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Capital-backed risk sharing

Why solidarity must be built into the institutions that protect citizens over time

We often think of solidarity as redistribution. In that view, society collects resources through taxes and transfers them to those who need support. That is necessary. No serious society can ignore poverty, illness, unemployment, ageing or misfortune.

But solidarity is not only a transfer after the fact.

At its strongest, solidarity is a form of organised risk sharing. It is the institutional ability of a community to absorb risks that individuals cannot carry alone. Those risks may concern old age, disability, illness, unemployment, inflation, longevity, housing costs, financial shocks or the loss of future purchasing power.

This is why solidarity should not be understood only as taxation or redistribution. It can also be built through capital accumulation, pension assets, insurance pools, long-term investment and institutional ownership.

A society that relies only on redistribution risks becoming trapped in a repair model. First, economic risks accumulate in the lives of citizens. Then households come under pressure. Then politics compensates. Then the system becomes more complex. Then citizens lose trust because the rules become harder to understand and harder to execute.

Capital-backed risk sharing starts from a different principle: a community becomes resilient when it builds institutions that can carry risk over time.

That is the deeper meaning of pensions and insurance. They are not merely financial products. They are institutional forms of shared risk. A pension fund allows workers to convert today's labour income into future security. An insurer allows risks that would be unbearable for one person to become manageable when pooled across many. Long-term capital allows a society to invest not only in today's consumption, but in tomorrow's resilience.

The relevant question is therefore not only: how much do we redistribute?

The better question is: which risks do we ask individuals to carry alone, and which risks do we organise collectively through institutions?

Viewed through an agent-based lens, this is not an abstract moral debate. Citizens, workers, employers, pension funds, insurers, asset managers, banks, regulators and the state all act from different roles. Households seek security and perspective. Employers seek cost control and continuity. Pension funds balance return, risk, contribution levels and intergenerational fairness. Insurers pool uncertainty. Regulators seek stability. The state must protect the social order without turning every problem into short-term compensation.

Each actor may behave rationally within its own mandate, while the system as a whole still produces insecurity.

A household may save too little because living costs are too high. A pension fund may manage capital prudently while participants still feel uncertain because the system is difficult to understand. An insurer may price risks accurately while citizens experience exclusion or unaffordability. A government may introduce compensation schemes, but each new scheme adds complexity and political dependency.

The feedback loop then becomes visible. Individual exposure creates insecurity. Insecurity creates demand for state repair. State repair creates complexity. Complexity weakens trust. Lower trust increases the demand for more repair.

Capital-backed risk sharing tries to break that loop.

It says that social resilience should not depend only on annual budgets, temporary compensation and political correction. It should also be built into the architecture of ownership, savings, insurance, pensions and long-term investment.

This makes capital a social institution, not merely a private asset.

That does not mean that all capital becomes public. It means that capital allocation has institutional consequences. Pension capital, insurance reserves, housing finance, infrastructure investment and collective savings all shape the degree to which citizens can live with security and perspective. They determine whether people experience the market economy only through wages and prices, or also through ownership, protection and future claims.

A capital-backed risk-sharing community is therefore not anti-market. It is a way of making the market economy socially sustainable.

Markets are dynamic because they allow initiative, investment, entrepreneurship and innovation. But markets also distribute risks unevenly. Some people own assets. Others mainly face costs. Some can absorb shocks. Others are immediately exposed. Some understand financial complexity. Others depend on institutions they cannot fully see.

That is why a market economy needs risk-sharing communities around it.

Families share risks. Firms share risks. Pension funds share risks. Insurance pools share risks. Local communities share risks. The state shares risks. The question is not whether risk sharing exists. The question is whether it is organised wisely, transparently and with enough capital behind it.

The institutional test is simple: does this system strengthen resilience, responsibility and trust?

Does it help citizens carry risks they cannot bear alone? Does it reduce dependence on ad hoc political repair? Does it preserve incentives to work, save and contribute? Does it make long-term security understandable? Does it connect ownership to responsibility? Does it give citizens a stake in the future rather than only compensation for the present?

A critic might say that this gives too much importance to financial institutions. Solidarity should be democratic and public, not dependent on markets.

That objection is understandable, but incomplete. Capital already shapes social outcomes. Pension funds, insurers, banks, asset managers and housing markets already influence security, opportunity and vulnerability. The real question is not whether capital should matter. It already does. The real question is whether capital is organised only for private accumulation, or also for shared resilience.

A second critic might say that capital-backed risk sharing creates uncertainty because investment returns are never guaranteed.

That is true. But tax-based systems are not risk-free either. They face demographic risk, political risk, fiscal risk and implementation risk. A mature society does not pretend that one model eliminates risk. It decides which risks should be individual, which should be collective, which should be publicly financed and which should be backed by long-term capital.

This is where governance becomes decisive.

Capital-backed risk sharing only works when institutions can explain what they do, why they do it and for whom they act. Pension funds must explain how return, risk and intergenerational fairness are balanced. Insurers must explain how pooling and pricing relate to social trust. Regulators must protect stability without suffocating long-term investment. Politicians must resist the temptation to promise certainty where only disciplined risk sharing is possible.

The purpose is not to turn every citizen into a financial expert.

The purpose is to make sure that the institutions managing capital remain connected to the people whose future depends on them.

A capital-backed risk-sharing community is therefore a more mature form of solidarity. It does not only ask who pays today. It asks how society builds the institutional capacity to carry uncertainty tomorrow.

Solidarity is not only what society redistributes.

It is the risk-sharing capacity a community builds over time.