

Hannes Androsch Prize 2011

A GLOBAL CHALLENGE TO OUR SOCIAL FUTURE

The Hannes Androsch Prize is awarded for a scientifically sound contribution to the following issue:

THE DESIGN OF A SOCIAL SECURITY SYSTEM WHICH CAN WITHSTAND THE DUAL THREAT OF DEMOGRAPHIC DEVELOPMENTS AND FINANCIAL MARKET RISK

The Award: € 100,000.00

Closing date for entries: January 31, 2011

The welfare state must count as one of the greatest achievements of the 20 century. It is the main approach to tackling what the British social scientist, Sir William Beveridge, described in the 19 century as the “five giants”; Want, Ignorance, Disease Squalor and Idleness. Likewise, the “four freedoms” articulated by Franklin D. Roosevelt in 1941 can be regarded as basic rights of humanity. Of these, the freedom from want and the freedom from fear are closely associated with social security.

It is widely recognised that existing models of the welfare state will need to be extensively overhauled, both in terms of their emphases as well as their financing, if they are to survive and lead the way into the 21 century.

Two of the main priorities of social security are to protect the living standard of the recipients of state welfare, while ensuring that the burden on payees remains within the bounds of what is socially acceptable.

Social insurance provides the first pillar of the system; private-pension plans a second, while personal savings could be regarded as a third. State social insurance systems are usually unfunded, and operate on a pay-as-you-go basis; private pension plans of various kinds are funded, and are typically supported by employers and/or by tax shelters.

The second pillar was developed to support the increasingly inadequate benefits provided by the first, but it lacked the coordination which is required for what is, in effect, a supplementary system.

The third pillar, personal savings, lacks any formal integration into the official system, or any safeguard to its real value.

These systems combine, collectively and quantitatively, in extending total old-age transfers. However, they fail to address one of the main concerns of the elderly insofar as they do not stabilise combined real payments over time. Demographic change, labour market developments or capital market disturbances can, and do, exert a strong influence on the stream of real benefits and so unsettle the beneficiaries' life plans. Consequently, the system encourages over-saving as a means of coping with the potential risk of shocks; it reduces individual wellbeing and turns out to be inefficient from an inter-temporal macroeconomic as well as microeconomic perspective. An optimal system should combine the two official pillars in such a way as to shield the beneficiaries from demographic change as well as from capital market disturbances, thus assuring as stable an income as possible.

This announcement, therefore, invites submissions for the Hannes Androsch Prize. Entries should include a thorough analysis of the social welfare system. They should also provide proposals for an alternative design, which would optimise the magnitude and stability of pensions over time, and confront the double challenge of demographic developments and financial market risk.

Additional information on the [Hannes Androsch Prize](#), sponsored by the [Hannes Androsch Foundation at the Austrian Academy of Sciences](#), is available on the website of the Austrian Academy of Sciences www.oeaw.ac.at/hannesandroschprize