it highlights the role of alternative model assumptions for the assessment of different social policies.