Discussion of

"Voting over Type and Size of a Pension System when some Individuals are Myopic"

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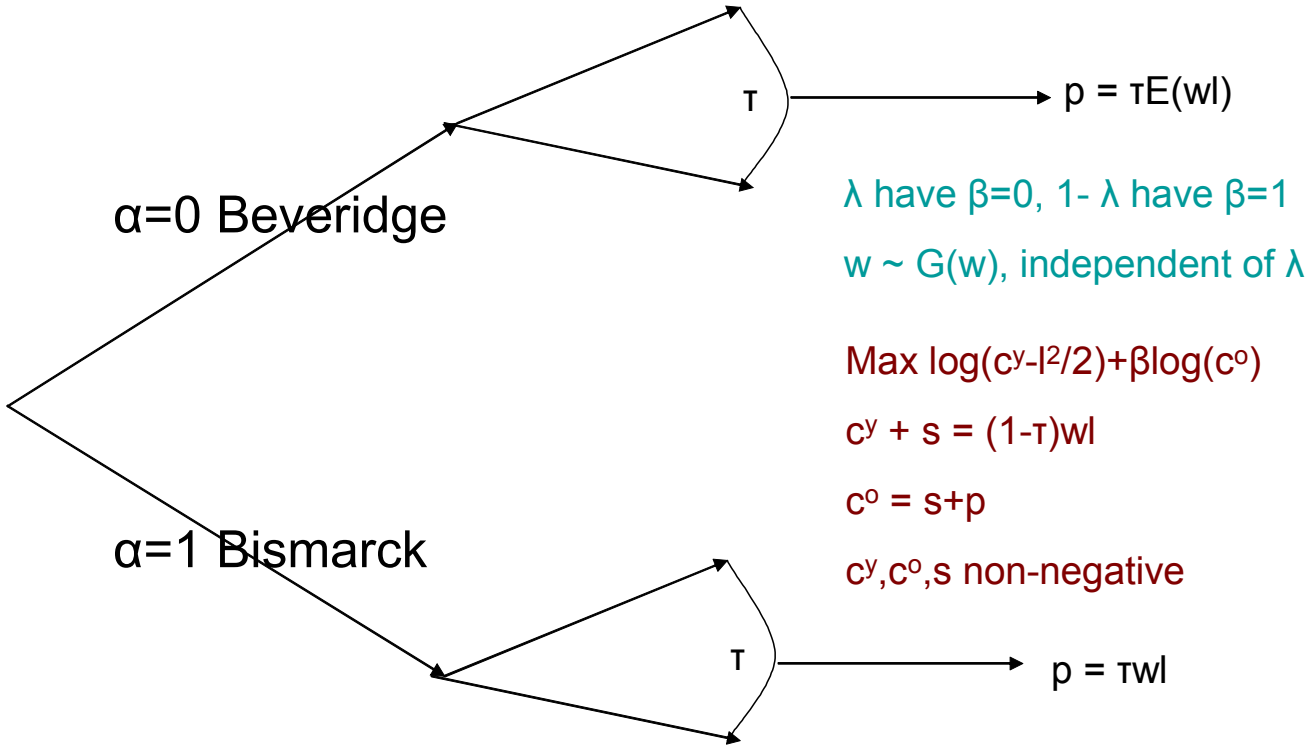
The Question

- What is the voting outcome on social security in an economy with some myopic households.

- Two dimensions of the social security system:
  - Size of the system.
  - Degree of redistribution from the system.

The Structure of the Problem



λ have β=0, 1- λ have β=1

w ~ G(w), independent of λ

Max $\log(c^y - l^2/2) + \beta \log(c^o)$

$c^y + s = (1-\tau)wl$

$c^o = s+p$

c^y, c^o, s non-negative

The Effects of Social Security

- Forced saving for retirement, beneficial for myopic households.
- Redistribution in case of the Beveridgian system.
- But: potential labor supply distortions and savings distortions: for the myopics in both systems, for the far-sighted in the Beveridgian system, in the Bismarckian system if $s = 0$.
- Note: no implicit tax on capital income from social security since $n = r = 0$.

Main Results

- Suppose that

$$\lambda + (1-\lambda)\,\Pr\left[w^2 \leq \frac{2}{3}E(w^2)\right] \geq 0.5 \qquad \text{(Condition 1)}$$

  Then $\tau(\alpha = 0) = \tau(\alpha = 1) = \frac{1}{4}$.

- All myopics with $w^2 \leq E(w^2)$ prefer a Beveridgian system. All far-sighted with $w^2 \leq \frac{6}{7}E(w^2)$ prefer a Beveridgian system.

- If $\lambda = 0$ or $\lambda = 1$, a Beveridgian system is implemented. For many λ close to 0 or 1, too.

Main Results

- But: Bismarckian system may be implemented, e.g. if $\lambda = 0.5$ and sufficient mass in the right tail of the wage distribution.

- Note: Bismarckian system has support from high wage individuals of both groups, because of dislike for redistribution, and lower labor supply distortions for part of the far-sighted.

- Note: If Condition 1 is not satisfied, a change in λ also affects $\tau(\alpha = 0)$.

Some Comments: Robustness

- Suppose households have preferences

$$\log(c^y) + \log(1 - l) + \log(c^0)$$

  Qualitatively similar results, even though labor supply for myopics, for far-sighted non-savers not distorted by social security system.

- Here: one-shot game, one generation. No intergenerational (but intra-generational) conflict. Question: will the system and size be maintained if there is repeated voting? Some exciting recent work: Boldrin and Rustichini (2000, RED), Cooley and Soares (1999, JPE), Hassler et al. (2005, JME), Krusell et al. (1997, JEDC), Song (2006, mimeo).

Some Comments: Interpretation

- Are agents really myopic? Don't think so! They suffer from a self-control problem (cannot save), but are perfectly aware of this when making voting decisions. Important for the calibration of λ. Note: $s = 0$ may be optimal for the far-sighted, so hard to identify λ from savings behavior in the data.

- Optimal social security system when some agents are myopic? Similar exercise to Feldstein (1985).

$$\max_{\alpha \in \{0,1\}, \tau \in [0,1]} \lambda V^M(\alpha, \tau) + (1 - \lambda) V^F(\alpha, \tau)$$

  Allows to analyze the welfare losses induced by the political process.