

A Matter of Trust: Understanding Worldwide Public Pension Conversions

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Policy Abstract

Fundamental reform of social security systems from traditional pay-as-you-go defined benefit systems toward defined-contribution accounts represents one of the most important fiscal policy changes worldwide. Current explanations of this phenomenon lack theoretical justification or empirical support. In fact, the traditional pension model is likely superior along several important dimensions. So why have so many countries reformed? Adding to the puzzle is the fact that developing countries have typically embraced the most aggressive program changes, despite their facing less severe demographic pressures. This study develops a model of “intergenerational trust” that helps to explain this worldwide trend. The empirical work confirms how greater historic instability within a country is a statistically significant predictor of reform.

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