

Pension funds respond quite well if they have sufficient freedom

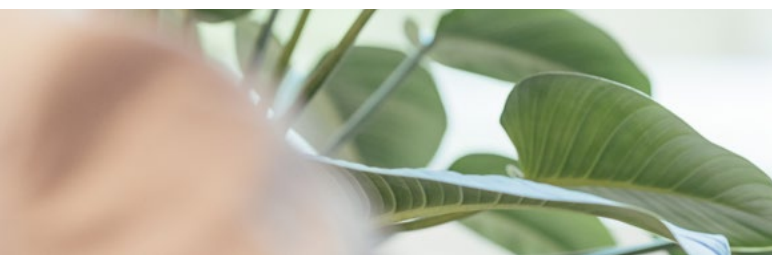
Interview with Prof. Dr. Dr. h.c. Monika Büttler

Prof. Dr. Dr. h.c. Monika Büttler first studied mathematics. She is an honorary professor at the University of St. Gallen, where until 2021 she was a full professor of economic policy and director of the Swiss Institute for Empirical Economic Research, which she co-founded. She is a member of the board of directors of Huber+Suhner, Schindler Holding and Swiss Life. Monika Büttler is considered one of the ten most influential economists in Switzerland. In an interview with KPMG's Prof. Dr. Reto Eberle, she addresses challenges in social and economic policy and calls, among other things, for greater financial literacy in schools.

Prof. Dr. Reto Eberle: *Like many others, I first read your articles years ago, for example your work on misguided incentives in the social security system. What motivated you to speak out publicly on such controversial topics at such an early stage and to expose yourself in the process?*

Prof. Dr. Dr. h.c. Monika Büttler: It's true that I'm not your typical ivory tower researcher. During and after my mathematics degree, I spent seven years working in applied research and in the private sector. I then embarked on a PhD in mathematics, but quickly realized that it was too dry for me. I wanted to return to something more tangible and with a closer link to people. Economic policy has always interested me. The specific reason for my public exposure came later. When I had children, I noticed

systemic misguided incentives in the financing of daycare centers. However, my first study on this in 2004 – part of my inaugural lecture at the University of St. Gallen – initially attracted little attention. It lay in a drawer at the newspaper "NZZ" for months until "Weltwoche" picked it up – then it made quite an impact!





Pictures: Martin Bissig

And did this then have any effect? I get the feeling that we are still talking about the same topics today.

Yes and no. If you're a researcher and you think that a scientific study will easily change policy, you've already lost. There's a lot of work involved: talking to people, writing clearly, giving lectures. Particularly in the case of daycare subsidies, a lot has changed for the better. Scientific findings also contribute to improvements in the social security system. Scientific studies hardly ever make a big bang, but science can help raise awareness and encourage small steps.

When it comes to the big issues – such as AHV – it feels as if the Swiss people are struggling to make the necessary adjustments and to finance the social security system in a sustainable manner.

Old-age insurance is special in several respects. On the one hand, it concerns us all, which is why public interest is so high. On the other hand, having to think in terms of several generations and over such long periods of time is complicated. In the case of occupational pension plans, to name another major area of concern, we are talking about contracts that run for 50-70 years. Such a long time frame is a challenge for us as voters. For politicians with a much shorter planning horizon, securing pensions is treacherous; there are no laurels to be won with reforms. Direct democracy does not make comprehensive reform any easier. However, the topic is proving a hard nut to crack in countries with other forms of government as well, as the recent unrest in France so clearly demonstrates.

Our daughter is 18 years old and is just finishing grammar school. It has been my experience that the curriculum does not provide much financial education to high school students. Do we need more basic financial education in our schools?

Absolutely. In my opinion, economic education in general and financial literacy in particular don't get enough attention. My sons had to solve these "well" problems for the grammar school entrance exam, do you know them?

“Retaining the advantages of the traditional family model while at the same time switching to a more modern division of labor doesn't add up.”

Yes, where you have to calculate the filling speeds depending on the number and size of inflows or outflows. Exactly. No one will ever in their life have to fill a bathtub with two pipes and three drains, but everyone has a bank account. And calculating interest and compound interest would be no more complicated than the well problems, after all, but much more true to life. Basic financial knowledge should be included early in the curriculum, and certainly at vocational schools and high schools.

Should women in particular pay more attention to financial issues?

There are certainly shortcomings. However, the lack of discussion in schools is only part of the reason why women lag behind men in terms of financial knowledge. Women also often lack the opportunity to practice, i.e. they often have fewer funds available to invest in middle age because of family responsibilities. In addition, studies show that women tend to be more risk-averse than men and have less confidence in themselves. Fortunately, for the past 20 years or so, there have been many initiatives and activities to make the financial world more accessible to women. Here, too, dedicated female scientists have contributed to many advances.

Let's perhaps go back to the topic of financial literacy among young people. What is also a concern is the high level of debt in this age group. People want to afford things like cars or travel at a young age, but they don't have the financial means to do so. These young adults then start their working lives already in debt.

That is unfortunately the case, but the phenomenon is not a new one. It's tempting to get something instantly without having to save up for it. On the other hand, "falling flat on your face" with debt at a young age, while painful, can also be helpful for decisions later on in life. We also observe that even higher-income families can find themselves without savings or financial security. The virtue of making independent financial provisions has apparently been lost in many sections of the population. It may also no longer be as necessary. Scientific data shows that people tend to save less and have more debt in countries with a high standard of social security. If you know that the state will take care of you, you have to make fewer provisions yourself. That is completely rational.

“Basic financial knowledge should be included early in the curriculum.”

That makes sense. But a highly developed social security system and a strong state also cost a lot. Which naturally leads to higher taxes. I'm not sure that the people of Switzerland would go along with that.

In Switzerland, too, calls are growing louder for companies and the wealthy in particular to pay more tax. The social contract is under pressure from different directions. That it cannot be stretched indefinitely is something we are currently seeing in Norway, where it is not only rich citizens who are leaving the country to flee the high tax burden. Somewhat surprising at first glance is the fact that young startup entrepreneurs are also seeking a new environment, even though most of them still earn very little. Because they don't want to hand everything back to the state right away, should they ever be successful. Data from Denmark also shows that a high marginal tax rate on income drives away the most productive people – the inventors.

We have talked about generational and social contracts. When it comes to the pension fund, there is currently a major redistribution from the young to the retired.

I'm amazed that hardly anyone is interested in this topic. Occupational pension plans are a complex matter. On the one hand, there are groups and stakeholders who have no great interest in putting the second pillar on a sounder footing. On the other hand, the pension funds have done quite well in recent years and have made the necessary adjustments to ensure long-term financing within the limits of the options available to them. This is encouraging, but paradoxically it defuses the pressure to reform. One lesson to be learned from this observation is that pension funds themselves can respond quite well to challenges if they have sufficient freedom.





“The black-and-white thinking of policy-makers is difficult to reconcile with more nuanced and differentiated shades of scientific analysis.”

There's a lot being written about part-time work in the press at the moment. Wouldn't a large increase in part-time work also have a major impact on the financing of the social security systems?

What we're currently seeing above all is a redistribution of working hours between men and women. But today's occupational pension system is still too strongly based on the traditional role model of the sole earner. Retaining the advantages of the traditional family model while at the same time switching to a more modern division of labor doesn't add up. The Nordics, for example, do not offer a widow's pension in the Swiss sense. The underlying concept is that everyone provides for their own financial security within the social security system. What increasingly worries me, however, is that young apprentices start working at the age of 16, while university graduates often don't start working until they are 30 and, thanks to higher wages, can afford to work part-time. This becomes a problem when it leads to a de facto redistribution in favor of potentially high earners.

Yes, being able to study is a privilege that is largely financed by the state. Students should be aware of this and give something back to society once they have graduated by contributing their labor (and the corresponding income taxes).

I come from a non-academic background and had to fight my way through grammar school and university. At university in the early 1980s, I encountered fellow students who demanded not only more financial support but also the right to a job in their subject after graduation as a matter of course. This seemed bizarre to me. At least it motivated me to get involved in student politics and later also in economic policy.

Should we not also consider higher tuition fees in Switzerland?

I would welcome that very much. However, the fees should not be as high as in the US; after all, society also benefits from well-educated people. However, a medical degree costs the state almost 100,000 francs per year. The deal is that the state's investment flows back to the general public in the form of labor and taxes.

You serve on various boards of directors. Just like us in the audit and consulting industry, you will be facing new expectations from young people. Many no longer aspire to a career path that involves a lot of work and lengthy further training. In response, the training to become a certified public accountant, for example, has been adapted by our professional association to enable people to obtain a qualification after just two years.

That's good news, isn't it, when the market responds to such social changes with new models? It means that everyone benefits. Perhaps we should better reward people, young and old, who work hard? But we need solutions for different lifestyles and preferences. I am confident that we'll see competition between companies and industries on working conditions, and that this will keep the labor market and companies moving forward.

That would be a free-market solution, which I certainly welcome. At the same time, confidence in the economy in general – and in companies in particular – is declining. Do you share this observation?

I do. The economy, or more accurately the private sector, is partly responsible for the situation. Company representatives and entrepreneurs have withdrawn from politics and increasingly left it up to the (professional) politicians. But in my opinion, business associations do not always act in the best possible way either. Anyone who responds to today's shortage of skilled workers by calling for longer working hours need not be surprised if left-wing parties respond with demands for a 35-hour or four-day week.

On the other hand, the current debate ignores the fact that there are also employees who would rather have more pay than shorter working hours. So we need nuanced solutions, and these can be better achieved if everyone, including business representatives, gets involved.

The relationship between business and politics also includes the discussion about the OECD's minimum tax rate. What do you make of this proposal?

International pressure in this area is very high. We can either resist it or accept the upcoming changes and make the best of them. Or, to put it in more economic terms: we can optimize our situation within the constraints or try to shift the constraint. In the short term, the former is much smarter. The proposal put to the vote was a compromise that did not entirely convince me either. But we need to continue this discussion in the future. Tax competition for corporate taxes has its advantages and disadvantages, and it has also worked so far thanks to the intercantonal fiscal equalization.



“Diversity has to somehow grate, otherwise it's not diversity.”

At the latest after the financial crisis of 2008, it was clear that the world – to put it simply – was running out of money and that people were trying to get it wherever it was still to be had. Consequently, countries like Switzerland came under pressure (and are doing so once again).

That's why we should take more of a dispassionate view of the tax debate for Switzerland as a business location. Tax privileges are not always worthwhile for the canton in which a company is located or for a country. Switzerland, or rather individual cantons, have already abolished such privileges in the past. One example that springs to mind is the lump-sum taxation of wealthy foreigners in the canton of Zurich. Predictions that many of those affected would leave the canton have indeed come true. But those who remain now pay more taxes than all the lump-sum taxpayers combined before.

In this environment, what can science contribute to these issues? At the moment, I'm thinking about the discussion on equal pay between the sexes. Our audits, which are required by law, did not reveal any significant wage differences between men and women. Nevertheless, policymakers are keeping this issue on the boil. Even scientific studies that take into account work experience and job profiles do not conclude that significant wage differences exist. Are we, as scientists, no longer being heard?

The pay issue is indeed complex. There are areas and industries where there are hardly any differences. But the reality is more complicated than salary analyses





suggest. We know from studies that women are judged more harshly than men almost everywhere. On the other hand, there are definitely jobs where women have better opportunities. But you are right, the black-and-white thinking of policy-makers is difficult to reconcile with more nuanced and differentiated shades of scientific analysis. The important thing is – and always will be – education. We have to talk to people in politics and business and show them where there are problems and where there are not.

Back to the board of directors: During a conversation with a colleague of yours, we talked about “cognitive diversity,” meaning taking other views and perspectives into account on a board. Diversity is about more than just gender balance, isn’t it?

I always say diversity has to somehow grate, otherwise it’s not diversity. Yes, diversity is by no means limited to gender. Members from a different cultural background, a different generation or with a different educational background and experience can enrich any corporate board. Unless there are occasional differences of opinion, diversity does not achieve or change anything. It’s often about traditional practices being challenged by new people from different backgrounds.

Prof. Dr. Reto Eberle

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I think “grate” is an apt expression. There definitely needs to be friction and resistance within a management body, as long as the mood remains constructive.

Exactly. Even if they grate and chafe, a board has to function together as a strong team. As I see it, there are enough examples in recent Swiss economic history where that was obviously not the case.

I myself experience board meetings that last from 8:30 in the morning until 5:00 in the afternoon. The agenda items are scheduled for every 15 minutes. This leaves little space or time for informal exchange, for conversations, for getting to know each other, for challenging each other, and for discussing problems and developing solutions.

But it is these very gaps that are needed to create a constructive level. Different points of view and evaluations are important. By the way, this is true of the political process and public debate as well. Uniform opinions and supposed moral superiority really annoy me. Especially as a scientist, I prefer to approach problems based on facts. That doesn’t mean that everyone will arrive at the same conclusions with the same data. Either way, it is not always easy to stand up and say that I see things differently for this and that reason.

Thank you, Professor Bütler, for this comprehensive overview and the inspiring conversation.

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