



JEAN PISANI-FERRY

General Commissioner for Policy Planning, France

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Jean Pisani-Ferry is known to many of us from his work at Bruegel in Brussels. He is now the *éminence grise* of the group of *éminences grises* in the French Prime Minister's office. Jean, you have heard two of our panellists say that in fact Europe does not function and that there is not a social model at the European level. Is that the problem?

Jean Pisani-Ferry, General Commissioner for Policy Planning, France

There is this perception of a European social model. Mrs Merkel famously said that we represent 7% of the world's population and 25% of the world's GDP but 50% of the world's social spending, so there must be an issue there. I think that is factually correct. It is striking, but it is actually a bit misleading for the reasons you gave.

We have a common set of preferences with very different institutions. The national institutions are different. You have very different pension systems and labour market institutions are different. Any reforms therefore are contemplated at the national level. There are some common issues. I would first emphasise what you said. We do not normally put education as one of the pillars of the social model. I think we should do so. Europe started universal education. That is how we built our prosperity and we are under-investing in education. We fare poorly in the PISA rankings. The first European country is ranked at number eight. Seven Asian countries come in above that. We consider Sweden to be one of the jewels of the European social model, but it fares dismally in terms of the PISA ranking. France's ranking is mediocre. We are definitely under-investing.

Prosperity without education is basically rent-seeking and there are not many rents we can rely on. There are still some rents – that is why we are prosperous – but if we continue under-investing in education we will not remain prosperous because the rents will dry up. Education therefore should be one of the pillars and that is very much in line with the modern approach to social policies, which is to build capabilities. Building capabilities starts at school, even at primary school. That is where we are failing.

On the subject of pensions, again I agree with you. We should not confuse aging and pensions. We are behind Japan in terms of aging but we are ahead of a number of countries. Aging is a universal phenomenon. We have a problem with our pension systems. That is not because it is a public pension system. It is just because aging is occurring. What we should do? First of all, there is the issue of diversification. Everything is basically invested in a single asset, namely the growth of the national economy with Pay As You Go systems. The problem is that this diversification should have started earlier. It has not started yet in some countries. The income of future pensioners is invested in this single asset, which is the domestic economy.

What can be done is try to make the adjustment between pensions and the growth rate more automatic. That is the spirit of the reform introduced in Sweden with notional accounts. Instead of having to bet on the future growth rate and to tell people a definite figure which they will expect to get, it should be recognised that the ability to provide pensions is linked to the performance of the economy. There should therefore be more automatic adjustments, such as is done in the system of notional accounts that was put in place in some countries. I think that is the direction of reform for us.