



Pension Systems, Ageing and the SGP **Beetsma and Oksanen**

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General

- Fun to be discussant
 - But probably not the most appropriate one (neither an expert on generational accounting nor on fiscal policy)
- Important and timely topic
- Thorough analysis: mix of theory-based accounting experiments and of policy paper
 - I mostly agree
- Number of (minor) issues/concerns/questions



What is the message?

- Two Central messages paper:
 - Actuarial neutrality (using intergenerational accounting) should be the framework to design and evaluate pension reform
 - Current SGP actually hinders optimal pension reform
- Comment:
 - W.r.t. 1: true (at least, I would agree)
 - W.r.t. 2: true, but unclear how important this is
 - General: it is not easy to extract the message from the paper (politically correct language?)



Comments on model/simulations

- Overall, I take the outcomes at face value (somewhat of a black box)
- (Minor) questions coming to mind:
 - Technologically-driven growth (growing wealth) appears absent; would/could that play a role?
 - The interest rate is exogenous; would a risk premium related to pension policy matter?
 - No asset valuation effect in analysis
 - Does it matter who holds the government debt (implicit assumption that it is the retired generation?)
 - It might be interesting to have some welfare concept to be able to compare different paths (or to compare intergenerational losses/gains when no equity is imposed)



Political economy: background SGP

- Initially (at least in my mind), SGP not aimed at coping with pension reform (ageing problems) but with too liberal current gov't expenditures and excessive deficit spending
 - Even then, especially the 'corrective' arm was ill-designed in my view
 - Moreover, the paper illustrates convincingly makes clear that debt should be allowed to act as a buffer, stressing the questionability of allowed debt levels
 - But not unexpectedly, design then does not (perfectly) fit today's needs
- Is that a problem?



Is SGP binding constraint?

- SGP is no ultimate goal but means to an end
- When what we (a country) want(s) to do conflicts with the SGP, the SGP will give
 - In that respect, a country willing to go for true pension policy reform might not find it hard to violate the SGP (with or without consent of other countries); however, I may be too optimistic
- In the past Initially (at least in my mind), SGP not aimed at Is that a problem?



Unresolved issues

- Paper only talks about gov't finance related to intergenerational issues, but rest may interfere
- Real challenge:
 - Can we think of pragmatic mechanisms/rules that improve on SGP and are feasible?
 - Paper is relatively silent on this (apart from slight modification of SGP in allowing more leeway under reform)
 - Would/should it be an option to completely put whole thing at arm's length from the government (insurance perspective?)
- Additionally:
 - Long horizon needs credibility of gov't (potential time-inconsistency of reforms)