Pension reform:

an analysis of the economic foundations of

private pensions

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## Preliminaries

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Acronyms

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<tr>
<td>APRA</td>
<td>Australian Prudential and Regulatory Authority</td>
</tr>
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<td>ASFA</td>
<td>Association of Superannuation Funds of Australia</td>
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<tr>
<td>ATO</td>
<td>Australian Tax Office</td>
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<tr>
<td>CEPR</td>
<td>Centre for Economic Policy Research (Italy)</td>
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<tr>
<td>ENEPRI</td>
<td>European Network Of Economic Policy Research Institutes</td>
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<tr>
<td>FSA</td>
<td>Financial Services Authority (UK)</td>
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<tr>
<td>ICI</td>
<td>Investment Company Institute (US)</td>
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<tr>
<td>ILO</td>
<td>International Labour Office</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>NASVF</td>
<td>National Association of Seed and Venture Funds (US)</td>
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<tr>
<td>NBER</td>
<td>National Bureau of Economic Research (US)</td>
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<td>NPR</td>
<td>Neoliberal pension reform</td>
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<tr>
<td>OASDI</td>
<td>Old Age, Survivors, and Disability Insurance</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OTRC</td>
<td>Office of the Retirement Commissioner (NZ)</td>
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<tr>
<td>PAYGO</td>
<td>Pay-As-You-Go</td>
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<tr>
<td>RBA</td>
<td>Reserve Bank of Australia</td>
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<td>RIM</td>
<td>Retirement Income Modelling (RIM) Taskforce (Australia)</td>
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<td>UN</td>
<td>United Nations</td>
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<td>VC</td>
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Abstract

The dissertation investigates support by economists for the global policy shift away from unfunded public pension schemes towards funded private pension schemes. Influential economists and institutions, including the World Bank, present a suite of economic arguments that suggest that this shift will have positive effects on national economies, particularly in the context of aging.

The arguments may be categorised according to their relation to the operation of three sets of institutions: capital markets, labour markets and political systems.

In capital markets, the transition is purported to increase private and national saving, increase the quantity and quality of investment, and provide more efficient private administration. In labour markets, it is claimed that the shift will reduce labour market distortions associated with public pensions, which inhibit competitiveness, produce unemployment and encourage early retirement. According to the World Bank, public pensions systems cause these distortions without achieving their stated objective of reducing inequality. In the political sphere, the shift is purported to insulate the pension system from political pressures, which otherwise inevitably lead to crisis.

The thesis provides evidence which refutes these claims. The best research, including studies by orthodox economists, indicate that the shift does not increase savings or investment, or improve the quality of financial investment. The main effect of tax concessions associated with private pension systems is to divert to private pension funds savings that would occur in any case via other mechanisms. The tax concessions are also regressive, even in systems with compulsory elements. Private administration of pensions, particularly in a plural consumer market setting, is highly inefficient, with customers at a disadvantage in dealing with providers due to the complexity and opacity of products and pricing.

A negative relationship is found between public pension spending and levels of elderly poverty, suggesting that reducing public pension spending increases levels of elderly inequality. Public pensions are found not to explain differences in economic growth between regions. Elements of system design which distort labour markets,
such as by encouraging early retirement, can easily be adjusted. However, such elements are explicit government policy in several countries.

A review of public and private pensions finds that examples of public system crisis are associated with instances of economic and political collapse, rather than system design. Private funded systems are found to be more vulnerable, not less, to the same external influences. Relatively generous universal public pension systems are found to be financially sustainable despite demographic change, assuming modest levels of economic growth.