Contents

List of Tables viii
List of Figures x
List of Abbreviations xi
Acknowledgements xii

Introduction 1

1. Alternative Views of PAYG as a Social Institution 16
   1.1 Introduction 16
   1.2 Origin of Retirement as a Social Institution 18
   1.3 Private and Social Insurances 25
   1.4 The Insurance Fiction in Practice: The Political Legitimacy of PAYG 27
   1.5 The Insurance Fiction in Theory: Samuelson’s Model 31
   1.6 The Samuelson–Lerner Controversy 36
   1.7 The Post-Samuelson–Lerner Debate 38
   1.8 Moral Social Habits and Social Transfers 42
   1.9 Final Remarks 43

2. Re-engineering PAYG: The Controversy over the Notional Defined Contribution Reforms 52
   2.1 Introduction 52
   2.2 Archetypal Accounting Structures of PAYG 54
   2.3 Notional Defined Contribution Reforms 60
   2.4 Criticism of the NDC scheme 74
   2.5 The Italian NDC Reform 80
   2.6 Final Remarks 84

3. The Conventional Interpretation of a Fully-Funded Scheme and Capital Theory 90
   3.1 Introduction 90
   3.2 Description of a Fully-Fledged FF Scheme 93
   3.3 FF Schemes and Capital Theory 95
   3.4 The Rates of Return of FF and PAYG Schemes 99
   3.5 Equivalent Schemes Vis-à-Vis a Demographic Shock 101
3.6 Alternative Pension Schemes and Savings in an Imperfect Design Context 117
3.7 Final Remarks 123
Appendix 3.1: Simple Formal Exposition and Simulations of the Demographic Shocks in a Neoclassical FF Scheme 131
Appendix 3.2: Economies Indifferent between PAYG and FF Schemes 139

4. The Transition from PAYG to FF Schemes 142
4.1 Introduction 142
4.2 The Transition to Capitalization and the Savings Rate 145
4.3 Two Kinds of Transition Plans 149
4.4 Alleged Advantages of Disguised PAYG 154
4.5 Divergent Interpretations of the Chilean Reform 161
4.6 Modigliani’s and Feldstein’s Transition Plans 163
4.7 Pension Funds and the Savings Paradox 165
4.8 Final Remarks 169
Appendix 4.1: A World Bank Example of a False Transition to an FF System 175
Appendix 4.2: On Feldstein’s Transition Plans 178

5. The Controversy over the Social Security Surplus 185
5.1 Introduction 185
5.2 The Social Security Surplus in National Accounts 185
5.3 Interpretations of the Social Security Trust Fund 186
5.4 An Appraisal of the Controversy 188
5.5 Final Remarks 192
Appendix 5.1: Severance Pay and the Creation of an FF Scheme in Italy 196

6. The Classical-Keynesian Macroeconomics of Pension Reform in Closed and Open Economies 198
6.1 Introduction 198
6.2 The Theory of Effective Demand in the Short and in the Long Period 200
6.3 Pension Transfers and Demand-Led Growth 202
6.4 The Impact of the Demographic Shocks in the Light of the Theory of Effective Demand 204
6.5 A ‘Classical’ Proposal of an FF Reform 207
6.6 A World of Investment Opportunities: ‘Emerging Markets’ and Endogenous Growth 212
6.7 A Keynesian View of International Capital Flows 218
6.8 Final Remarks 220