

Cohort Welfare Accounting with Incomplete Markets: Across and within Cohorts

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Abstract

This paper studies welfare incidence along policy transitions in overlapping generations economies with incomplete markets. I develop a money metric welfare accounting framework at the household state level, which decomposes the welfare effects of policy transitions on heterogeneous households into the five channels. Relative to the complete markets benchmark, welfare differs within the same cohort and mean incidence can differ from median incidence. In the reproducible first reform step, mean welfare is positive but the median household loses slightly. On the computed full reform transition path, currently living households lose on average, future entrants gain on average, and the lump sum redistribution authority benchmark points to a small efficiency loss once redistribution is neutralized. A refined reform grid shows where a simple accumulation of local terms differs from cumulative welfare. Transition incidence is therefore governed by within cohort balance sheet heterogeneity rather than representative cohort averages.

JEL classification: D15; D52; E21; E62; H63

Keywords: *cohort welfare accounting; incomplete markets; overlapping generations; policy transitions; heterogeneous households; debt maturity*

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