

Abstract:

The rigorous thesis evaluates in theoretical models political sustainability of public pensions system when the households are time inconsistent. It uses overlapping generations model with two working generations and one retired. It shows that myopia (shortsightedness) increases the political support for public pension schemes in the model where median voter decides about the obligatory contribution rate into the public pension system. The reason is that the households use the obligatory contribution rate as a commitment device to overcome their time inconsistency. In the model with endogenous returns to capital, the presence of myopia also explains that households may prefer a mix of public and private pension system. The thesis also shows that expansion of the public pension system crowds out capital accumulation. The effect of myopia on this crowding out effect is tested in an interest group model and it is shown that its sign depends on the parameters of the economy. The extent of activity of the interest group is thus dependent on the parameters of the economy.