Summaries

Choosing the legal retirement age in presence of unemployment

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A general conclusion of the theoretical literature on pensions is, confronted to an increased longevity, to encourage continued activity. This literature however assumes a perfect labour market. The central question addressed in this article is whether it is still desirable to increase the retirement age when individuals face the risk of being unemployed.

In this purpose, we study the design of the Pay-As-You-Go pension system, focusing on the determination of the retirement age, in a model where people differ according to age only and face in every period a given probability of becoming unemployed.

We first determine the optimal pension system, which consists in a payroll tax rate, a pension benefit level and a retirement age and study its comparative statics with respect to a change of the unemployment rate and the length of life. Our main findings are the following. First, it is optimal to postpone retirement when life expectancy increases. Second, when unemployment benefits are low the optimal retirement age may decrease with the unemployment rate.

We then characterize the issue-by-issue voting equilibrium and compare it to the optimal pension scheme. It is shown that the median voter in general chooses a retirement age lower than the optimal one as well as a higher payroll tax rate.

Keywords: retirement age, unemployment.

JEL classification: H55

Vertical tax externalities from a multiprincipal perspective

Florence Lachet-Touya

The very essence of both federal and unitary countries is multi-tiered governments. This architecture typically involves some commonality of tax bases between higher- and lower-level authorities. This process points to the existence of vertical externalities, i.e. of an inefficiently high degree of taxation. The central purpose of this paper is to explore the distribution of taxing powers among tiers of governments, and to analyze the nature and the consequences of the vertical externality that arises when different levels of government share joint property tax bases. To that end, the multi-principal theory is highly relevant since the different layers of government can be regarded as competing power centres. We provide a simple taxation model and consider a structure of overlapping governments that co-occupy a same tax base. We show that an independent behaviour of both levels of government results in the cumulated tax rate being too high with respect to a cooperative solution. Actually, when she independently makes her choice and unilaterally raises her tax rate, each level of government ignores the losses of fiscal receipts that other levels will suffer from the induced contraction of the shared tax base. Hence she under-valuates the social marginal cost of raising tax revenue from the common tax base. However, information asymmetry tends to lower the global level of taxation as some rents have to be given up to firms in order to make them reveal their private feature.

Keywords : tax competition, vertical externalities, informational asymmetry, multi-principals.

JEL classification: D72, D82, H23, H30, H32, H71, H77

Money and banking crisis in a small open economy

Jin Cheng

This paper develops an analytical framework of a small open economy, which integrate the money and foreign capital flows for evaluating the fragility of the banking system during an international financial crisis. The framework draws attention to the vulnerabilities created by the maturity and currency mismatches of bank's balance sheet, and it makes transparent how the credit crunch in foreign countries can affect the value of the small economy's currency and its economic activity through commercial banks. The stabilizing effects of the banking capital and of the minimum ratio of capital on the banking system are examined as well. Furthermore, the model implies that an informal sector of large scale is a factor against the stabilization of the domestic money and the financial system.

Keywords: bank run, money and interest rates, international lending.

JEL classification: E12, E44, G35

Dividend Policy and Macroeconomic Stability

Sébastien Charles

This article explores the consequences of an endogenous dividend policy in the context of a Cambridge model of growth and distribution. In this logic, we take into account the interactions between the retention ratio and the level of debt and investigate the conditions for macroeconomic stability. Then, we show that financial instability arises from less prudent behaviours from firms' managers with respect to distributed profits. Finally, some numerical simulations illustrate the results previously obtained.

Keywords: endogenous retention rate, instability, cambridgian model.

JEL classification: E12, E44, G35