

Honorable Präsidium and Members of the Austrian Academy of Sciences, dear Dr. Androsch, dear Guests!

Dear Markus!

I feel honored to give the laudatio for the 2011 laureate of the Androsch prize.

Even more so as I have the pleasure of knowing Markus from several conferences, seminars and also from several most stimulating discussions on various economic issues.

I will start to draft the **scientific pathway** of Markus that laid the foundations for his very successful career.

After having finished high school in 1986, Markus decided to study philosophy. Being scientists, we are of course curious to know about the underlying causes of any decisions. Indeed – from a personal conversation with Markus last week – I may now demonstrate good scientific practice and present some explanations for his choice:

First of all, already in high school Markus was inspired by Douglas R. Hofstadter's famous book "Gödel, Escher, Bach" to study philosophy in more depth. A book many of our generation found very attractive!

Second, Markus was not so sure in which direction to focus – an uncertainty many of us are confronted with when we finish high school. According to Markus, choosing philosophy was the compromise as it represents science in its broad meaning.

Most remarkably, Markus had not the slightest interest in economics during those times – except reading economic issues in newspapers.

Typical for his later career, a single task –studying philosophy – did not use up his capacity and he took up sociology 2 years later, in 1988.

After having finished the first part of his sociology studies we meet the first and probably most important turning point in Markus career that paved the way for today's award we are celebrating.

Realizing that sociology as a complement to philosophy only "added more of the same" (to use his own words), he decided to focus on economics instead.

Having that background in philosophy and sociology, Markus was fortunate to have already acquired two important pre-conditions for studying economics:

- a) He was already familiar with the works of Smith, Hayek and Marx. Here I would like to argue that it is important to know the evolution of economic thought in order to be able to understand, appraise and extend economic theory, something Markus has nicely proved he can in his prize-winning thesis which we celebrate today. Without understanding the basics of the pay-as-you-go pension system we cannot judge its validity, and indeed we might accuse the system for something it was never designed to fulfill.
- b) The second important lesson Markus took from his studies of philosophy was a critical reading of scientific texts.

During the next years, Markus specialized in economics and at the same time took on his PhD in philosophy. The topic of his thesis was “What do I know? The development of large and small skepticism since Montaigne”. It was mainly the field of the “small skepticism“ – related to aphorisms and essays - that caught his attention. Indeed something Markus is still wildly interested in!

Markus finished his studies of philosophy in 1993, and that was the time when he decided to see the world – he went to study as an exchange student in San Diego from 1993 to 1994.

During his time in San Diego, Markus met two of his later colleagues: Helmut Stix (who is now also a research economist at the Austrian National Bank) and Gernot Doppelhofer (who is a professor at the Department of Economics, Norwegian School of Economics and Business Administration, Bergen).

Back in Austria, in 1994, Markus had the great opportunity to finish his studies under the influence of some most distinguished economic professors: Streissler, Dierker, Nermuth etc., to name but a few of them.

After having written his master thesis in economics (his topic: economic growth theory – in particular the convergence issue), Markus still felt too narrowly educated and therefore decided to further broaden his knowledge in economics: he successfully applied for the postgraduate programme in economics at the Institute of Advanced Studies/IHS and spent his next two years (1995-1997) there.

So far, Markus’s career had been driven by self-initiative, without any specific career-planning in mind, and without a mentor, but he was obviously eager to dive into science!

It was at IHS that Markus met an influential person who shaped his next 3 years. That was Josef Zweimüller, now a professor at the University of Zürich, in the Department of Economics. As Markus best described Josef: “He introduced me to the MIT style of research – that involves not only formal economic models at the highest level but also offers the underlying empirical foundations”.

Let me add the other side of the coin by quoting Josef’s appraisal of Markus he sent me a few days ago:

“I first met him in 1995 when he was a scholar at IHS. All the scholars were extremely committed to science. But Markus stood out among them due to his intrinsic interest on macroeconomic questions. With his background in philosophy he approached economic themes from a much broader perspective and tried to see them in connection with the great questions of economics and society. His thesis evidences his ability to tackle the big problems, without getting lost in complex technicalities. Indeed he was never in danger of getting lost in the jungle of models – answering unimportant questions exactly was never his interest. I appreciate Markus as a scientist and as a friend. He is cooperative, committed and responsible and what’s more, he’s an interesting and entertaining partner to talk to. As an economist he is interested in the key questions of economics and the society. In his search for answers to these questions he knows to distinguish the important from the less important issues. “

Let us **continue on Markus’s scientific pathway**.

Josef Zweimüller was obviously among the first to discover Markus’s great scientific potential – and invited him to join him on his move to the University of Zürich. So from fall 1997 through spring 2000 Austria lost Markus again – this time not as far as San Diego, but definitely to a similarly attractive scientific setting. It was the time when Ernst Fehr (another famous Austrian economist) and his colleagues Gächter and Falk were already turning Zürich into one of the most attractive places in Europe

for economists. As Markus mentioned to me, what strongly impressed him during his time in Zürich at the economics department was the combination of competition and cooperation. Well, this is something we should always keep in mind in our own lives!

During his time in Zürich as an Assistant Professor, Markus finished his PhD thesis in economics on the subject of “Social Comparison and Long-Run Development” in 2001. In those times “social status, peer-group effects and the like” were rather marginal topics in economics, but 10 years later we have learned from many empirical studies how important these factors are for the explanation of economic behaviour. Indeed, as Markus has shown in his prize-winning work, the factor of “relative well-being” is something we should also consider when evaluating different pension systems.

I could stop now and let the audience predict the next steps in Markus’s already so successful career. I guess at least half of us would have assumed that Markus continued his career in university teaching and research. However, as this closer look into Markus’s life course so far has already taught us, one might well expect another turning point as well.

With the argument that doing science might be too risky and did not allow for a long-term perspective, Markus applied for a position at the Austrian National Bank. The position at the Austrian National bank allowed Markus to follow his main interest: doing science and relating it to policy-relevant economic questions. Indeed it was at the bank that Markus started to focus on the economics of pensions. In addition Markus published several key papers in monetary economics.

Unfortunately, after reviewing such an extensive and impressive career, there is not much time left any more – but I will now try to briefly point out the highlights of **Markus prize-winning thesis**.

Let me remind you of the title of his work: “Pay-As-You-Go (PAYG) – A relict from the past or a promise for the future?” – that was Markus’s answer to the announcement of the Androsch prize 2011 that asked opinions on “The design of a social security system which can withstand the dual threat of demographic and financial market risks”. – At this point let me congratulate my colleague Prof. Gunther Tichy who considerably helped to shape the title of the announcement!

The central message of Markus’s work might best be summarized in his own words: “PAYG systems are better than their reputation.”

To arrive at this conclusion Markus devotes 142 pages (in 6 chapters) to an excellent study of the basic workings of a PAYG system, as compared to a fully funded system. The focus of his work is the evaluation and comparison of both systems with regard to how they react to demographic and to financial market risks, and most importantly, to repeated changes in both of these risks! Apart from a mere evaluation of different systems, Markus brings into focus the topic of intergenerational fairness. Having convinced the reader that the PAYG model might indeed be a good option even for the future, the author rewards the reader with a design of a reasonable PAYG system in the final chapter.

Instead of offering a summary of the work – something I would not dare to do and we are fortunate to be given tomorrow by Markus himself – I will now highlight the most important messages I took from reading his thesis:

1. We need to obey the historical, institutional and societal constraints when designing a pension reform, but we should also be aware of changes in the economic, demographic and financial conditions, adapting the system accordingly.
2. In order to reform a pension system we need to “understand the main mechanisms at work and the main principles involved” – to quote Markus. Markus guides us through the basic formal methodology of various pension systems throughout his thesis. This is not to burden us with formal mathematical derivations, but to highlight and work out the many misunderstandings that are currently spread in the general public when accusing the one or the other pension system for its failure to cope with the current demographic and economic situation.

Let me cite Solow (1956) at this point: “All theory depends on assumptions which are not quite true. That is what makes it theory. The art of successful theorizing is to make the inevitable simplifying assumptions in such a way that the final results are not very sensitive.”

Markus has succeeded in following Solow’s principle!

3. A common argument in the public nowadays is to call for a “multi-pillar” pension system, built on public, private and firm-specific provisions. However, the optimal mix of such systems cannot be answered independently from the perspective we demand from a specific pension provision. These various dimensions involve risk sharing, fairness, etc. – of course on top of the main goals of any pension system that involve the prevention of old-age poverty and the smoothing of consumption. Moreover it will also depend on individual characteristics, such as individual risk aversion, the importance of relative vs. absolute well-being, one’s own life course, etc. Summing up, we need to design a pension system that takes into account the heterogeneity of the economic and demographic situation of the society it is designed for.
4. The demographic change has two faces: lower fertility (implying changes in cohort size) and longer lives. Both these faces are success stories at the individual level – the gift of free choice on the number of children and of more years of life. At the societal level, however, these developments are unfortunately mostly stuck with negative connotations. As Markus nicely demonstrates, the introduction of a “sustainability factor” that takes care of changing cohort size and of a “life expectancy factor” that adjusts retirement age for increases in life expectancy can successfully adapt the PAYG system. Hence it is wrong to accuse the PAYG system of being unable to cope with demographic changes!
5. It is an incorrect argument that a funded system automatically produces a smoother adjustment process when faced with demographic fluctuations. It depends on the “risk preferences, planning horizons, investment opportunities, asset holdings, ...” of the individuals involved. Hence it is an empirical question what system might best fit the requirements of specific groups in a society.
6. In the final chapter of his thesis, Markus nicely demonstrates that a Notional Defined Contribution System, similar to the one in Sweden but extended by an adjustment to increasing life expectancy, might constitute a viable reform of the PAYG system. As the biggest advantages of such a system he puts forward that “they are easy to understand, they involve few parameters and they offer a clear framework to think about pensions and individual choices.” This leads me to my last point:

7. To be successful, the pension system also has to be accepted by the population – something many European countries are currently rather bad in. We need to communicate the opportunities that a longer life provides (not only living longer but staying healthy longer as well) in order to tackle the challenges of an ageing population. Just as a reminder: if we consider the current advances in life expectancy, we are gaining about 6 hours per day(!) Let us spend them productively and early enough to meet the challenge of the demographic change at the societal level. We need to involve older – or let's say, more advanced – people back into work and back into society. This must be implemented at the individual, firm and societal levels and not remain a mere announcement at the political level.

It is time for me to come to the end of a laudatio for a person I deeply admire and I am proud to know.

I can promise that we will have many more occasions to read things by Markus since he mentioned to me that he really enjoys communicating his research findings.

Moreover I am sure we will have many more occasions to celebrate Markus, for he answered my question about his own take on this prize as follows: “I hope this is not the peak of my career, but I am sure my work will become more visible”.

There is another bright perspective I can report on here: when I met Markus last week, after an hour of intense discussion on his career and exchanging our both enthusiasm of science he said “Science keeps young!” Something I feel is VERY true!

Let me also mention that the continued support of his parents and family has been – and still is – one of the most important underlying pre-conditions for such a successful career.

Apart from science, I have understood that Markus is also very interested in music, as he plays the classical guitar. So it is only fair to end with a quote by his favourite singer-songwriter, Elvis Costello:

“These are the sort of things that push you on in music - the curiosity, (and) a passion for new ideas.” It's obvious that Markus has translated these guiding principles from music to science! Science is Music!