

Comments on: Christian Jaag, Christian Keuschnigg, and Mirela Keuschnigg, Pension Reform, Retirement, and Life-Cycle Unemployment

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Outline

- 1 What do JKK do in this paper?
- 2 Reactions
 - Positive
 - Not so positive
- 3 Questions

What?

- use a computable general equilibrium (CGE) model to compute the effects of pension reform
 - longer assessment period (how many years count?)
 - strengthening the link between contributions and benefits
 - price indexation instead of wage indexation
 - strengthening actuarial fairness of the pension system
- model calibrated for Austria; reform targeted at Austrian situation
- try to motivate inner working of CGE model with a small highly stylized two-period model
- argue that, except for the odd 90-year old, all current generations as well as all future generations benefit from the reforms
- ergo ... they demonstrate the feasibility of the politician's bliss point, namely a win-win scenario!

- paper is nicely written, and interesting to policy makers
 - relevant questions
 - (for policy makers) great policy advice
- trying to explain the core of a large (“black box”) CGE model with a small stylized model is a very good idea!
- paper contains a very extensive literature survey that will be useful to other researchers in the field
- CGE model contains some very attractive elements:
 - life-cycle labour supply (intensive and extensive margins)
 - age-dependent unemployment (search)

- link between core model and large CGE model not sufficiently clear (at least to this reader)
 - CGE model remains black box
 - Core model too simple to take seriously (linear felicity, difference between hours decision and participation decision in second period not clear [extreme time aggregation])
- Hamlet without the Prince? Batman without the Joker?
 - usual reason for pension reform is some kind of demographic shock (baby bust, longevity boost)
 - demographic transition notoriously slow and non-monotonic
 - JKK assume demographic steady-state has been reached
- JKK's conclusions are "too good to be true"
 - given the Austrian population age structure, there must be unanimity in parliament
 - if they were true, then why is reform so difficult in reality?

Specific questions

- 1 Why doesn't your kink matter?
 - Gruber-Wise data suggest there is a pronounced kink in the suitably defined lifetime budget constraint due to the pension system (high implicit taxes)
 - The kink is located at the early entitlement age (EEA)
 - Heijdra & Romp (2007, CESifo) show that this explains why it is optimal to retire at the EEA
 - even large inframarginal tax incentives have no effect; elasticity of retirement zero?
 - this seems to be borne out by the Austrian data (p. 15 mentions 58 years on average)
 - actual policy reform in Austria has raised the EEA (p. 17)
 - kink lost in your model due to time aggregation of "second period"?

Specific questions

- 1 Why don't you fully exploit your CGE model?
 - you mimic the longer assessment period, rather than putting it in (m^a on page 16)
 - same with tax-benefit link (page 24)
 - same with grandfathering rules (page 35)
- 2 Are you using the right unemployment model?
 - Austria typical example of corporatist society: collective decision making internalizes the government budget constraint
 - Is a trade union approach better able to capture the Austrian case than the flex-wage search and matching approach?
- 3 How important is the perfect annuities assumption for your outcomes?
- 4 On probabilistic ageing: how can you distinguish between an agent's "biological" age and "productivity" age?