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RESTATE -Rethinking the Welfare State under Political Constraints in a Changing World

Across many countries, demographic changes are reshaping society at a pace that existing welfare states were not built to handle. These systems were designed for younger, higher-fertility societies. Today, rising longevity and declining birth rates mean fewer workers are financing benefits for more retirees, and for much longer periods, placing mounting pressure on public budgets. Without timely reforms, this trajectory is not fiscally sustainable. Yet even when economically needed, welfare reforms are often difficult to implement. Promised benefits enjoy broad support, and altering them can trigger conflicts between generations that may stall the reform process. Policymakers therefore face a central question: how should the welfare state be designed in a changing world to balance economic sustainability with political viability? RESTATE addresses this challenge by developing a new theoretical framework that incorporates a key real-world constraint often overlooked in traditional macro public-finance models: participation in welfare programs cannot always be perfectly enforced. Governments have limited ability to compel individuals to remain in the system or revise long-standing promises. Optimal policy must therefore balance three objectives—improving social welfare, sustaining voluntary participation, and respecting entrenched entitlements. RESTATE studies this trade-off across three connected fiscal domains, combining theory, quantitative analysis, and empirical evidence, and drawing on tools from demography, macroeconomics, political economy and public finance: Work Package 1 investigates how social security systems can be redesigned to meet the pressure of demographic aging while mitigating political resistance to reform. Work Package 2 examines the role of public debt as a tool for economic stabilization and insurance when political constraints limit the government's ability to raise primary surpluses. Work Package 3 analyzes how productive public investment can support the long-term sustainability of both pensions and public debt. By integrating demographic realities and political constraints within a unified analytical framework, RESTATE offers a new way to think about how welfare states can adapt and remain resilient in the decades ahead.

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