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Pareto-Improving Social Security Reform when Financial Markets are Incomplete!?

Dirk Krueger

Felix Kubler

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Abstract

This paper studies an overlapping generations model with stochastic production and incomplete markets to assess whether the introduction of an unfunded social security system leads to a Pareto improvement. When returns to capital and wages are imperfectly correlated, a system that endows retired households with claims to labor income enhances the sharing of aggregate risk between generations. Our quantitative

analysis shows that, abstracting from the capital crowding-out effect, the introduction of social security presents a Pareto-improving reform, even when the economy is

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