

**Transcript of the Miriam Pozen Prize Lecture
by President Tharman Shanmugaratnam
at the Massachusetts Institute of Technology (MIT) Sloan
School of Management on 9 December 2025**

Let me start by saying that I'm deeply honoured to receive the Miriam Pozen Prize from the MIT Golub Center for Finance and Policy. I feel doubly privileged to follow in the footsteps of Stan Fischer and Mario Draghi, whom I have had the highest regard for as model public servants and thought leaders.

Let me express my gratitude to the Pozen family, particularly to Robert Pozen, for this award named in honour of his late mother. Thanks also to the panel of judges, and to Bob Merton, Dean of the MIT Sloan School Richard Locke, MIT Golub Centre Director Deborah Lucas, and Mr Peter Fisher, for your very kind words. And thanks to everyone who's here this morning.

When I began working as a young economist at the Monetary Authority of Singapore (MAS) in the early 1980s, the Latin American debt crisis was beginning to envelop the US banking system and, to some extent, the global financial system.

My singular task was to monitor every development in each highly indebted Latin American economy, to detect every possible hint of further instability, so that it could inform policy choices as well as the investment choices that were being made at the MAS and Singapore's GIC.

The conventional wisdom among economists and in financial markets then was that external debts of about 20 to 40 percent of GDP were manageable – this based on the experience of the sixties and seventies. Going beyond 40 percent would put the country on a watchlist. If you went beyond 60 percent, the warning bells were loud. So when a group of Latin American countries, from Argentina up to Mexico, had average debt-to-GDP ratios of about 70 percent, it was a crisis that consumed American and global policymakers.

The crisis was eventually resolved, after several years, through tough IMF adjustment programmes, the Baker Plan to restructure their debts, and, very importantly, a decision by the Latin American leaders and economic policy makers themselves that they had to change course.

Today, it is the advanced economies that exhibit traits previously associated with the emerging markets, but on a much larger scale. The gross debts of the G7 countries now average about 120 percent of GDP, ranging from Germany's more modest 63 percent to Japan at 240 percent.

In the case of the United States, about 18 to 19 percent of total federal revenues are now spent on interest payments. That, by the way, happens to be the exact inverse of the situation in Singapore, where 18 to 19 percent of total government revenues come from the net investment income from our reserves – and even then, only under conservative rules, which require that enough investment income is reinvested in the reserves so that they last in perpetuity, and so that this benefit of receiving substantial government revenues from investment income is a benefit that can be sustained across generations. I mention that just so you know where I'm coming from, but not because I'm offering Singapore's fiscal policies as a model for the United States. Nor is the US unique in having high debts and interest payment obligations.

The advanced economies also share other characteristics of emerging markets. Several are seen as having fiscal dominance – at least de facto, as governments depend on central banks to keep their debts affordable. Small increases in interest rates can also lead to sharply escalating debts. And in many cases, polarised electorates, and a weakened centre in politics, make it difficult for any party in government to tighten the belt without losing the next election. It leads to perpetual delays in the adjustments that are needed.

These are behaviours that we used to associate with the emerging markets, but what's different is this: they are occurring without the constraints that emerging markets have always faced. The advanced economies can borrow in their own currencies. They have central banks which have credibility in the markets as lenders of last resort. They

have deeper and more liquid bond markets. They have reliable rule of law, including enforceable contracts.

As a result, the markets give them leeway — leeway to run up debts in a manner that would be inconceivable for emerging markets. But by the very same virtue, it allows them to run up much greater systemic risks.

In the case of an emerging market, if a fire breaks out, it has to be doused before long. But when a group of advanced economies run up higher and higher debts, because the markets give them the leeway to do so, we have a systemic risk – a risk of global financial instability – because we know it can't last indefinitely. There is also a particular risk in the fact that private lenders to governments are themselves often highly leveraged.

No one knows exactly where the limits will be, but it is clear that the debts cannot keep rising indefinitely without creating significant risks of financial instability. Even if it does not end in a sudden collapse of confidence in the system, it is reasonable to assume that ever-increasing debts as a percentage of GDP will lead to an erosion of long-term growth and a gradual loss of trust in reserve currencies, which, even if they do not trigger a major crisis, will pose chronic global financial instability.

And even today, even without further increases, fiscal space has already been dramatically reduced — the fiscal space required to respond to the next crisis. It may be a pandemic. It may be a financial crisis. It may be a geopolitical crisis. Fiscal space has been reduced.

Yet the largest challenges have yet to come. First, societies are ageing across virtually the entire advanced world, which will bring governments' significantly increased healthcare and pension costs, while at the same time reducing the tax base.

Second, climate change, the defining challenge of our times, continues apace. That too will involve growing costs in the years ahead: both to mitigate climate change and to deal with its fallout, such as extreme weather events and disasters.

And third, the advanced economies are spending more on defence, as a result of geopolitical fracturing and increased conflicts.

So we are starting from the wrong place, and we are heading in the wrong direction.

How will this be solved? The closest historical precedent is the period after the Second World War, when most of the advanced countries, apart from the US, started with very high debt-to-GDP ratios.

The solutions they adopted then are no longer feasible today. First, they had rapid growth for many years because Europe and Japan were rebuilding their badly damaged infrastructure, and catching up with the United States. They all had baby booms, and women entered the workforce in large numbers, leading to strong labour-force growth. They also saw a massive expansion of secondary-school or high school enrolment, a huge expansion of human capital. Those structural solutions were each one-offs, and are no longer available today.

Some of the other solutions adopted then may be attempted again, but they will come up against much greater political obstacles. Inflation – which markets are already beginning to worry about – is one such solution, because it deflates the real value of debts. But these are no longer young societies with rapidly rising incomes. Societies where a significant proportion of voters are elderly will resist inflation very strongly. Inflation is also deeply regressive, and will add to the current difficulties faced by low-income groups.

Another strategy adopted in those post-war years was financial repression — there was a long period when interest rates were held down below the rate of inflation. That too is no longer a feasible strategy because too many voters now own assets, unlike that period after the Second World War.

Some people talk about AI, almost as a *deus ex machina*. It would be reckless to put much store in AI as a solution to government debts. Yes, it may boost productivity growth — and you can be an optimist on AI's ability to lift productivity growth. But that

may not help much with government debts, because a significant portion of government spending on healthcare and pensions is tied to incomes, and incomes tend to be tied to productivity. Further, traditional economics also suggests that as productivity goes up, interest rates go up.

So there is no realistic solution to putting government debts back on a sustainable track without adjustments to taxes and spending, and very likely to both.

This should not be simply a call for fiscal austerity. The challenge is to make these adjustments while repurposing fiscal policy more fundamentally: so that people can see that the adjustments are fairly distributed across society, can see the value in government spending that their taxes support, and so that the adjustments do not permanently reduce growth. Because a sustained reduction in growth will make any form of social solidarity very difficult to achieve.

I would add one more point: the longer we take to bring government debts back onto a sustainable track, the larger the adjustments in taxes and spending that will need to be made — and the more excruciating the political choices.

If we continue to delay adjustment, and delay repurposing fiscal policy, we face the risk of unravelling the social fabric on which democracies depend, and which sustains prosperity.

We therefore need new fiscal choices and new forms of risk sharing that can rebuild optimism and preserve the social fabric. Not merely raising taxes or cutting spending, but choices that allow us to build new compacts — especially new compacts in healthcare, in retirement, and to address climate change.

Repurposing fiscal policy

I will highlight three reorientations needed in this repurposing of fiscal policy — reorientations that put fiscal policy on a more sustainable track while addressing the needs of the poor and the middle class.

The redistributive welfare state across the advanced economies has evolved towards individual benefits. In other words, taxes are raised to fund transfers for individual benefit. I include the US as a redistributive welfare state; contrary to common narrative, transfers to the bottom quartile of its population account for about 90 percent of their pre-tax incomes.

But this system of taxes and transfers in most advanced nations no longer breeds optimism, either among contributors or recipients. It is necessary to support the poor, but it no longer breeds optimism. We have to develop new fiscal compacts to restore that optimism once again.

First, we must refocus spending on public goods, not just on individual benefits. Spending on public education and public healthcare systems, on public transport systems, on lifetime learning institutes, on sporting facilities, on parks and other public amenities that everyone can participate in and see the value of.

This is important, first, because it is in fact progressive, without relying only on explicit transfers to individuals. **Those who gain the most from being able to access high-quality public services and systems are the poor and the middle-income groups.**

But they are also important for another reason, which a great deal of research now shows: they breed interaction across income groups as well as ethnic groups. It is how you create a sense of community, how you create the social glue among people from very different backgrounds.

The interactions also promote social mobility — and there's a lot of research on this. And importantly – and this too is well supported by research – moving away from “bowling alone”, from an epidemic of loneliness and a lack of social interaction, is critical if we are to address the mental health and wellbeing challenges of today's generation. Public goods yield high social returns.

So that's the first reorientation: moving away from a system heavily focused on individual transfers towards spending on public goods.

Second, we must shift the focus from transfers aimed mainly at reducing inequality, toward public schemes and forms of risk sharing that relieve economic insecurities — the insecurities that the poor and broad middle class perceive as major concerns in their lives. More so today than a few decades ago, because family incomes are now more volatile and jobs are less assured.

Surveys show that people are far more concerned about insecurities in their lives than about inequality per se. Insecurity in jobs and in housing. Insecurities related to major health setbacks that will lead to large bills, and insecurities in retirement, including the risk of living longer than their savings will allow a decent standard of living for.

Helping the public deal with insecurities was in fact at the heart of the original social democratic vision. The idea was that everyone would contribute something to a common pool so that those who fall into difficult times, such as being faced with a large hospital bill, or who live longer than they expected without the necessary savings, would be supported. That risk pooling was intrinsic to the social democratic idea, more than tax-funded transfers for individual benefit.

We have to refresh that original purpose, or if you like, put the ‘social’ back into ‘social democracy’. We have to build new compacts of personal and collective responsibility as we do so — compacts that relieve the economic insecurities that ordinary people face.

Again, a focus on economic insecurity, not merely inequality, is a progressive agenda, because the people who benefit most from being relieved of economic insecurity tend to be poorer. They are the ones whose jobs are most precarious. They are the ones who, if they fall a step, can easily fall off the ladder of opportunity.

The third shift in fiscal policy, and I would say in macroeconomic policy more generally, is to move away from a very heavy focus on managing the regular business cycle toward preserving the fiscal space needed to address major crises.

We've had, in the last 20 years, one major global financial crisis, two pandemics, several wars. The crises will come. For sure, more pandemics are coming, and COVID-19 was probably not the most lethal pandemic we will see in our lifetimes.

So fiscal policy has to move away from a very heavy focus on managing the business cycle. The economic news on any given day tends to be focused on the latest small changes in GDP, inflation, or unemployment. It reflects that fact that the treasuries or finance ministries, and central banks, are focused on smoothing the business cycle.

But there is a growing asymmetry: they try their best to prevent a downturn by engaging in stimulative macroeconomic policies, but when things recover, do not make up for it by consolidating policy. So what we increasingly see is **perpetually large budget deficits, and prolonged ease in monetary policy, that leaves very little space to address the major crises when they come.**

And importantly, it leaves very little space to address the longer-term challenges that I spoke about — the defining challenges of climate change and a pandemic-prone world. These are inherently collective risks that must be addressed globally. They will require fiscal resources from every nation, with richer nations contributing their fair share.

We need these reorientations in fiscal policy. They must create new fiscal compacts and new retirement compacts to address the risks that are foremost in the concerns of the public, as well as and new global compacts to tackle the largest collective risks we face globally.

In the interest of time, I will touch now just very briefly on two of these compacts. Healthcare and retirement income security are the major drivers of future fiscal costs as societies get older, and must also constitute important forms of risk sharing.

Healthcare: bending the cost trajectory

In healthcare, I would highlight just two lessons from the experience of countries that have managed to hold healthcare costs down better than others - and managed to do so in a way that is fair to the majority of their populations, including the poor.

First, universal healthcare insurance systems matter. Universal, where you spread the costs amongst everyone, and where the young, the healthy and the wealthy are part of the pool — because if they are not part of the pool, the costs of covering others becomes too high. But universal health insurance also requires having to subsidise those who are too poor to afford the premiums for insurance. In some countries, where enrolment is not strictly mandatory, governments may also have to subsidise to make sure that the young and healthy are drawn in and you are able to get that resilient and diversified pool.

However, we can't rely only on insurance to pay for healthcare. It's helpful for individuals to make co-payments when you go to see a doctor or go to the hospital, because that's how you avoid over-prescriptions. If the bills are all paid for by insurance, there's a systematic tendency in some healthcare systems for doctors to over-prescribe, and for patients to also quite willingly take on more drugs or treatments than is clinically necessary.

Here too, co-payments will be regressive if they're not accompanied by subsidies for the poor. So we've got to have those means-tested subsidies in place to ensure that no one is discouraged from seeing the doctor.

But it's not just how we pay for healthcare that matters, but how we reduce the cost of healthcare directly. **Even as our societies age and healthcare costs inevitably go up, we've got to bend that curve as much as we can so as to reduce its impact on government budgets and on taxes.**

Most importantly, we have to reduce the very need for healthcare by helping people stay healthy. And that means working systematically from the time babies are born,

from the time kids are growing up, when they become teenagers and through life — work systematically to help people stay healthy.

We are achieving some results already in many countries. The incidence of smoking has gone down significantly, with a dramatic impact on people's health and their ability to avoid expensive hospital treatments later in life.

But we still have many problems. Obesity is still a challenge. It's a challenge in this country; it's a challenge in most countries. It's still a challenge in Singapore. We've got to work harder on it in each of our societies. It involves everything from children's diets, to the nudges we provide in school canteens and supermarkets. And some experts now recommend taxation of high-caloric-density foods.

The social determinants of staying healthy turn out to be greatly important. That's what the medical scientists say, and that's where you get the biggest bang for the buck. The highest return on spending comes from helping people stay engaged in the workforce, and very importantly, interactions in the community. They turn out to be critical dimensions of keeping your mental health and staying healthy as a whole. These interventions are not very expensive, and they've got an extremely high social return.

In the interest of time, I'll skip over the other issues I was going to talk about on reducing healthcare costs, and go straight to retirement security.

Security in Retirement

The major transition we've seen over the last 40 years or so has been from traditional pensions systems — what are called 'defined benefit' pension systems — to 'defined contribution' systems.

Just to explain this for those who are not familiar, under the traditional, defined benefit systems, you get a predetermined payout in retirement, but it's not pre-funded. Retirees' payouts are funded by current workers; they are called pay-as-you-go schemes. And there's typically some form of redistribution in these defined benefit

systems, with workers who have been poor through their lives getting more payouts than what was implied by the social insurance contributions in their name.

The system worked quite well until demographics got in the way. More people started retiring and hence a larger burden was placed on those still in the workforce.

A few countries have actually made the adjustments to defined benefit systems to keep them sustainable. Denmark and Sweden are amongst these few. They started reforms early, in the 1980s and 1990s. As life expectancy went up, they made automatic adjustments to the retirement age. They did so in democracies. They explained to people that there was no free lunch: you either raise the retirement age and work for longer, or you lower your income in retirement, or we increase the contributions that you have to make while working, and which the remaining workers have to make. Their populations by and large agreed that it was fairest to raise the retirement age. It helped that people in their sixties have been getting more productive. In fact, they are significantly healthier and more productive than those of the same age just 20 years ago.

Unfortunately, these countries have been exceptions to the rule. By and large, defined benefit schemes have not been adjusted to ensure that they are financially sustainable.

Hence the major shift to defined contribution systems, which are pre-funded – the amount you take out in retirement is what was put into your own account – and financially sustainable. So it's sustainable by definition, and there is no transfer from one generation to another, unlike many defined benefit systems which pass on the burden to the next generation of workers.

However, unlike defined benefit schemes, defined contribution schemes in themselves do not provide for redistribution within each cohort. This typically leaves the poor without enough of their own retirement savings. So we have to find some ways of supporting them, outside the pension scheme itself.

In Singapore, we provide that additional support through the government budget. The government systematically tops up the retirement savings of lower income workers — first through Workfare (akin to the Earned Income Tax Credit in the US); through housing subsidies that lead to home equity appreciation; and in retirement itself, by topping up their retirement accounts. They also get a higher interest rate on their accounts. So defined contribution schemes are not themselves equitable, and need to be offset by fiscal policy interventions to keep the system sustainable and to make sure it's equitable.

But there's another problem with the way defined contribution schemes have been implemented in many countries. The shift from defined benefit to defined contribution schemes wasn't simply a shift from unfunded systems to pre-funded systems. It also shifted investment risk, from the state or the employers who ran the defined benefit schemes, to the individual. And that was an important shift. It was not actually inherent in the shift from non-funded systems to pre-funded systems — we could have made the shift without putting the burden of investment risk on the individuals, but that's the way it's been done in most countries.

Experience has shown that most ordinary people are not able to manage investment risks well, and often underperform the simple market indices. And in some systems, like in the US, you're able to take your money out of your 401(k) account each time you change your job. So if you do so, you often don't benefit from the smoothing across an investment cycle.

There are, again, exceptions. The Netherlands, Denmark and Singapore are important cases, which have each adopted collective defined contribution schemes. Each individual has his or her own account in the system, but the burden of making investment decisions and taking investment risk is not placed on the individual.

What each of these countries do with their defined contribution schemes is to collectively manage investments. In the case of Denmark, they also have some sharing of risk across cohorts. In Singapore, there's no explicit sharing of risks between cohorts. But because the government takes all the risk of capital value volatility, there's an implicit sharing of risk as well.

We therefore have to think in less binary terms about pension schemes being either defined benefit schemes which have some redistribution, or pure defined contribution schemes, where individuals are left on their own. **There is an important middle, of pension schemes that can serve ordinary workers well while ensuring the sustainability of pension schemes.** In Singapore, this is achieved by complementing a defined contribution system with government support to build up the accounts of poorer workers or those who haven't had jobs throughout their lives, like many women, for instance. We also do not burden individuals with investment risks, by pooling their savings, managing it collectively, and giving them a return that is free of capital value volatility.

With these two examples, let me stop there in the interests of time.

Putting government finances on a sustainable track will be a challenge in many advanced countries. But the aim cannot just be to raise taxes or cut spending, which will be very difficult for their governments to get support for.

We have to repurpose fiscal policy to involve people in the common good — by refocusing spending on public goods, not just on transfers to individuals; by reducing the risks of economic insecurity that the poor and broad middle class perceive as major concerns in life, not merely inequality; and by expending less fiscal resources on managing the business cycle, so as to preserve fiscal space to tackle major crises.

It is also how we breed the sense of mutual support and solidarity that is needed to sustain prosperity itself.