Correspondence is clearly important. Yet, paradoxically, the meticulous way in which this correspondence is analysed reveals why such evidence should be treated with great caution. People may express themselves in less guarded, and therefore more revealing, ways in correspondence; but at the same time, they may take short cuts that lead third parties to misinterpret what is being said. More serious is the problem of gaps, which has already been discussed. It is important to use all the evidence that is available, but evidence is valuable only in so far as it helps answer significant questions. Excessive focus on basing research on archives and correspondence may, because of the great unevenness of the material, distort history in favour of what is well documented.

The editors provide a revealing account of why correspondence was so important in Cambridge. There was a group of economists who met socially, and knew each other very well. They were based in separate colleges, not in a single location, but linked with a highly efficient postal service with several deliveries each day. The result was that they wrote many letters, which often passed from one person to another as the issues were discussed. The editors establish the importance of correspondence in Cambridge in this period. However, a corollary is that correspondence might play a very different role, in relation to other types of evidence, in the history of economics at, for example, LSE, Harvard or Wisconsin.

Finally, I remark on something the editors could presumably do nothing to remedy. It is useful to have a list of all the correspondence. One accepts that a full scholarly edition of all the correspondence would have meant a project on a different scale, but how much more useful it would have been if, inside the back cover, there were a DVD containing facsimiles or transcripts of all the letters, or if they were on a web page linked to the book. Technically this would have been possible and, as the cost of scanning photocopies is low, the marginal cost might not have been high. Intellectual property rights, a subject on which Keynes had clear views, can be a barrier to scholarly activity.

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The tenet that mandatory public pension systems are not viable and have to be downsized, narrowing their task to that of providing poverty relief, is nowadays
regarded by many as a self-evident truth not open to debate. Indeed, the political economy of pension reforms, as it emerges from the current discussion, is widely a matter of implementation issues: the superiority of fully funded schemes being taken for granted, the debate centres on how to form coalitions in order to ensure the passing of “reforms” in spite of the opposition of both political forces and voters. The World Bank has taken a leading role in promoting and assisting pension reforms since the publication of its influential report *Averting the Old Age Crisis* in 1994. *Old Age Income Support in the 21st Century* purports to update its agenda in the light of many reform experiences recorded worldwide during the last decade.

The World Bank’s favour for private fully funded mandatory schemes rests, as is well-known, upon two main arguments. With pre-funding, pensioners’ claims on current output are backed by assets protected by legal property rights, therefore they are not exposed to the political risk of changes in the rules governing public tax-transfer schemes. Moreover, while pay-as-you-go (PAYG) pension systems assure income support to old age through an exchange with active workers, in fully funded (FF) schemes active individuals have to accumulate in order to provide for the elderly, so pension provision would impinge on the additional output made available by an increased capital. The role of public programs would be confined to redistributing income from the rich to those at risk from old age poverty. Consumption smoothing over the life cycle, instead, has to be realized through a private scheme, albeit compulsory. From this separation originates the multipillar approach put forward by *Averting the Old Age Crisis*: a publicly managed system with mandatory participation with the goal of ensuring a minimum income level to the old; a privately managed mandatory fully funded system to allocate income through time, and a voluntary system to ensure discretionary saving choices.

*Old Age Income Support in the 21st Century* reaffirms the tenet that FF schemes are vastly superior to PAYG systems: “[t]he advantages of (pre)funding or capitalization to the degree appropriate for the overall system design and applicable conditions remain a basic element of the World Bank’s perspective on pension reform” (p. 44). In addition, it further qualifies the multipillar approach, moving from three to five basic elements: “(a) a noncontributory or ‘zero pillar’ (in the form of a ‘demogrant’ or social pension) that provides a minimal level of protection; (b) a ‘first-pillar’ contributory system that is linked to varying degrees of earnings and seeking to replace some portion of income; (c) a mandatory ‘second pillar’ that is essentially an individual savings account; (d) voluntary ‘third-pillar’ arrangements that can take many forms (individual, employer sponsored, defined benefit, defined contribution) but are essentially flexible and discretionary in nature; and (e) informal intrafamily or intergenerational sources of both financial and nonfinancial support to the elderly, including access to health care and housing” (p. 42). Thus, with respect to *Averting the Old Age Crisis*, the functions of the public pillar are widened, in order to ensure basic income support not only to those that have been active workers, but also to the elderly in economic distress without any coverage.
Old Age Income Support in the 21st Century couples this broader favour for poverty relief with a more cautious position on the relative advantages of fully funded solutions: “[w]hile we claim that funding provides some (gross) benefits in many circumstances, we are also very much aware that it introduces new or additional costs, most importantly through additional risks (such as investment risks), higher transaction costs (such as fees), and fiscal transition costs (when replacing an unfunded scheme)” (p. 44). From this follows the principle that fully funded schemes are not a “one size fits all solution” that can be implemented regardless of different national circumstances. To clarify this concept, the report specifies three different lines of action, according to the position of the countries involved. Scenario I is for countries operating a prevalent fully funded pillar (e.g. the United States, Australia, the Netherlands, Denmark). For these countries the Bank strongly discourages the enlargement of the unfunded system, since “[m]ost Bank staff see the potential economic benefits of a multipillar pension scheme with a major second (mandated) or voluntary (third) funded pillar in three main areas: enhancing output, handling population ageing, and improving individual welfare” (p. 45). As to the positive output upshots, “[t]he suggested mechanisms that determine the effects of funding on output are essentially threefold: through higher aggregate saving, through lower labor market distortions, and through more efficient financial markets” (p. 45). With respect to population ageing, in addition to some positive effects on an enhanced flexibility for individuals to implement their retirement paths, “the capacity of the funded pillar to invest internationally allows it to cushion some of the demographic effect, as aging is not symmetric among regions” (p. 48). Scenario II is for countries with a fully developed and dominant unfunded pillar (France, Germany, Italy, Japan). In this group, “[w]hile the potential benefits of partial funding in a multipillar scheme are still valid, substantial fiscal costs result from the move to funding” (p. 50). Given the unfavourable starting point, the World Bank sees with favour the more limited goal of scaling down the obligations of the first pillar: “[i]n all cases, however, the reforms signal a positive assessment of the benefits of some funding” (p. 51). Scenario III is for countries with scarce coverage, whether funded or unfunded (many Latin American, Asian and African countries). Since there are no transition costs, “[t]he benefits of a multipillar system with substantive funded pillars in these countries are potentially very high and may exceed those of countries in the other scenarios, at least as far as the effects on output are concerned” (p. 52).

Having reaffirmed and qualified to some extent the conceptual underpinnings of the World Bank’s perspective on pension reforms, part two of the report under review develops a comprehensive discussion of design and implementation issues. Old Age Income Support in the 21st Century lists in great detail the policies that have to be pursued in order to attain a successful and politically sustainable pension reform. According to the Bank, a successful reform must be articulated into three main phases: commitment-building, coalition-building and implementation. The commitment-building phase is a long preparatory stage during which “it is desirable to include many actors in the debate, even at the expense of consensus” (p. 134).
Parliamentarians, trade unions, the press and the general public have to be familiarized with the experiences of other countries that have undertaken successful reforms. This stage is over when the government puts forward a “reform concept”. Now, in order to move from the commitment-building to the coalition-building phase, what is crucial is “the emergence of a champion who believes in the need for reform and links his or her political fate with the cause” (p. 135). During this coalition-building phase, the reform concept should remain open. Yet, wholesale changes are no longer allowed. To this end “[t]he quality of the concept is of critical importance: the concept should be based on cutting-edge knowledge and should bring in the experience of other countries. It should have strong long-term projections, including sensitivity analysis, and be linked with opinion polls and focus groups showing that the concept responds to genuine concerns of the population with the existing system” (p. 135). The concept has to be presented to the general public through key messages centring around the idea that pension reforms are an “intergenerational struggle in which potential losers, usually current or near-term pensioners, often attempt to block reforms, while potential winners, young workers, are inactive in the debate out of myopia or lack of interest and understanding. At this stage it is, therefore, important to focus key messages on young people” (p. 135). Several “common strategies” could serve this purpose: “[e]mphasize that the new system brings the net present value of future payments close to the level of current contributions paid. Convince young workers that the state will honor its future obligations. Activate young workers in the pension debate, turning the debate explicitly into an intergenerational discussion. Engage organized workers, pensioners, financial sector representatives, and other parties with a stake in the outcome because the more organized the actors are, the more likely they will be to take into account macroeconomic benefits that will result from the reform” (p. 135). This presentation activity should be supplemented by intense “concept dissemination” actions: “[t]hese include using professional public relations firms, focusing on key actors, building a core group of journalists who understand the reform process and are sympathetic to its goals, and working with donor agencies and other international organizations to extend the technical development and analysis” (p. 135). Eventually, with the passage of laws, a critical implementation phase starts; in this conclusive passage, the administrative capacity of supporting the new system is considered vital by the Bank in order to enact and enforce reforms.

A sceptical reader not inclined to take at face value the virtues of private funded schemes could hardly avoid the feeling that too many pages of this report are devoted to such a well-orchestrated design and enforcing strategy. The other book under review, by S. Cesaratto, offers to this reader the remarkable opportunity to escape the narrowness of the “implementation debate” with a comprehensive work that discusses the grounds on which the consensus for reform rests. Mostly centred on theoretical considerations, the book filters the subject through the lens of Keynesian theory and the classical surplus approach to macroeconomics. From this alternative theoretical perspective, the author endeavours to question the neoclassical
foundations of the economics of pensions, developing in parallel some positive contributions on the subject.

To this end, Cesaratto introduces his arguments with a first chapter on the nature of unfunded public redistributive schemes. In essence, PAYG systems are tax-transfer programs from active workers to workers who are no longer active. Part of the social product is transferred by the state between contemporaries on the basis of principles not bearing any evident connection with the functioning of a private market economy. From this starting point Cesaratto moves in two different directions. On the one hand, the chapter discusses a variety of functions these schemes may perform in developed economies (this discussion is further developed in Chapter 7). On the other hand, the author analyses the “rhetorical devices” that have been developed in order to reassure active workers that there will be a reward for the contributions they are paying. From the perspective of neoclassical theory, this device must consist in an assimilation of the transfer operated by the PAYG system to the remuneration of saving. Samuelson’s seminal contribution on an overlapping generation economy without the contrivance of money is seen by Cesaratto as the mainstay of this “insurance fiction”. He regards this work as symptomatic of an historical phase during which the positive role of the welfare state was unquestioned, and neoclassical theory tried to accommodate this favourable attitude to welfare in its theoretical domain.

After a second chapter devoted to a detailed scrutiny of “Notional Defined Contribution” schemes (a tight-fisted method of calculation of unfunded public pension benefits enacted during the 1990s in a few European countries), chapter 3 of Cesaratto’s book discusses the nature of fully funded schemes. Under enquiry now comes the core theme of the book, viz. the contribution to economic efficiency and growth that may come from funded schemes. Fully funded schemes channel mandatory saving into reserves invested in private assets. To the extent that the capital stock grows, output per worker will grow, and this growth can partly accommodate the conflicting claims of workers and pensioners. A reform away from PAYG toward FF schemes, to be successful, ought to entail a rise in aggregate national saving—“the saving test”, in Cesaratto’s words. He argues that the introduction of a FF scheme may fail to increase national saving, even in an economy with no PAYG system. This situation—World Bank’s scenario III—seems to offer the most favourable case to pre-funding. Nonetheless, mainstream economic theory, centred as it is on full employment equilibria and steady growth paths, leaves little room for positive effects of fully funding on the saving rate, even when an unfunded system does not already exist. Unconstrained private sector saving choices will buffer the effects of mandatory programs. Those who already save will probably reduce their voluntary saving by about the same amount as the mandatory saving they must enact. Those who do not save, instead, cannot start mandatory saving: in fact, they do not save simply because they are too poor, not because they are not forward-looking agents. Of the two possible advantages of capitalization (raising the level of individual saving and increasing the number of savers), both fail to materialize.
Chapter 4 develops the “saving test” theme discussing the case in which a FF scheme has to be implemented when a PAYG system is in place—the situation depicted in World Bank scenario II. The conditions which warrant the success of the saving test are even more stringent in this case, essentially because workers involved in the transition also have to contribute to sustain the PAYG system. Imposing additional mandatory saving will strongly displace private voluntary saving. This remains true even if the state manages the transition through retrenchment in contributions. Unless pension benefits are curtailed, other taxes have to be levied. A similar result is obtained if the state finances the retrenchment in contributions by issuing public debt. Transition plans based on public deficits fail the saving test because of the offsetting effect of public dissaving. On the whole, chapters 3 and 4 show that the connection between pre-funding and a rise in saving is rather weak. This point has also been developed by a number of writers in the neoclassical tradition—Stiglitz being the most prominent example. The peculiarity of Cesaratto’s position is to consider the “saving test” merely a necessary condition, given that nothing ensures that a higher propensity to save translates into higher investment and output per worker. Even if this condition is satisfied, Cesaratto argues, the desire to save more “by negatively affecting effective demand and employment, may well decrease the income of other individuals and their saving supply. As a result, aggregate financial wealth and its real counterpart, capital stock, is unaffected” (p. 166). From this point onwards, the author’s appraisal of fully funded schemes changes tack. Consensus for pre-funded systems is questioned on the basis of theoretical foundations alternative to neoclassical hypotheses. Once no necessary link between saving and investment is established, the reform could prove abortive not only because it may be unable to increase the propensity to save, but also for the reason that an increased propensity to save will negatively affect output and the higher level of saving will fail to materialize. The saving paradox replaces the saving crowding-out as the fundamental argument against pre-funding, and Keynes’s perspective emerges as the theoretical framework of the following chapters.

This standpoint is developed in chapter 6, where we find one of the most original contributions of the book. The author, in fact, does not limit the Keynesian perspective to the short-run, but also extends the theory of effective demand to the long-run. This is not common even in the heterodox camp where, in essence, investment is generally regarded as constrained by saving in the long-run. Although the saving paradox is considered as a source of under-utilization of a given productive capacity, to enlarge capacity consumption expenditure has to be curtailed in order to make room for additional investment. From this follows the belief that a mix of tight fiscal policy and loose monetary policy, shifting the output composition away from consumption to investment, could sustain both demand and accumulation. As is well known, the sensitivity of investment to the interest rate is crucial to this argument. Once this sensitivity is denied, there is no reason why this policy mix should prove successful. On the contrary, it may well be that a lower propensity to save drives accumulation, with higher investment activated through exploiting the existing productive capacity.
above normal level. Cesaratto strongly affirms this possibility, supporting the Keynesian perspective with Sraffa’s work and the results of the capital controversy. This is a crucial point in the pension reform debate. If an increase in saving translates into an increase in investment, the case against pre-funding weakens considerably. Even admitting that production is not constrained by the labour supply, and that the interest rate which ensures the amount of investment needed to sustain aggregate demand is a policy variable and not an automatic result of the market system, it remains that, thanks to a higher propensity to save, pensions can be paid by the ownership of capital, offering a source of old age income support alternative—and thus potentially substitutive—to the tax-transfer scheme.

Different considerations on the roles and effects of alternative pension systems derive from regarding interest rate manipulation as a minor instrument for raising the incentive to invest. Cesaratto centres on this perspective the chapters of his book devoted to constructive work (7 and 8 in particular). The classical approach to income distribution, with the latter freed by any mechanical relationship with output level determination, is used here to investigate the role of the welfare state in capitalism. Welfare expenditure is considered as finalized to the social process of reproduction of the labour force. From this premise, the author goes on to show why it could be reasonable to leave production of some wage goods to the public sector. A corresponding examination is also developed with respect to the ways in which taxes levied to finance publicly provided wage goods alter the distribution between wages and profits. Finally, the author develops at length the analysis of demographic issues. Labour shortage expected for the decades to come is not seen here as a constraint on output growth, but as a factor likely to exert significant influence on the distribution between profits and wages. Many developed countries which will be heavily hit by the recorded fall in fertility exhibit massive reserves of unemployed labour and very low participation rates. Moreover, immigration and labour-saving technical progress can provide a supplementary source of workforce. These adjustments can assure that production will not be constrained by the slowdown of population growth. Yet, they may have an effect on the “labour reserve army”, changing the share of income going to labour. Restrictive economic policies may follow, in order to preserve the distributional status quo.

On the whole, Cesaratto’s analysis is complete and meticulous in showing why, from the standpoint of a Keynesian–Classical theoretical perspective, the potential of a FF scheme to enhance output growth, to face demographic shocks and to exploit investment opportunities in the international financial market may well fail to materialize.

In some passages of this work, however, neoclassical propositions come out as less general than they actually are. This appears true in particular in some pages of chapter 4 where, most of the time, the discussion is based on numerical examples. These examples, albeit a useful expository device, offer little help to the reader in appreciating the generality of the conclusions. Indeed, neoclassical theory allows a
great deal of flexibility. Varying some of the assumptions on which these growth models are built (i.e. the degree of foresightedness, the occurrence of various forms of incompleteness of the market system, and so on), one can obtain very different effects on the propensity to save and on the accumulation path. In this respect, contrasting the different outcomes that have emerged in the neoclassical debate would have offered to the reader an additional critical standpoint centred on this theoretical indeterminism.

In some other passages, Cesaratto seems not to fully profit from the existing non-neoclassical literature on the subject. When dealing with the insurance fiction, for instance, the author argues that a corresponding fiction exits in the heterodox camp also in the form of the “deferred wage account”. According to Cesaratto, to figure out the contributions to the PAYG system as wages that workers will receive later in life performs the same function as the “insurance fiction”. He states that the deferred wage fiction acquires a non-fictional connotation considering the classical notion of a historically determined real wage seen over the whole lifetime. However, it is in this precise sense that the “deferred wage” notion is intended by many authors in the Marxian tradition. The deferred wage fiction has nothing to do with the intertemporal saving ambiguity of the neoclassical perspective and transparently refers the redistribution operated by the PAYG system to the more general issue of the distribution between wages and profits.

As Cesaratto himself points out, some chapters of his work (7 and 8 in particular) present discussions that are at an initial stage, and they have to be intended as a stimulus to further research. This appears particularly true for the examination of the payroll tax incidence; also, there appears to be a lack of integration between the analysis of output level determination in the long-run of chapter 6 and the examination of distributive issues of chapters 7 and 8.

In spite of these points, Pension Reforms has the rare virtue of arguing forcefully that the established consensus on pension reforms can be undermined only by questioning the theoretical premises on which it rests. The book is undoubtedly a primary reference for scholars who work on this subject in a non-neoclassical perspective.

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