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Review of Sarah Wilson Sokhey: *The Political Economy of Pension Policy Reversal in Post-Communist Countries*

Mainstream economics of today still neglects the importance of time and the complex interactions in the socio-economic innovation ecosystem leading to misinterpretation of real processes. The present book, to a certain degree, bridges this gap by exploring one of the most intriguing and embarrassing questions regarding economic governance, namely that why do governments backtrack on major policy reforms? By building on the case of the reversals in pension system reforms, in general and specifically in cases of Russia, Hungary, and Poland, the book offers new insights for economics science and economic policy practitioners alike. The author convincingly demonstrates that, with a wide readership, *extensive reform programmes signalled more commitment and thus were predestined to survive,* while more moderate ones were doomed most of the time.

The *first part* of the book (introduction and theory) sets the scene by emphasising the puzzling reversals of pension privatization reforms. By touching upon numerous issues, ranging from how the privatization of pension reforms spread around the world through how it affected the politicians' vulnerability to the pros and cons regarding the costs and benefits of such grandeur changes, the author argues that pension privatization was supposed to be a complete overhaul in how countries and citizens thought about social security (p. 5). The author juxtaposes a series of reasons why the book's approach is a novel one, among others, it offers a better understanding on why market-oriented reforms are adopted and potentially abandoned later on. Additionally, as the book depicts, the Central and Eastern European post-communist transition countries had very different initial conditions (gargantuan implicit pension debt-to-GDP ratio) that made possible

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only a more moderate reform pace. The first part of the book, inter alia, emphatically highlights that politicians' short-term fiscal incentives will undermine reform and lead to various types of reversals (temporary reversal, multi-step, and partial) unless domestic interest groups do support the measures.

The *second part* widens the perspective by looking at global trends in pension privatization reversals. This section conveys that our profession does not know too much both about the why and how these reversals happened. The author argues that global trends suggest that the post-communist countries may be special or unique in some way that explains the regional concentration of reversals. As the chapter evolves, it becomes clear that the degree of pension privatization and the duration of reversals were varying and these are interlinked. One of the greatest virtues of the book is the scientific value and modesty of the author when it comes to any conclusions. Thus, correlation is not mixed, as it is often the case, with causality (e.g. "[…] the results are not the last word on the causal effect of any of the variables considered here. […] these results are indicative that the degree of pension privatization does appear to play a causal role in the manner indicated". p. 86).

Although the author provides a thorough revision on the available evidence and makes an empirical analysis to justify this argument, the only casuistry what this reviewer can make is as follows. On the one hand, there is a great difference between replication and reaction (i.e. in case of the former, new but redundant institutional architecture emerges, while in case of the latter new institutional framework is created but with the old incentive regime).[1] On the other hand, there is a less-trumpeted factor influencing the adoption and delays of such reforms: the development of the Economic and Monetary Union in the European Union had a very strong influence[2] on the launch of pension system reforms even in the core countries so that the geographical concentration of puzzling pension reversals might be somewhat different from that the author outlines.

The *third part* is to exemplify that moderate reforms are more likely to be doomed in the sense they tend to ricochet off the political-economic systems. All of the case studies are well-written and able to demonstrate with impeccable clarity the author's narrative. The cases in this part (Russian, Hungarian and the Polish cases) prove that pension system reversal was a strategic political tool, a stratagem to sidestep the more painful fiscal adjustments. Still, we can claim that this act triggers a vicious circle and cannot be regarded as an instructive way toward fiscal sustainability, and ultimately, toward a fiscal ammunition to enable the state to fulfil its development functions in the longer run, either. In case of Russia, the financial crisis of 2008 instigated the need for short-term revenue and explains the timing of Russia's reversal. In case of Hungary, the private pension fund was nationalised to reduce burning indebtedness. This step was undoubtedly a jury-rigged measure in the aftermath of the 2008 global financial and economic crisis and the sovereign debt crisis (which was mainly private debt crisis) in order to avoid Brussels' voice in the domestic economic governance by reaching out a trend towards a more disciplined public finance. The Polish case is still an open issue,

1 This was presented by Guardiancich (2011) in case of Hungary and Poland, as well.
2 See Henessey and Steinwand (2014).

where the legal changes in 2011–2014 accompanied with a more slowly reversal of the capital part of the Polish pension system. In all three cases, the public reaction and the backlash from the private sector remained infinitesimally minimal.[3] The cases give an impression about a balanced and critical thinking of the author, still, there might be even more nuanced insights once psychological and behavioural findings would have been incorporated.[4]

The *fourth part* concludes and underlines the crucial importance of systemic and not so hectic reforms of retirement policies and the pension system (p. 222). We would like to add that hectic movements are not warmly welcomed by the wider public and they can engender bigger fluctuations in the effective and perceived performance whereby the public trust and confidence, necessary for further reform measures, can to a large extent evaporate. Nevertheless, at least three marginal comments are in order here to be mentioned: 1. retirement policy changes per decade might be a real perspective in high trust environments (i.e. countries where the public trust in governance and institutions is higher); 2. in an era of growing corrosive inequalities (intensifying impoverishment) coupled with ageing population (increasing number of elderly poverty), the willingness of people to support cuts in pension benefits and more fundamental adjustments is getting lower and lower; 3. in countries where the tax burden is already conceived as excessively high (i.e. in countries with higher social security contributions), people are becoming less likely to support further increases in these contributions.

Let us underscore that the case of analysing the puzzling reversals of public pension reforms calls for a more systemic approach that considers the socio-economic ecosystem as an open, dynamic and adaptive system interspersed with far-from-equilibrium, non-linearity and feedbacks. In short, governments have to navigate through uncertainty and initiate reforms. Still, researchers and the public must not forget that the time preference differs strongly in the political arena from that of the private sector most of the time and reversals can be a real perspective in case of certain measures. This view has to incorporate, as the author of the book eloquently presented, the interactions among relevant phenomena. The given book is a valuable contribution in this regard since it takes into account not only the fiscal dimensions (fiscal pressures), but also the myopic thinking of politicians and the strength of domestic interest groups. The author's presented work raises many interesting issues for further research of which one of the most important ones presumably is how the ongoing fourth industrial revolution will affect pension systems in an era when inclusive growth is needed but robotisation and automation will make it more and more cumbersome to pursue (i.e. this per se suggests

3 One would expect that the growing Internet penetration (76% in Russia, 79% in Hungary, 73% in Poland, as World Bank documents) is associated with better informed population (e.g. about painful and substantial reforms of the pension system); but the reality paints a rather different picture. In this regard exploring the nature of a post-factual society, in which manipulation and misguidance play a definitive role should be taken into account.

4 Kahneman (2013) demonstrated that the success or failure of a given governmental program (measure, reform) is judged by the voters on the basis of whether that measure resulted in a perceptibly good or bad outcome. Accordingly, the rationality of the given measure at the time of its design and implementation do not really matter. In this process, public perceptions and attitudes (in the form of positive or negative feedbacks) play a key role in the success of a policy measure as Fernandez and Jaime-Castillo (2013) sensitively illustrated.

that retirement regulation should aim at increasing further the employment rate of older workers, or to envisage further increases in incomplete careers that affect pension entitlements and the risk of poverty etc.).

Overall, the presented book gives a new slant on an old issue (pension system reforms) by looking at its less researched aspect (reversal), it is therefore undisputedly useful not only for academics but also for economic practitioners who are to know much more about the nature of pension reforms.

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