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The 'principle of scarcity', pension policy and growth

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Acknow

I am grateful to an anonymous referee and the editor of this issue, Sergio Cesaratto, for extensive comments and suggestions.

Notes

[1]According to a 2004 official report, in the UK reductions in yield resulting from providers' charges can absorb about 20–30% of an individual's pension savings (cf. Pensions Commission, 2004, ch. 6).

[2]Overall financial liberalisation over the last 25 years has greatly increased the economic and political weight of the financial services industry, which is of course also the chief direct beneficiary of the downsizing of the traditional defined-benefit public pension schemes. Though important, I believe nevertheless that the role played by this increased influence of fund-management companies in the process of pensions privatisation is secondary, at least in Europe, to deeper changes afoot, over the same period, in the relative power of this continent's social classes and groups (more on this in Section 4, below).

[3]See, for example, Bank of International Settlements (1998), World Bank (1994) and Holzmann & Hinz (2005); see especially the innumerable contributions by Martin
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the idea is generally accepted that the presence of such an effect, if it could be proved,

would constitute a positive feature of prefunding for future pension commitments: 'A key issue in determining whether advance funding is advantageous is the extent to which it results in net additions to national savings' (Holzmann & Hinz, 2005, p. 5).

[4]'The main motivation for the [World] Bank to support pension reform has not changed. Instead it has been strengthened by the past decade of experience: most pension systems in the world … create significant distortions in the operation of market economies, and they are not financially sustainable when faced with an aging population' (Holzmann & Hinz, 2005, p. 3).

[5]'The design of a pension system or its reform must explicitly recognize that pension benefits are claims against future economic output. To fulfil their primary goals, pension systems must contribute to future economic output. Reforms should, therefore, be designed and implemented in a manner that supports growth and development and diminishes possible distortions in capital and labour markets. This requires the inclusion of secondary development goals, which seek to create positive developmental outcomes by minimizing the potential negative impacts that pension systems may have on labour markets and macroeconomic stability while leveraging positive impacts through increased national saving and financial market development' (Holzmann & Hinz, 2005, p. 6).

[6]'Uniform treatment', as well as the principle according to which the different
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(2002, ch. 2); on the shortening of life expectancy in Russia, see also Brainerd & Cutler (2005).

[9]According to the calculations used by the Ragioneria Generale dello Stato (RGS) to evaluate the behaviour of the burden of pensions over time, growth of GDP over the next 50 years or so should occur at an average rate of only 1.5% per year because of a declining labour supply (cf. Ministero dell'Economia e delle Finanze-RGS, 2001). In practice, output is not viewed as demand constrained and its rate of growth is viewed as determined by the rate of growth of the labour force and the rate of growth of labour productivity: conditions of full employment (or ‘natural’ unemployment) are implicitly assumed. It should be observed, in any case, that the low average rate of growth of GDP, projected on the basis of the expected decline in the size of the labour force, would still imply a very significant rise in income per person over the next four to five decades, owing to the large population decline expected to take place in Italy over the same period on the basis of current demographic trends. (Population size for Italy is expected to fall by about 12%, the largest expected decline within the EU–15 states; see Lisiankova & Wright, 2005, Table 1, p. 76.) As already pointed out in the text (Section 3), whatever implications population ageing may have on the labour force and the number of people employed, the standard of living of all the inhabitants of a country can well keep on rising as long as its income per person continues to rise. So one does not see why, in the expected conditions, population ageing should imply ‘a substant ... if unaccon ... ation ageing, ... d lead to a fall in th ... sive redistrib ...

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