

# WORKING PAPER

## *Executive Summary*

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# THE POLITICS OF PUBLIC PENSION REFORM

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Public old-age pension programs are the largest single item of public expenditures in most advanced industrial countries. These pension systems have been buffeted by a number of pressures for change in recent years, however, notably an aging population, slower revenue growth, and competitive pressures to limit payroll taxes. Thus it is hardly surprising that pensions have received much attention from policymakers, and caused enormous political conflict, both in the United States and abroad.

Policymakers have three very broad sets of options for responding to the increased funding demands of their pension systems: they can cut back on the generosity of specific provisions of their pension programs through retrenchment, refinance their pension programs, or restructure their pension programs. This paper attempts to understand cross-national patterns of pension policymaking as well as distinctive U.S. patterns.

In examining these patterns, this paper will make use of three models of pension policymaking. The first model, which can be called the *economic-demographic* model, emphasizes broad social changes, notably an aging population and slower and uneven economic growth, that have caused a shift over the past thirty years from what can be called “enrichment politics” to what Paul Pierson has labeled “the politics of permanent austerity.” A second, *politically-mediated* model recognizes the importance of the forces in the first model, but suggests that the impact of demographic and economic forces is heavily influenced by political actors such as labor unions and senior citizen organizations as well as by the structure of pension programs and by political institutions and policy ideas.

A third, “*beyond austerity*,” model incorporates the first two models, but recognizes that pension politics in recent years has not just been about managing a shift from enrichment to austerity. At least three additional issues that cut across the enrichment-to-austerity pattern have also appeared regularly in the OECD, although to varying degrees across countries. *Investment politics* concerns how pension savings—either in collective or individual accounts—can be used to increase societal savings and investments and thus promote economic growth. *Labor market politics* concerns how pension policies can be used to affect the supply of labor—especially older workers, who may be lured to leave the labor market by generous early retirement policies. *Gender politics* concerns issues of pension access, entitlement and adequacy for women, who tend to live longer and have lower earnings histories than men. Each of these issues has the potential to mobilize a distinctive set of constituencies that might otherwise be only tangentially involved in pension politics, and to raise a set of issues that may make resolution of conflicts over pension policy more or less difficult.

The paper concludes with an assessment of the importance of arguments suggested by the three models of pension politics, with a focus on explaining why United States pension policy is distinctive in some aspects of its pension policy and politics and less distinctive in others.

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