

Voting in the aftermath of pension reform: The role of economic literacy

by Elsa Fornero and Anna Lo Prete

Comments by

Roel Beetsma

MN Chair in Pension Economics,
University of Amsterdam, CEPR and CESifo

European Fiscal Board

Overall assessment:

- Paper explores relationship major pension reforms and re-election of executive/party under which reform takes place, and how this relationship is affected by economic literacy
- Robust findings of
 - Negative relationship major pension reforms and re-election
 - Negative relationship is mitigated by degree of economic literacy
- Interesting paper with obvious policy implications

Dataset:

- 18 European countries 1990 - 2010
- Look at fundamental pension reforms by previous administration:
 - Impact in terms of financial sustainability and/or income adequacy
 - Broad scope
- Economic literacy among the population (IMD World Competitiveness Yearbook); other human capital variables
- Control variables: political, macro-economic

Comments I: identification major reforms

- Paper should provide more information on the identification of the major pension reforms
 - Above criteria are not quantitative, so what does specifically count as major reform and what not?
 - Provide years of reform
 - Provide description of the reforms (are they all contractionary or also expansionary?)
 - Do identified reforms coincide with general perception of major reform?
- Recording of pension reform is based on year in which it is signed into law?

Comments II: playing devil's advocate

- Is there direct evidence of a role for the pension reforms in the electoral campaigns?
- Which of the major pension reforms were part of broader reform packages, so authors may need to control for the possibility that the observed relationships are driven by other components of a broader reform package?
- Economic literacy data is based on interviews with senior business representatives – are “hard” measures available?
- Role of potential support of opposition for reform

Comments III: suggestions specifications

- Demographic variables have not been included (in the way I expected):
 - projections of higher future old-age dependency ratios or higher costs of ageing may create more sympathy for reform → introduce interaction of reform and demographic projections
- Distinction between expansive reform (raise re-election chance?) versus contractionary reform (reduce re-election chance?)

Comments III: suggestions specifications

- Role of political colour: interact re-election dummy with colour of government to test whether left-wing parties would pay higher political price for reform
- Investigate effect of how long ago reform was introduced
 - When introduced at start of previous tenure effect on re-election chances should be smaller than when introduced at end of previous tenure.

Comments IV: other remarks

- I find endogeneity discussion end of p.10 hard to follow
- Reform decision may well depend on popularity:
 - An extremely unpopular government may decide to reform, because re-election will not happen in any case
 - An extremely popular government has sufficient political capital to not fear any electoral consequences
 - Explore whether popularity of government at time of reform is systematically different from average; persistence of popularity?
- Interpretation of magnitude of literacy effect (calculation mean marginal effects)
- Discuss policy implications



THANK YOU!