



A SYSTEMIC CRISIS: INTERGENERATIONAL IMPLICATIONS AND THE CASE OF CYPRUS

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The post-pandemic world will undoubtedly be different than the previous one. Systemic changes in political and socio-economic structures are very likely to follow, both within and across states. Among the many consequences the crisis will have, the intergenerational repercussions feature prominently. These repercussions relate to the dynamics between different generations and may shape domestic social structures in the near future. A new social contract featuring intergenerational checks and balances may emerge across countries. Such a social contract is a pressing necessity for Cyprus due to its socioeconomic context which further exacerbates the crisis' intergenerational implications. This article first considers these intergenerational implications and then assesses them in relation to the case of Cyprus.

Intergenerational Implications

The intergenerational implications of the crisis may be amplified or attenuated by a country's underlying context. Policymakers and policy-observers need to understand the macro trends which form potential sources of change. Some of these trends originate from pre-existing socio-economic structures and dynamics. Others are due to the relatively common response to the crisis adopted by different states.

The response to the Crisis

Governments of developed economies understandably prioritised the lives of elderly and vulnerable over economic consequences in their response. This response exhibited three common features across states: a lockdown, a sharp contraction of economic activity and an unprecedented fiscal and monetary stimulus to maintain employment and facilitate the economy's recovery. Some

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countries were more effective than others in containing the pandemic. However, all of them experienced increasing debt levels due to the expenditures on health systems and relief packages to counterbalance the economic impact of lockdowns.

The speed of the virus' transmission and the need for a swift response did not allow governments to legitimise electorally such an important policy response. Yet, taxpayers in these countries are expected and obliged to pay the debt incurred by their governments. However, not all citizens have and will be uniformly affected by the health and economic shocks. Although the pandemic is a major threat to elderly taxpayers, the debt's major share will be inherited by the generation of younger taxpayers. Different countries' intergenerational debt burden ratios—how much of the cost is borne by one generation relative to the other—will vary. Yet, the asymmetry along the elder-younger dimension holds across countries. This crucial asymmetry needs to be accounted for in the underlying political context. The youth is both the major bearer of the debt and the age group with the lowest political representation. Consequently, it was the group which had limited influence on the allocation and use of the money spent in this systemic crisis. This contrast has concrete economic implications with clear political repercussions.

Economic Implications

The massive decrease in economic activity is an unprecedented shock to the youth's short-term and long-term wage expectations and employment prospects. While the shock hit all generations simultaneously, it disproportionately affects the youth as junior roles are less secure than senior roles. This originates from the variation in levels of job security across the corporate ladder. The economic prospects of the youth were also disproportionately affected through the debt/income ratio channel. With lower earnings, either due to unemployment or wage cuts, this generation as a whole will experience a higher debt/income ratio. The magnitude of the crisis and the estimates of a prolonged recovery period globally suggest a lifetime reduction in living standards of younger generations. Hence, the youth may be unable to enjoy the same level of relative economic affluence experienced by previous generations since the Second World War. In countries such as Greece, Cyprus, Spain and Italy, this was already a reality which will be further exacerbated.

Younger generations are projected to pay the major share of the indirect cost of the crisis in addition to the direct cost. This will be done through future taxation. The magnitude of the debt incurred will consequently trigger a new political debate after the pandemic. This debate will revolve around two questions. The first regards the economic policy that will be adopted for the debt's repayment. Feasible options are limited to austerity or financial repression. The second question regards the distribution of debt-repayment across different age groups. Both questions involve major trade-offs with different intergenerational implications. Regardless of the answer to the first question, policymakers should not neglect the intergenerational implications and notions of intergenerational

fairness. These will have major redistribution consequences which will be exacerbated by the dynamics and structures preceding the Covid-19 crisis.

Pre-existing Dynamics

The global economy has been experiencing an ongoing structural transformation as a result of the fourth industrial revolution. This revolution will affect the labour conditions of younger generations as they will experience the global economy's transitional phase. More specifically, the labour market of the future will exhibit lower job security due to rapid automation. Rapid automation will force workers to frequently re-train and re-skill throughout their career. Additionally, employees in the future are also expected to change career paths more times than workers of the past. Policy choices will be crucial in ensuring that the generations affected by the transition—the current younger generations—will not be left behind. Developed economies are not yet adequately prepared for this structural change.

Moreover, the demographic trends of developed economies are further exacerbating the intergenerational implications of the crisis. A rising life expectancy and falling fertility rates will severely strain the pension and healthcare systems. If these demographic trends persist, the current model of these social security programs may become unsustainable. It is also likely that younger generations will contribute more than what they will receive. Consequently, states will have to redesign their social security systems.

The Impact on the youth

Inevitably, younger generations will be disproportionately affected by the implications of the crisis and the pre-existing dynamics. This disproportionality will form a critical social disjuncture. This social disjuncture is becoming apparent to younger generations. As a result, they will seek to increase their political representation in an attempt to renegotiate the intergenerational terms. This renegotiation will revolve around a more realistic, fair and sustainable model for political and socio-economic structures.

The current conditions of these structures are generating stark intergenerational inequalities. These inequalities will worsen until a renegotiation takes place and this can only happen through higher youth representation. These conditions make it conducive for the rise of a new type of populism along the young-old divide. The new populists will advance generationally skewed policies with negative consequences concentrating on particular age groups. Such a possibility would be detrimental for those age groups and social cohesion, as it forms a zero-sum game. This possibility can be avoided through an alternative win-win situation: prudent political mobilisation of the youth and insightful policies from the current political class. These policies should revolve around the distribution of the pandemic's costs and the creation of a fairer social safety net to address the pre-existing dynamics and inequalities.

The Case of Cyprus

The case of Cyprus exhibits a combination of the features above and particular pre-existing distortions which amplify the intergenerational implications. This combination worsens the situation for younger generations.

The aftermath of 2013

In the aftermath of the 2013 recession and the economic growth that followed, many structural distortions were created while others were left unaddressed. More precisely, the economic paradigm—with its over-reliance on the property market and the Cypriot Investment Scheme—generated asymmetric consequences across different sectors of the economy. The benefits of growth did not diffuse sufficiently throughout the economy and were primarily confined to the sectors associated with the growth-model adopted (legal and accounting services, real estate and construction). Moreover, the externalities of the growth model adopted negatively affected citizens working in the remaining sectors of the economy.

The chosen model created significant upward pressures on the property market due to the impact of overseas demand. The distortions thus arose from the growth's inflationary implications on the property market and the limited effect this growth had on increasing the earnings in the wider economy. Moreover, the type of growth Cyprus experienced led to the detachment of house and land prices from the domestic realities. This disconnection also increased the cost of renting in the wider economy. This detachment arose from the discrepancy in the purchasing power of domestic buyers/renters and foreign investors.

Current Realities

The current state of the property and labour markets highlights the magnitude of the intergenerational distortions and inequalities. Seven years after the economy recovered from the 2013 crisis, nominal wages of entry level jobs and even middle-level roles remain close to the crisis-dictated levels. Indicative of the problem is the entry-level salary of the average university graduate in relation to the average rent per month for a one-bedroom apartment. In Nicosia, one is expected to spend about half their salary on rent while in Limassol renting one's own apartment is a privilege afforded by the very well-of. The implied and expected salary progression through the Cypriot corporate ladder does not allow hopeful expectations for the young to move up the property ladder. Family planning is also postponed for a considerable proportion of the youth as a result of the unfavourable labour and property markets situation. These realities create a common generational dilemma: live at the parental home or migrate abroad. The ones that seek the alternative option of moving out of the parental home, spend most of their salary on rent and have little left to meet basic needs.

The social safety net—as established through the strong family bonds—is enabling this generation to stay afloat. Nevertheless, this social safety net cannot be used indefinitely and will be further strained by the current developments. Prior to these, Cyprus was experiencing a costly brain drain as many young graduates

addressed their generation's dilemma by migrating abroad. Some did so permanently. Others prolonged their time abroad expecting that the domestic situation would eventually improve. The current crisis adds to the uncertainty of such expectations and reduces the prospects for those seeking employment both abroad and domestically. It will lead to wage cuts for those who do manage to preserve their employment status and will also decrease their prospects of future salary increase. Pre-pandemic salaries were already low in relation to the realities of the property market. All the above suggest that Cyprus may indeed be experiencing a severe form of the intergenerational strain described in the previous section. As a result, the imperative for a new social contract is even more pronounced.

A New Social Contract

The current crisis highlights the necessity of a robust social contract, grounded in the realities and the needs of the 21st century. It needs to guarantee the protection of older generations without jeopardising the living standards of the younger generations. A contract appropriate for the 21st century should be constituted by intergenerational checks and balances. This is vital for social cohesion. Such a contract may result from the prudence of the current political class, an intergenerational dialogue, the political mobilisation of the youth or a combination of the above. Its formulation will be a long process because of the stakes involved. Nevertheless, it should be initiated sooner rather than later, because it is an unavoidable matter which should be addressed sustainably.

Younger generations need to be provided with acceptable living standards: satisfactory housing and labour conditions that will allow them to create families. Higher fertility and an economically profitable demographic pyramid are necessary to ensure the sustainability of pension and healthcare systems. Hence, it is in the interest of both, the state and the older generations which constitute the majority of the political class, to pursue intergenerational fairness. This is necessary for social cohesion, sound public finances as well as a more sustainable framework to operate within. Policy leaders need to retrospectively identify mistakes of the past and formulate adequate policies with a prospective outlook for the realities of the future. No generation deserves to be a "lost generation" and no generation easily accepts to become one.

The way forward

Changes in social contracts are triggered by negotiations among the relevant actors through a meaningful dialogue. Participation in such a dialogue requires political representation and the youth are particularly disadvantaged on this domain. Their disadvantage contrasts with their stark need for a new social contract. Undoubtedly, the increasing levels of abstention and the wider disengagement of the Cypriot youth from politics has consequences on their representation and advancement of interests. Regardless of this disengagement, the realities of the present require meaningful engagement with concrete policy proposals to create hope for the future.

The younger generation has been fortunate—through its efforts and those of previous generations—to become the most educated young generation Cyprus has had so far. The current crisis provides the conditions for this generation to assert itself politically. It is imperative for this generation’s future that it meticulously works towards a social contract appropriate for the 21st century. This contract should ensure meaningful political representation for the youth, with the necessary intergenerational checks and balances. Such a model can serve as a pioneering example at a broader level as the need for durable prosperity and dignity for all generations is common across the world.