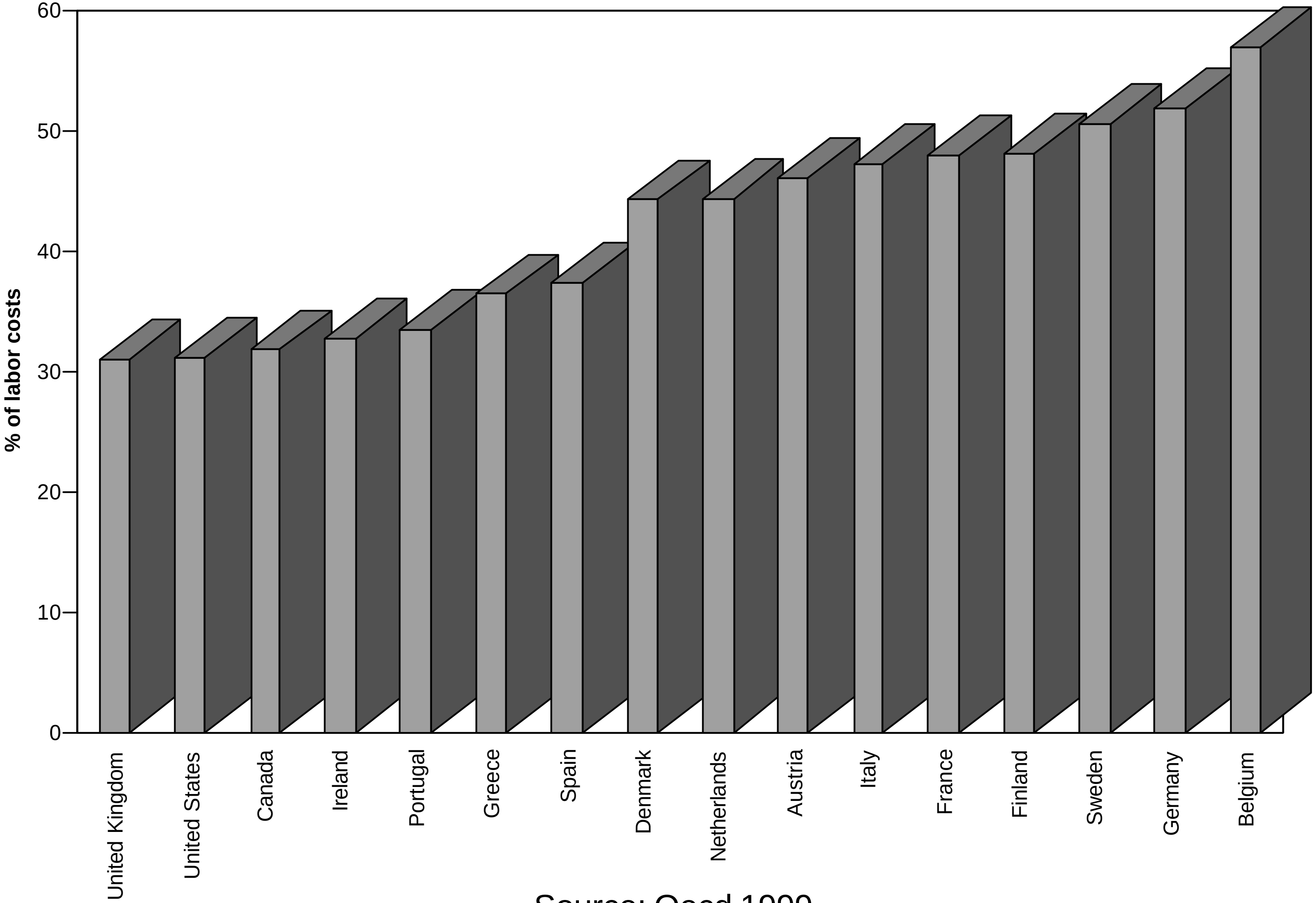
Discussion of

Richard Disney

Are contributions to public pension programmes a tax?

Wall Disney

Oecd tax wedges (income tax plus employee and employer contributions less cash benefits - single no children)



Source: Oecd 1999

Contribution of the paper

- Thorough **literature review** (rich of institutional details) on labour supply effects of alternative pension arrangements
- Improves the **measurement of the tax wedge**: indicators disentangling the tax (redistributive) and deferred consumption (actuarially fair) components of statutory contributions to pension systems
- **Applied** to estimates of aggregate labour force participation equations

Issues

- **Literature review.** Underlying question somewhat left unanswered: why do pension systems depart from actuarial fairness and neutrality?
- **Measurement.** We cannot neglect the type of redistribution (not necessarily progressive) operated by the pension system, and the transparency of the way it is financed.
- **Estimation.** Disappointing results. Can we do better by taking into account intragenerational *heterogeneities* and exploiting ongoing pension *reforms*?

From labour markets to pensions

- Literature on *occupational* pensions: pensions as deferred wages, included in the bargaining process (Freeman, 1981,Lazear, 1983).
- With centralised bargaining, *public* pensions traded with wage moderation.
- Early retirement as industrial policy tool.
- And insurance against labour market interacted with longevity risk (are contributions paid during U spells?).
- Possible regressive redistributions.

Always progressive the tax component?

TABLE 1.1. Ratio of personal pension to personal income by quintile. (PPP amounts in 1996, all pensioners aged above 65)

	Nordic Countries	**Continental Countries**	**Anglo-Saxon Countries**	**Southern Countries**
quintile	ratio	ratio	ratio	ratio
1	0.893	0.906	0.928	0.912
	(400)	(1163)	(417)	(1188)
2	0.856	0.929	0.865	0.931
	(368)	(1129)	(434)	(1170)
3	0.818	0.926	0.832	0.911
	(322)	(1046)	(410)	(1120)
4	0.809	0.899	0.762	0.913
	(298)	(995)	(366)	(1046)
5	0.662	0.780	0.702	0.815
	(273)	(965)	(309)	(966)
Total	0.785	0.867	0.793	0.880
	(1661)	(5298)	(1936)	(5490)

Sample sizes in parenthesis
quintiles are computed on the basis of total equivalised disposable income
Nordic Countries: Finland, Denmark, Netherlands, Sweden
Continental Countries: Austria, Belgium, France, Germany
Anglo-Saxon Countries: United Kingdom, Ireland
Southern Countries: Greece, Portugal, Spain
ECHP - wave 4 (income data refer to 1996)

Indications from public opinion polls

- BBT1,2: Individuals overestimate pensions and underestimate contributions,
- older workers believe that they are contributing to individual accounts and
- a majority is convinced that the pension system will undergo a major crisis in the next 10-15 years
- Need to take into account of:
  - transparency (e.g., deviation of effective from actual payroll, draw Fig.3 with it)
  - the sustainability of public pensions (PAYG)

Intragenerational heterogeneities

- If the tax component is in favour of a particular group, it will *increase* participation of that group
- Look at dispersion in participation across income-educational groups, gender (anonymous referee)
- Effects of taxation on both extensive and intensive margins. LFPR is a dirty measure (Jones and Riddle, 1999; Sorrentino, 2000)

Exploiting the transition

- Reforms provide natural experiments to better assess the role of the tax component on labour supply
- Italy, Sweden: Investigate the different behaviour of NDC vs. DB “generations”
- In Italy DB and NDC also in the same cohort: double difference

Look at the Transition countries