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A NOTE ON THE WEAK POLITICAL SUPPORT TO PENSION REFORMS

ABSTRACT

In the last decades, many advanced countries have implemented reforms that share the goal of making pension systems more sustainable, efficient and fair. These reforms have been spurred, first and foremost, by the aging of populations and the reduction in their growth rates, challenges that have become particularly compelling in the last decade, in the wake of the economic and financial crisis.

However, these reforms were not underpinned by strong political support and, after their implementation, many countries have partially reversed the course.

In this note, we investigate two possible interpretations of this lack of political support, either from a “political economy” perspective that analyzes the consequences of the aging of the median voter and by examining the shortcomings of the aforementioned reforms from the perspective of gender equality, the radical change in the allocation of risk from the State and firms against workers, and inequalities in life expectancy related to the socioeconomic conditions of individuals. The arguments are supported by data, both international and referred to the Italian context.

Keywords: Pension Reforms; Fairness; Sustainability; Political Support; Pay As You Go (PAYG); Defined Benefits (DB); Defined Contribution (DC)

JEL Classification: H55; H75; J32; J26

RIASSUNTO

Una nota in merito alla debolezza del sostegno politico alle riforme pensionistiche

Negli ultimi decenni molte nazioni avanzate hanno implementato riforme accomunate dall'obiettivo di rendere più sostenibile, efficiente e giusto il sistema pensionistico.

Tali riforme si sono rese necessarie a causa dell'invecchiamento della popolazione e della riduzione dei tassi di crescita economica. Tuttavia, queste riforme – pur riconosciute necessarie dalla grande parte degli economisti – non sono state supportate da un forte sostegno politico e, negli anni successivi all'implementazione, molti paesi hanno parzialmente invertito la rotta.

In questa nota, approfondiamo due possibili interpretazioni di tale mancanza di supporto politico, partendo sia da una prospettiva di “political economy”, che analizza le conseguenze dell'invecchiamento dell'elettore mediano, sia da una disamina dei principali difetti delle summenzionate riforme dal punto di vista dell'uguaglianza di genere, del cambiamento radicale nell'allocatione del rischio (dallo stato e dalle imprese verso i lavoratori) e delle disuguaglianze nell'aspettativa di vita associate a diverse condizioni socioeconomiche degli individui. Le tesi qui esposte sono supportate da dati sia internazionali sia riferiti al contesto italiano.

1. RESTRICTIVE PENSION POLICIES IN THE LAST DECADES

In the last three decades a huge number of countries have undertaken one or more pension system reforms. Of course, both the initial conditions and the design of the reforms were very different but all share three common aims: sustainability, efficiency, and fairness. These three wide goals are interconnected: pension schemes that are non-financially sustainable can hardly be consistent with both micro and macroeconomic efficiency; a pension scheme that has unfair characteristics can hardly support efficiency through correct individual incentives and is inconsistent with sustainability since fairness is necessary for a political support and compliancy with its rules. In this paper, we take the perspective of fairness to assess some common trends at the international level in pension reforms and in order to discuss the main challenges that pension policy is currently facing.

As is well known, the need for restrictive pension reforms in advanced economies mainly comes from the rapid ageing of their populations and the slowing of their growth rates¹.

Restrictive reforms faced harsh contrast by unions and political opposition parties² but delivered some significant results in correcting the unbalances. In particular, the IMF (Fouejieu *et al.*, 2021) uses the “Proportionality Measure” (PM) to quantitatively assess the sustainability,

¹ For more information on these issues, particularly with respect to Italian growth rates in recent decades, see Acocella (2021) and Acocella (2022).

² Consider, for instance, the general strike against the “Fornero pension reform” in Italy in December 2012.

fairness, and intergenerational equity of a pension scheme. PM is defined as the ratio of the present value of future benefits and future contributions and the Authors argue that $PM=1$ implies sustainability³ and intergenerational fairness. Of course, the estimation of such an indicator heavily depends on the assumptions about the discount rate, the growth rate of the economy (number of regularly employed workers and real wages), the inflation rate, and the indexation rule for benefits. The IMF paper estimates that, overall, the different reforms affecting eligibility to benefits, benefit formula, financing, and automatic adjustments in the parameters of the system resulted in a decrease in the average PM for European countries from roughly 2 in 2007 to 1.5 in 2017; however, PM showed a reversal in most recent years (1.7 in 2021).

Despite significant results in correcting disequilibria, OECD (2021) estimates that the pension expenditure to GDP ratio has increased on average by 1.5 percentage points from 2000 to 2017 with e.g. Italy (+2.2), France (+2.2) and Spain (+2.9) above average and Germany (-0.6) below average. Looking forwards, the IMF (Fouejieu *et al.*, 2021) expects that the number of European countries with a pension expenditure to GDP ratio greater than 10% is going to rise from 9 out of 27 in 2000 to 18 out of 28 in 2050.

The reasons for aiming at more sustainable pension schemes are well grounded in the economic theory: unbalanced schemes imply higher public debt, higher taxation, and possibly higher inflation. Of course, future and young generations are most benefited from pension reforms aimed at restoring sustainability but also middle-aged citizens could support them both on the ground of altruism for their descendants and of the adverse distributive effect of taxation. Academics usually argue that, by making pensions schemes more sustainable, reforms also increase their fairness through more equal returns on contributions for different generations and for different professional categories (employees, self-employed, public vs private employees...); some recent reforms also achieved a better compatibility between sustainability itself and individual freedom of choice about retirement age.

On the contrary, restrictive pension reforms received very poor political support in almost all countries and a reversal concerning such reforms has occurred in several countries as recognized by the IMF (Fouejieu *et al.*, 2021, p. 2):

³ Let's recall, however, that in a growing economy it is possible, for a balanced pension scheme, to offer each generation a total amount of benefits greater than the total amount of contribution paid.

“In advanced Europe, reversals have partly rolled back retirement age extensions and increased pensions to current retirees, shifting the implementation farther in the future (for example Greece, Italy, and Spain)”.

The lack of political support for what expert economists would call “responsible pension reforms” and the reversal we observe in some countries raise challenging questions for social scientists. Indeed, while the opposition by aged persons with near to pension benefits and with few years of contribution to be paid is easy to understand, on the contrary the opposition by young people that will receive a lower benefit in the far future in exchange for a lower overall fiscal burden is more difficult to understand.

We address these issues and consider two types of interpretation⁴: i) under a political economy perspective the democratic voting mechanism does not adequately represent the interests of those that are benefited by such reforms; ii) actual pension reforms suffer from serious flaws from the point of view of fairness.

2. WHY SUCH A WEAK SUPPORT? SOME “POLITICAL ECONOMY” CONSIDERATIONS

There is no question that reversing the reforms that have been implemented since the early 2000s in Europe and other industrialized countries around the world would be particularly costly. The cost would fall for the most part on the younger generations and that cost appears even higher when looking into the future, in light of the fact that it will be increasingly difficult to succeed again with restrictive pension reforms, particularly because of political economy considerations. Indeed, the share of the European Union’s population over 65 already exceeds 20 percent, and the share of the over 80 is expected to more than double between 2021 and 2100 (European Commission, 2021).

According to a recent European Central Bank research bulletin (Baksa *et al.*, 2020), the old-age dependency ratio, that is, the number of people over 65 in relation to the working-age population (15-64) between now and 2070 is set to increase significantly from the current 30% to 52%. A trend that will already be particularly noticeable in the next 10 years, in consideration of the expectation that fertility rates will remain low in most European countries.

⁴ Of course, we do not pretend to be exhaustive. For instance, financial illiteracy or bounded rationality could be other relevant interpretations.

Italy is no exception to these prospects and, according to data recently presented by Istat (2022), Italy will have 11 million fewer inhabitants in 2070: the challenge for economic policy will be to manage a not easy transition period.

Summing up, it is well-known that in the coming years a noticeable change in political equilibria will come from the aging of the population and, consequently, of the median voter. In fact, the aforementioned demographic dynamics result in the aging of the median voter and, consequently, in an increase in public debt, mainly driven by pension and health spending. This leads to two opposite effects on the size of social welfare: while the aging median voter increases the demand for social welfare spending, a higher dependency ratio leads also to a higher tax burden on people around the median voter (Razin *et al.*, 2002 and Galasso and Profeta, 2004). Galasso and Profeta (2007) argue that the relative strength of the two (political and economic) effects depends on the link between pension benefits and pension contributions: the greater the link, the smaller the negative impact, and vice versa.

A further consequence of the aging of the median voter is the fact that, according to Baksa *et al.* (2020), reversing pensions reform in the long run can be very costly not only in terms of increased pension spending (and thus, as already pointed out, more public debt) but also from the perspective of “making the public pension system more intergenerationally unfair”. This is already true in many countries around the world since the median voter has already aged and young people, in addition to being less numerous, are even more underrepresented among those who go to the polls.

It has been nearly a century since political scientists Merriam and Gosnell (1924) first identified the different social groups with low voter turnout rates, and those already included young people. The underlying reasons for low youth voting participation found by researchers are basically ascribed to three areas: habits, simulation effect, and different opportunity costs.

Regarding habits, it has been found empirical evidence concerning the fact that people show inertia and slowly turn from “habitual nonvoters” to “habitual voters” (Plutzer, 2002). So, in itself, age is a good predictor of “habitual voter” status.

Moreover, older people are more likely to have observed friends over multiple election cycles make the choice to vote and, thus, follow suit (“simulation effect”).

In addition, the opportunity cost of voting is higher for youngsters. This is true for several reasons including both direct opportunity costs, such as less flexible work schedules, less financial availability to take a day off to vote, and more temporary housing situations that cause them to be less connected to the local area and the community (especially in relation to regional or municipal elections) and indirect opportunity costs, related to learning the processes of voting and be knowledgeable about the political debate. This is consistent with lower youth turnout than that of the general population.

According to 2020 data from the Comparative Study of Electoral Systems⁵, in many countries around the world in recent years youth turnout have declined further. In the U.S. the 18-29 age group has come to be the one with the lowest voting turnout followed by the 30-44 year olds, the 45-59 year olds, and the over 60s. Also France shows a similar trend: the younger the voters, the more likely they were to abstain. Following Ipsos data (2022)⁶, 41% of eligible voters in the 18-24 age group do not go to the polls, a number which drops to 38% and 35% when we consider the 25-34 and 35-49 age groups respectively, and even 20% in the 60-69 age group. Other countries such as Germany, Bulgaria, Uk, Canada, and Norway also show a significant gap between voter turnout of the under-30s and over-60s. However, the decline in youth turnout has been paralleled by an increase in different forms of citizen activism, such as “Fridays for future”, that is mass protests for climate justice that have been staged in various countries, and more generally the use of social media as a new platform for political engagement.

An interesting finding is that the gap in youth and adult turnout seems to narrow significantly as youth turnout increases: the higher the youth voting rate, the more likely it is that the youth voting rate will approach the voting rate of the population as a whole.

At least to some extent, the reduction in youth turnout may also be a consequence of the poor quality of local institutions. In this regard, in a recent paper, Bottasso *et al.* (2022) showed that covid-19 pandemic increased trust in political parties among young Europeans living in regions with high-quality institutions compared to those residing in regions with low-quality ones. This finding highlights how trust in parties plays a non-marginal role in driving citizens to the polls.

⁵ For further details, see: <https://cses.org/>

⁶ For further details, see: <https://www.ipsos.com/fr-fr>

As for Italy, the trend in youth turnout is in line with what has been shown in other countries. According to Italian National Election Studies (Itanes)⁷ in 26 years (1992-2018) youngsters between 18 and 34 years old have shifted from being the segment of the population that votes the most to the one that votes the least, passing from a 9% to a 38% abstention rate. A remarkably low turnout that has remained essentially unchanged in the recent general election and it is the result of a combination of various economic and socio-demographic characteristics.

Tuorto (2018) points out that in Italy young people who do not vote are more than twice as many among those with atypical contracts than among those with typical contracts.

In any case, as a few years ago *The Economist* put it, “When young people don’t vote, democracy takes a big risk”. Young people unloved by politics means young people unrepresented, and this is even more true in light of the aforementioned demographic decline. These data are a wake-up call for the younger generation: their demands are destined to go unheard – if not even to be envisioned – and politicians are increasingly incentivized to represent these tendencies. The risk is that tomorrow’s adults will decide less and less about tomorrow’s world. Emblematic in this regard is the vote in the 2016 referendum on the UK’s stay in the EU, which depended in large part on the pensioner vote.

In this regard, Runciman⁸ has provocatively proposed lowering the voting age to 6 in order to counterbalance the growing generational discrimination in democracies.

However, some things can be done in order to boost youth turnout. In the short term, it is decisive to remove obstacles that impact young people’s voting: one is “involuntary” abstentionists, that is, those young students who are disincentivized from voting by the fact that, as out-of-town students or workers, who have to travel very long distances to be able to return to their municipality of residence to vote. Otherwise, in the medium to long term, it will be important to implement civic education programs in compulsory schools, lower the voting age to 16 and find ways to get young people more involved in public debate.

Finally, the political opposition to restrictive pension policies could derive not only from issues associated with the aging of society but also from issues associated with coordination failures. Even if each voter prefers, for example, a cooperative equilibrium with higher retirement age

⁷ For further details, see: <http://www.itanes.org/>

⁸ The full proposal is available here: <https://www.theguardian.com/politics/2021/nov/16/reconstruction-after-covid-votes-for-children-age-six-david-runciman>

and lower taxation to an equilibrium with lower retirement age and higher taxation, s/he could fear that – once the retirement age is raised – political constituencies would contrast the lowering of taxation on the ground of new needs. If voters do not trust the cooperative solution they could prefer a non-cooperative one with high pension expenditure and high taxation and they could compensate their descendants by implementing intergenerational transfers.

3. WHY SUCH A WEAK SUPPORT? A LOOK AT FAIRNESS

3.1 Different Rules for Men and Women?

It is widely believed that a general principle of fairness implies that rules in pension schemes should be the same irrespective of gender; however, also the principle that different rules should apply to different situations and take into account differences in objective conditions is deeply rooted.

Pension schemes offer women more favorable treatment than men under two perspectives: a) retirement age is, on average, lower for women: 14 OECD countries set lower retirement ages for women (OECD, 2019) and b) benefits are determined according to rules that do not take into account the fact that women have longer life expectancy than men. According to Eurostat data⁹, the EU27 average life expectancy at 65 in 2021 was 21.6 and 18.1 years, respectively, for women and men.

The gender gap in age for retirement is being closed in most countries; although the statutory retirement age mostly is higher than the effective retirement age¹⁰, the former is set to increase in the EU from 64 for males and 62 for women in 2008 to about 66.5 and 67, respectively, in 2070 (Fouejieu *et al.*, 2021); in some cases the closing of the gap has been very fast.

To our knowledge, there has not been extensive theoretical discussion of the rationale behind previous more favorable treatment for women but we believe that it has an implicit restorative intent with respect to i) unfair labor market conditions for women and ii) unfair distribution of work of care within families.

⁹ For further details, see: <https://ec.europa.eu/eurostat/>

¹⁰ European Commission (2021 p. 25) argues that – on average – for each one year increase in the statutory retirement age for men, the availability of alternative routes to retirement implies an increase in the effective retirement age by 0.7 years.

In other words, we argue that an implicit “deal” has been in place for a long time: privileged treatment in the pension domain as a (partial) compensation for unfair conditions in the labor market and in the allocation of caring work. Both issues are important and very complex, let’s briefly recall here some evidence on both.

Unfair Labor Market Conditions

According to Eurostat the “unadjusted” gap in gross wage per hour in EU27-28 is significant but decreasing: it’s down from 17.7% in 2006 to 13% in 2020.

However, these figures should be “adjusted” to take into account differences in labor force participation, employment rates, and incidence of part-time work. To overcome such limits, the European Commission (2021) has computed a “gender overall earnings gap” that takes into account gender differences in the employment rate, the average wage per hour and the number of hours worked the month. This indicator provides a deeply different picture than the unadjusted gap as women on average earn 37% less than men along their lives; Italy, Austria, Germany, and Nederland are well above average (40%) while Slovenia, Portugal, and Latvia are below average (just above 20%).

Gender differences in the labor market occur even though women reach better education: for instance, in 2020 46% of women aged 30-34 completed tertiary education vs 36% of men. The European employment rate (age 20-64) is 66.2% for women and 77.2% for men, with the highest gap in Italy (52.1% vs 71.8%).

Often women carry most of the burden on precarious and fragile job positions; for instance, regarding to Italy, Viesti (2021) finds that up that the vast majority of the new unemployed because of the Covid related crises are women since the pandemic has mostly hit service sectors where the female employment is typically high and labor contracts mostly are precarious.

Unfair Distribution of Care Work by Gender

The relatively poor female outcomes in the labor market despite better female results in education are determined by a complex mix of cultural and social factors.

For instance, with no claim to completeness, the gender distribution of part-time is important: the OECD average incidence of part-time employed over total employed is 9.8% and 24.6% for,

respectively, men and women; such a gap is bigger for EU 27 (7.5% vs 23.3%) with Italy's gap (7.9% vs 29.5%) and Germany's (10% vs 36%) above average. It's no surprise therefore that, according to Eurostat data, despite current and past more favorable treatment in the pension system, in the EU women over 65 in 2020 received average pension benefits 28.3% lower than men.

Labor force participation rates exhibit huge gender gaps at the international level; for instance, in the OECD countries, average rates are 80.1% and 64.8% respectively for men and women. Italy has the highest gap among EU and G7 countries: 73.6% vs 55.4%.¹¹ Unfortunately, these big differences in labor force participation (and possibly in part-time incidence) depend on the fact that the burden of care is disproportionately placed on women: in 2021 at the EU level the share of the inactive population 20-64 that declare to be outside labor force due to caring responsibilities is 30.2% and 8.5%, respectively, for women and men. The gap is but gap has reduced in the last 15 years: in 2006 the figures were 37.5% and 5.6%, respectively. Italy is the European country where the highest share of female population that declares they are not in the labor force because of care responsibilities, 15.6% in sharp contrast with the European average (8.9%), and, e.g., Germany (6.2%) and France (4.4%). Of course, the poor supply of public and private care services provides a significant part of the explanation.

A question therefore arises: is it fair to eliminate privileged treatment for women in the pension system before the gender gaps are closed in the labor market? In other words, if there has been an implicit "deal" in which compensation was given to women in their old age "in exchange for" and disproportionate care burden, is it fair to eliminate the compensation before the disproportionate burden is eliminated? Of course, in many cases, the decision to take part-time work or not to participate in the labor market is not associated with care burdens nor with economic fragility. However, documented care work could be taken into account and substantial help to working-age women should be explicitly linked to pension reforms that make women's benefits more in line with those of men.

¹¹ For further details, see: <https://stats.oecd.org/index.aspx?queryid=64197>.

3.2 A Radical Shift in Risk Allocation

In many cases, the recent reforms of public Pay As You Go (PAYG) pension schemes delivered not only a reduction in financial imbalances but also a radically different allocation of risk. This is not a necessary outcome of policies aimed at better financial sustainability.

In particular, such a displacement of the burden of risk is associated with the transition from defined benefits (DB) to defined contribution (DC) schemes.

This kind of shift occurred in several public PAYG schemes and took different forms leading to different pension designs in different countries. Notably, Sweden, Italy, Poland, and Latvia shifted towards so-called Notional Defined Contribution (NDC). NDC are PAYG schemes that “mimic” funded DC schemes in that they generate over time a virtual capital that accrues as contributions are paid and that at retirement is transformed into an annuity by applying a transformation coefficient.

The main common features of NDC are the following: the amount of the pension benefits is not determined as a percentage of the last incomes of the worker but rather on the basis of the contributions s/he paid along her working life and according to some (complex) algorithm that takes into account age, life expectancy at retirement and macroeconomic parameters. These characteristics have several positive impacts on sustainability and fairness, in particular: i) the generosity of the pension benefit can be (automatically) linked to the macro dynamics in order to “steer” the system towards sustainability; ii) each individual in each cohort can be guaranteed the same rate of return on contributions; iii) the privileges of workers with steep and successful careers are curbed; iv) evasion on pension contributions is discouraged.

We must recognize that, in principle, the above results could be achieved also in the DB framework. For instance goal i) could be achieved by determining the pension benefit through an algorithm that takes into account not only the last income of the worker but also some macroeconomic parameter; goal iii) could be attained by dropping for each worker, e.g., the three best and the three worst years; goal iv) can be reached by determining the pension benefit not just with reference to the income of the last year before retirement but by taking some average of past years incomes. When a pension reform that aims at reducing financial imbalances is introduced, policymakers should consider both its redistributive implications and its political

viability. The latter depends on individuals' perceived interest but the full rationality of voters cannot be taken for granted.

The positive results of NDC schemes come at a price: the risk of an increase in longevity and of negative macroeconomic performances is shifted from the State to individual workers and is not socialized across cohorts. For instance, should a (very welcomed!) improvement in medicine suddenly increase life expectancy at retirement age, the pension benefit would decrease for any given amount of contributions paid during the working life. Of course, this allocation of risk has important welfare implications for individuals since neither the State nor the market offer opportunities for risk diversification.

In other words, under DC the future amount of benefits is likely to be less predictable than under DB. Of course, predictability is a virtue for a pension scheme since it increases the efficiency of individual saving decisions; therefore there could be a trade-off between actuarial fairness (equal return on contribution within each cohort) and macroeconomic efficiency of DC schemes.

Finally, we note that in the last decades the shift of risk against workers occurred not only in PAYG but also in funded schemes (pension funds). For instance, in the US (Congressional Research Service, 2021) in 1975 there were 38.4 million private sector participants in pension funds, and 27.2 million (more than 70%) were in DB plans. In 2019 the total number of participants in the pensions fund had more than doubled to 98.1 million but participants in the DB scheme dropped to 12.6 millions (less than 15% of the total).

Such a shift of risk against workers occurred as a result of several economic and social factors that often depend on the weakening of workers' bargaining power. Indeed the main reason behind the shift from the point of view of employers are lower, more predictable costs and easier administration of the scheme; from the point of view of employees, the burden of heavier risk is partially offset by the advantage of more portability of accrued capital and of more freedom of choice about the composition of the portfolio.

The joint effect of the almost contemporaneous shifts that occurred in both public PAYG and privately funded pension schemes imply that overall workers face a worse diversification of risk in the pension domain. It seems reasonable that workers perceive such an outcome as unfair.

3.3 Positive Correlation between Income and Life Expectation

Inequalities in life expectancy are not only natural but also related to the socioeconomic conditions of individuals. In particular, a gap in life expectancy is apparent whether one takes into account the level of education, income category, or occupational group.

One indicator for which data are available for many European countries (about half of the EU countries) is life expectancy by the level of education.

According to a recent report by the OECD (2021) taking into account 14 EU countries, the life expectancy of a 30-year-old man with a low educational qualification (less than upper secondary education) is 7 years lower than those of a man with tertiary education (bachelor's degree or equivalent). A gap that, in Slovakia, even exceeds 14 years, in Poland and Hungary 10 years, and in the Netherlands and Estonia 8 years. The lowest levels for this gap are in Croatia, Portugal, Sweden, and Italy, with differential around 4 years. Such a differential is lower but still important for women, averaging just over 3 years, with peaks above 7 years in Slovakia and values as low as 1 in Croatia.

The life expectancy gap is shaped by the contingent situations and outcomes faced by the low educated such as more wearisome jobs, lower incomes (access to lower quality health care and prevention), different living habits such as higher smoking rates and less healthy eating, lower compliance to medical prescriptions.

Those differences underlie the higher mortality rate of the low educated, which affects all major causes of death. Specifically, between the ages of 20 and 64, 50% of the gap in life expectancy is accounted for by the higher likelihood of having circulatory disorders or getting cancer, 20% of the gap associated with a higher rate of suicide or casualties.

Similar conclusions were reached by Olshansky *et al.* (2012), who found that in the US in 2008 adults (both men and women) with less than 12 years of education had a life expectancy not much higher than those of Americans in the 1950s and 1960s. Life expectancy that gets even worse when the race is also taken into account: in 2008 white men with at least 16 years of education show a higher life expectancy of 14.2 years than black Americans with less than 12 years of education (a disparity that drops to “only” 10.3 years for women).

These results are confirmed for Italy by Petrelli *et al.* (2019): by analyzing 2012-2014 data related to death from all causes (30-89 years): made 1 the mortality rate among the highly educated, this rate increases to 1.18 for the medium educated and to 1.35 for the low educated. When disaggregated by region data confirm for all regions a negative correlation between educational level and life expectancy.

Of course, as outlined by U.S. Bureau of Labor Statistics 2021 data¹², education and income are strongly correlated: according to median usual earnings, while a worker with less than a high school diploma earns \$626 per week, a worker with a high school diploma earns \$809 per week, rising to over \$1,900 per week in the case of a worker with professional degrees.

Similar dynamics are also evident in the OECD data¹³ concerning 22 EU countries: in the 25-64 age group, those with below upper secondary education earn just over half as much as those with tertiary education. Istat 2019 data¹⁴ show that the household with the main income earner holding a middle school degree earns an average income of €28,147, while the household with the main income earner holding a Bachelor's degree or postgraduate degree earns an average income of €48,710.

In this regard, the fact that it is unfair that, when it comes to pensions, the algorithm for determining benefits does not take into account such differences in life expectations between workers with different education levels. Of course, the fact is well known. However, the tentative solution to this problem, i.e. giving special treatment to exhausting jobs, hardly reached satisfactory results since in our opinion the definition of “exhausting job” is very discretionary and law protection for pension scheme too much depends on the relative lobbying power of different categories of workers.

Face the unfairness of the same algorithm for pension benefits for all and face to the practical unavailability of the “exhausting jobs approach”, one could ask if the age at which an individual started to work is a reasonable proxy for life expectation e.g. at 60. People who started working when very young invested less in human capital and should be given better actuarial conditions

¹² For further details, see: <https://www.bls.gov/cps/>

¹³ For further details, see: https://stats.oecd.org/Index.aspx?DataSetCode=EAG_EARNINGS

¹⁴ For further details, see: <http://dati.istat.it/index.aspx?quervid=22934>

either in the form of earlier retirement or higher benefits for each given retirement age and lifelong contributions. This could be an important topic for future research.

From our point of view, the argument of those who say they are against such initiatives because of the risk of moral hazard does not seem convincing. We cannot believe that a young person at age 18 would make the work/study choice by looking at the incentives embedded in the current pension system, which will unfold their effects 40 years later (or even more) and are subject to the risk of changes in pension rules.

Pension reforms that set a common for all retirement age and use the same algorithm for determining benefits can be perceived as unfair by people who started working when very young. We, therefore, believe that it is correct to keep the possibility to retire at lower ages for people with very long working lives.

4. CONCLUSIONS

Pension reforms that were implemented in several countries in the last decades succeeded in curbing imbalances in pension schemes face to the aging of industrial countries' populations and the lower rates of economic growth. However, despite overwhelming support from the economic academia, such reforms faced opposition that probably goes beyond the rebuttal made by people directly, negatively, affected by them. Such a strong opposition even succeeded in partly reverting the trend towards more sustainable pension schemes.

In our opinion, the reasons behind such a lack of political support should be better investigated. We have made an overview of the main arguments that can be considered and we have provided some data supporting the different perspectives.

Political economy considerations point to the implications of the aging of the median voter and provide hints for understanding the lack of support for pension reforms that reduce unbalances. These results might depend upon the strength of the link between pension benefits and contributions. Failure of coordination can also explain the persistence of suboptimal equilibria in which private intra-generational transfers partially offset unbalanced pension schemes.

We also consider the possibility that the actual pension reforms that have been implemented or proposed fail from the perspective of fairness. This can be traced back to the complex issues of

gender differences in pensions, the transfer of risk from the State and firms to workers, and the correlation between life expectations and education.

In sum, we believe that both political economy arguments and considerations about fairness provide explanations for the weak (or even missing) political support for recent pension reforms.

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