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SUSTAINABILITY OF PAYG SYSTEM

Abstract:

This paper explores the financial instability of Pay-As-You-Go (PAYG) pension systems by shifting the analytical focus from gradual demographic shifts to immediate fiscal imbalances caused by contribution non-compliance. While traditional literature emphasizes fertility and longevity, this study isolates the "compliance wedge"—the gap between statutory obligations and effective revenue collection. Building on the research of Rotschedl (2015, 2024), the model endogenizes compliance through four primary channels: salience (behavioral responses to visible tax burdens), credibility (trust in future benefit delivery), political instability (policy volatility and ad hoc reversals), and distributional fairness (the strength of the contribution-benefit link). By treating compliance as a distinct source of systemic fragility rather than a mere administrative byproduct, the paper demonstrates how behavioral and institutional shocks can trigger immediate solvency crises even when the underlying demographic architecture remains unchanged.

Keywords:

PAYG, Sustainability, policy

JEL Classification: A10