Munich Economic Summit

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"The Role of the State in Society - Government vs. Citizen Responsibility"

Giuseppe Bertola's Academic Introduction will make the following points:

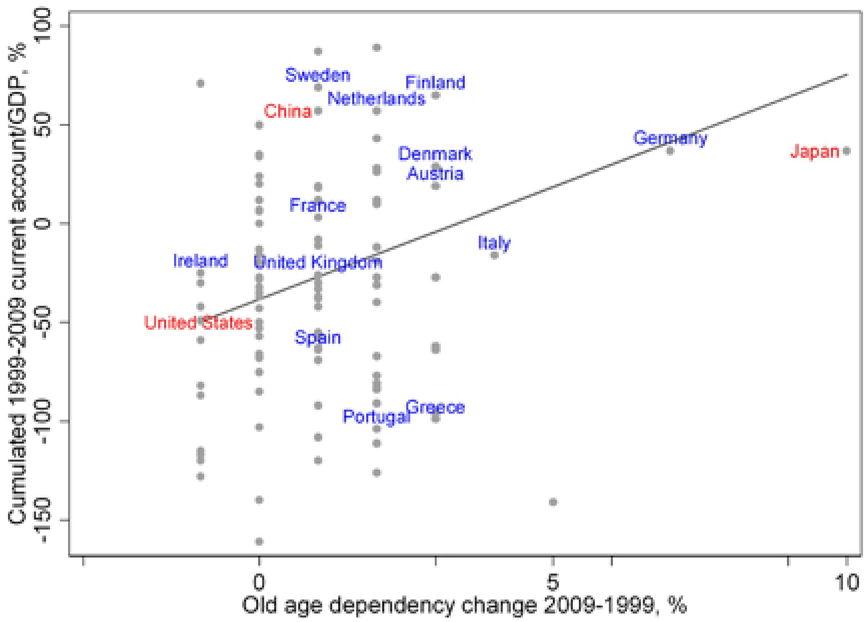
- In order to identify the sources and possible solutions of current challenges to the role of governments in social protection, it is crucial to recall why and how in history governments came to play such an important role in that field.
- Protection from life risks has never been tasked to individuals: the same political and legal tools that boost average economic well-being also distribute it appropriately across individuals, and over each individual's lifetime.
- Production and sharing of income were once both largely confined within extended families, or tribes, or villages, bound by blood or personal ties. Subsequently, and especially with the industrial revolution, the same broader economic systems that eased division of labor and made it possible to exploit economies of scale also severed personal ties. Transfers of resources over time and across individuals needed to be organized in financial markets and in collective social protection schemes.
- A new entity, the nation, provided the legal and social framework needed for operation of both markets and collective schemes. The same advances in communication and transport that made it possible to produce and trade more broadly also made it possible to cultivate national cultures that would support sharing resources beyond the range of personal experience.
- The nations formed over the last few centuries offered a solution to the problem of adapting market and social infrastructure to the transition beyond agriculture. A new solution, with new problems:

- to foster feelings of solidarity within their boundaries nations used to rely on hostility to foreigners, and were inclined to wage war;
- as communication and transportation technologies extend the range of economic interactions, nations (deprived of imperial power by the spread of nationalism to less developed regions of the world) face erosion of tax bases and race-to-the-bottom tendencies in social protection.

- New problems, new solutions:
    - The European Union, as a supranational entity established in order to prevent war by means economic and cultural convergence;
    - Deregulation and development of financial markets, as a substitute to government policies in the social field.
- The shortcomings of financial markets and of economic union without political union have been very apparent in the current crisis. No solution is perfect, and further evolution is unavoidable.
- As regards pensions specifically,
    - Public pensions have advantages over financial market contracts if individuals do not have accurate information about their future needs and current investment opportunities.
    - Mandatory participation in public pension schemes, accompanied by childbearing incentives, can prevent individuals from choosing to be poor rand childless in old age, free-riding on the social assistance that governments are bound to provide.
    - Unfunded public pensions reproduce at the national level the mutual care that used to be supplied across generations within families or villages, and may displace private investment.
- In countries where a shrinking labor force challenges both public and private retirement schemes,
    - retirement has to be postponed, regardless of how pensions are funded;

o economic integration may allow intergenerational sharing across national borders.

- There is indeed a positive relationship between cumulated current accounts and changes in old-age dependency ratios over the last ten years. Germany has experienced one of the largest deteriorations of the old-age dependency ratio, and one of the largest current account surpluses among industrialized countries:



- German savings have been invested in the liabilities of countries that had less severe ageing problems and were also growing fast: deficit countries prominently includes the United States, where the 1990s productivity miracle engendered hopes of fast growth, and the EU periphery, where accession engendered hopes of fast development.

- Every opportunity is also a challenge. Hopes of international investment returns have waned in the crisis, which may lead to stronger reliance on the national component of the relevant redistribution and regulatory policies.

- If social cohesion still needs to rely on recent and sometimes artificial feelings of national solidarity, then Europe will be poorly equipped to compete with multi-ethnic, continent-sized entities, such as China and the United States.

- The crisis, however, has also brought about unprecedented coordination of macroeconomic policies: both at the global level, averting the danger of a new Great Depression; and at the intergovernmental level in Europe, averting the danger of sovereign insolvency and financial meltdown. Should it also foster further progress in other policy areas, it might accelerate the evolution of economics and politics towards integration across the borders of nations.