

Report on Rigorous Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Mgr. Viktor Zeisel
Advisor:	PhDr. Martin Gregor, PhD.
Title of the thesis:	The Political Sustainability of Pension System

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

The rigorous thesis analyses (using political economy modeling) different schemes of pension systems from the standpoint of their sustainability. The thesis, written in English, has 66 pages and the author quotes 31 titles of relevant references. In the first chapter basic features of public and private pension systems are presented, the second chapter introduces components of political economy models of pension systems and the third chapter produces a short survey of collective decision making rules. The own contribution is presented in the fourth, fifth and the sixth chapters.

In the fourth chapter the concept of myopia (shortsightedness) is used to explain social security retirement systems. The myopic behavior hypothesis means the short time horizon for consumers' rationality (unwillingness to save enough for future consumption). The basic overlapping generations model is used with three generations, exogenous labor supply and no heterogeneity. On the basis of median voter theory (only median voter is decisive) equilibrium in the model and something called "political sustainability" of the selected system is defined. Public pension system in this setting serves as a commitment device for the myopic consumers to overcome their time inconsistency.

In the fifth chapter the models are extended by waiving the assumption of constant exogenous returns for savings and exogenous wages, the rate of interest and wage are determined by neo-classical production function. It is shown here that myopic consumer in a dynamic efficient economy may prefer a mix of public and private pension system.

In the sixth chapter the role of capital market is considered. A simple lobbying model is adjusted to study interaction of government and capital markets. It is shown that extent of activity of capital markets depends of government behavior as a social welfare maximizer or a maximizer of the aggregate welfare of all currently living generations, or it share myopia with household.

I have few technical comments to the thesis:

a) Page 25, above formula (3.1), "There is i firms in the economy..., $s = \sum_i s_i$ where s_i are savings hold by firm i (index of summation).

b) Page 41, below formula (4.53): The Table ?? summarizes...

c) The paging in the table of contents differs from the actual paging (Bibliography starts at page 64, while in contents page 66 is indicated). Final part of the text (Conclusion) is not listed in the table of contents.

d) I am missing source of data in Tables 4.1, 4.2, 4.3 and 4.4 (own calculations?). Tables are not sufficiently commented.

A question for defense: The title of thesis is "Political sustainability of pension system". In paragraph 3.2.1 the problem of short-lived governments is shortly mentioned. What are by dissentant opinion conditions for long-term political sustainability of the pension reform (some specific voting rules, a special qualified majority for long term decision making)?

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The thesis demonstrates the ability of its author to work with relevant professional literature, to apply sophisticated modeling apparatus and to obtain interesting qualitative conclusions. I recommend the rigorous thesis for defense.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	20
<i>Methods</i> (max. 30 points)	25
<i>Contribution</i> (max. 30 points)	25
<i>Manuscript Form</i> (max. 20 points)	15
TOTAL POINTS (max. 100 points)	85
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Prof. RNDr. Ing. František Turnovec, CSc.

DATE OF EVALUATION: October 1, 2011

Referee Signature

