

Political (In)stability of Social Security Reform

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Discussion by Damiaan Chen¹

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- **VERY INTERESTING**

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- Voting for (i) shifting contributions from funded to PAYG, (ii) shifting pensions from funded to PAYG, or (iii) both
- Main conclusion: the funded pension scheme is unstable. Why?
 - living cohorts vote for shifting contributions from funded to PAYG
 - short-term welfare gain: it reduces public debt and, hence, lowers taxes
 - but overall welfare decreases: living cohorts vote at the expense of future generations

- Result: there is always a majority voting for reversion of the reform based on individual preferences and perfect foresight

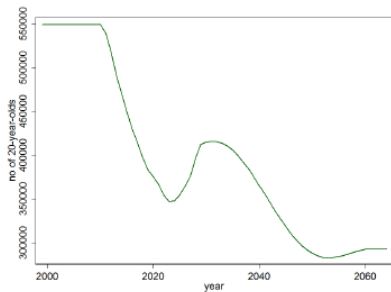
- Result: there is always a majority voting for reversion of the reform based on individual preferences and perfect foresight
- Was there support for the reform towards funding in the first place? The funded pension scheme appears to have no support through voting, so there must be other factors than voting causing a reform

- Current cohorts vote for a reform at the expense of future generations

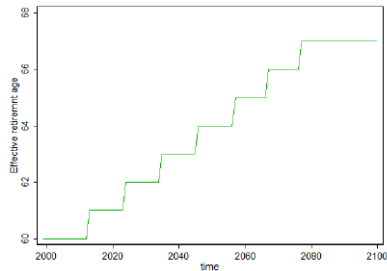
- Current cohorts vote for a reform at the expense of future generations
- Is this result robust to different calibrations?
 - Subjective time discount factor: $\delta = 0.98$
 - Interest rate (*quite large*): $r = 7.5\% \Rightarrow \frac{1}{1+r} = 0.93$
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- Alternatively: calibrate $\delta = \frac{1}{1+r}$ by leaving another parameter free

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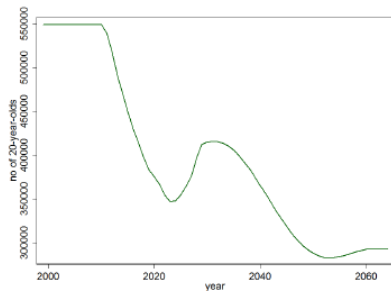


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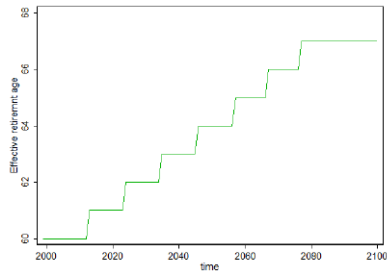


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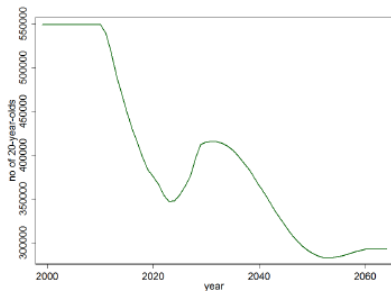
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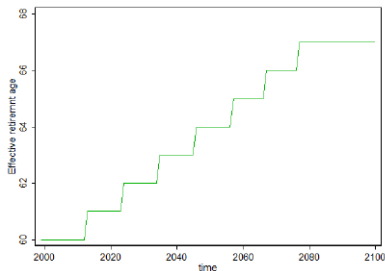
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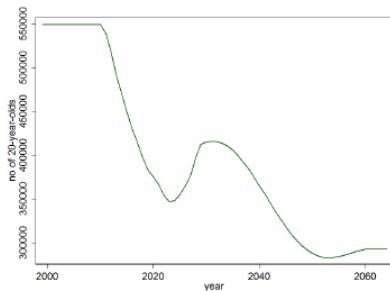
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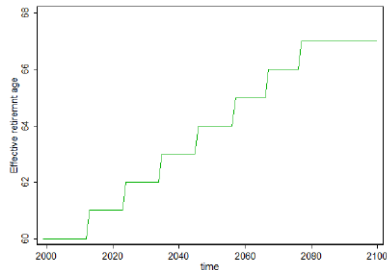
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- Retirement age increases and, during 2020-2035, mass of active young participants increases
- PAYG system would be favorable for these demographic projections of Poland
- Are the results robust for more neutral projections?

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- Missing references:
 - Political intergenerational risk sharing – D'Amato & Galasso (2010)
 - The Gains from Pension Reform – Lindbeck and Persson (2003)
 - Why a Funded Pension System is Useful and Why It is Not Useful – Sinn (2000)
 - A Positive Theory of Social Security – Tabellini (2000)