Sciences Po. Centre d'études européennes

The changing Economic and Political roles of pensions

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RECWOWE RECONCILING WORK AND WELFARE IN EUROPE

The changing Economic and political roles of pensions

1. The early age of industrialisation and nation-states
2. Keynesian background of pension systems
3. Pensions and financial capitalism
4. Current and future issues

I. The early age of industrialisation

Pensions developed first to fight extreme poverty amongst the elderly (Assistance, See the British Poor laws),

And to help those workers who could not work anymore (Friendly societies, old age insurance)

But old age insurance developed also because of Employers' interest

I. The early age of industrialisation

Employers develop pension for their workers

Buying loyalty of the workers

State as employers

(Colbert, 1673, marine; 1853, all civil servants, 1859 in UK, 1872 in Germany)

Attaching the (specifically skilled) workforce to the manufactory

I. Building Nation States

Late 19th Century, building nation states, creating boundaries through welfare rights (Rokkan, Ferrera).

- Bismarck: Buying social peace, against the socialists (1889)
- Denmark, 1895 (universal in principle)
- Lloyd George, Old Age pension Act, 1908, minimum pensions
- France, Third Republic: 14 juillet 1905 sur “ les vieillards, les infirmes et les incurables ” (assistance)

1910: loi sur les Retraites ouvrières et paysannes

(insurance, « retraite des morts »)

I. Main dates in Europe

- Germany adds a scheme for agricultural workers in 1898, and for employees in 1911
- Austria in 1906,
- Belgique in 1911

(miners only, in 1924 for workers and 1925 for employees),

- The Netherlands in 1913,
- Sweden, in 1913 (all citizens),
- Spain and Italy in 1919,
- Finland in 1937

…

II. The Keynesian foundation of the development of pension systems

- The 1929 crisis, following depression: a lack of demand
- The New Deal and the Social Security Act (1935)

Old-Age and Survivors Insurance: provide an income to retirees, leave room for youngsters…

- Spread of Keynesian ideas within industrialising countries

II. After World War Two: expansion of pension systems (different paths, most often PAYGO systems)

In France, Austria, Belgium, Italy, Spain, Germany, Japan: old age insurances for all salaried workers, and then generalisation

In UK, National Assistance Act of 1948, means-tested pension; National Insurance Act of 1959, a two-tiered pension system: A universal Basic State Pension (BSP), supplemented by the earnings-related State Graduated Retirement Pension Scheme (SGRPS) for those with higher incomes, with the possibility to opt out for occupational pensions

Development of basic or People's pensions (Sweden, NZ, Canada, Norway, NL, and in an approaching way Australia, Finland, Switzerland, Denmark).

In Comnunist Eastern Europe: pension for all, but often companies or former Old age insurances Funds have to pay them.

II. The 1960s and 1970s: Guaranteeing income maintenance

1950: pensions guaranteed on average 28% of former wage

Strong economic growth left the elderly behind, necessity to catch up, for economic and political reasons:

Guarantee that the insured person maintains the same standard of living during his retirement as he enjoyed during his years of employment

(he more than she)

II. The 1960s and 1970s: Guaranteeing income maintenance

- Increasing old age insurance replacement rates:

Germany, 1957, France 1971, 1972…

- A new earnings-related public system added to basic people's pension (Sweden, 1959, Finland, 1961, Canada, 1965, Norway, 1966…)
- Collective agreements on occupational pension (DK, NL; fully funded)
- Regulated private pension funds in Switzerland or Australia
- SERPS in UK (1975)

II. The five families of pension systems

- Fragmented Bismarckian systems (Germany, Austria, Belgium, France, Spain, Italy, Japan later)
- Universalist systems (Sweden, Norway, Finland, Canada)
- Multi-pillar systems (DK, NL, Australia, Switzerland, UK
- Regulated private pension funds in Switzerland or Australia
- Eastern European systems: universalists in the Constitution, occupational in the implementation
- Residual systems (Ireland, NZ, US…)

III. The 1980s and 1990s, a new economic context

- Mid 1970s, crisis, failure of Keynesian reflation policies
- New governments, neo-liberal ideas: retrenching public expenditure
- In the 1980s, public pension expenditure start to be targeted (increasing life expectancy plus new pension rules => strong increase in public pension expenditure, pensions deficit)

1983: the US; 1986: the UK

III. The 1980S and 1990s, a new economic context

Broader macro-economic changes:

- From Keynesianism to Monetarism
- From demand-side to supply-side
- De-industrialisation, service economy
- New forms of capitalism, financial capitalism: need for funds to be invested

III. Averting Old age crisis, the World Bank Model

- World Bank, *Averting the Old-Age Crisis : Policies to Protect the Old and Promote growth*, New York, Oxford, University Press, 1994.

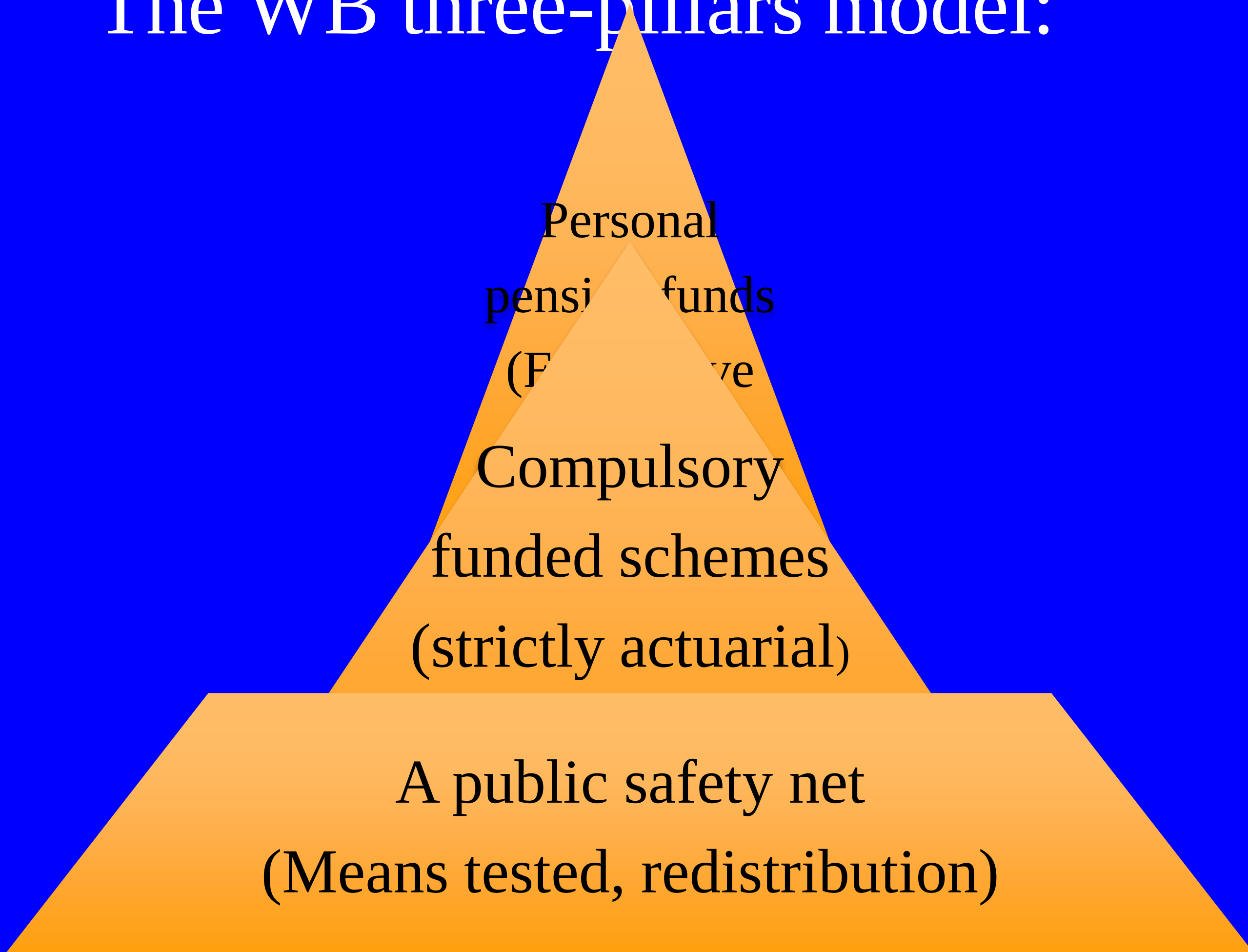
- Why do financial organisation start looking at pension systems?

Structural adjustment, Washington consensus

Necessary to control public spending. Pension spending is growing fast

III. Averting Old age crisis, the World Bank Model

The WB three-pillars model:



III. Facing Pension crisis, the World Bank Model

The Economic Rationale:

- Diminish public spending, Payroll and Income Taxes
- Bring investment capacities to your economy
- And help develop Financial capitalism

The Demographic Rationale:

- Funded schemes are not sensitive to the demographic dependency ratio

The individualisation rationale:

- Provide people with freedom of choice: consume now or save for later (third pillar)

IV. Lessons drawn from past reforms?

We will see the development of multi-pillar systems, but not all the same, and difficult:

The double payment problem, path dependence

Pensions are amongst the most popular schemes. Highest difficulties to reform

Preparing pension reforms cannot just be a matter of technicalities, one has to prepare the politics of it…

Pension reform is not just addressing financial and demographic issues…

Hence this seminar is not only focused on the content of the reforms, but also the politics of it (as G Bonoli will show, and the other presentations)

IV. Current and future issues

Economic issues:

Towards a new model of capitalism? Sustainable growth, climate change.

Need for strong growth to pay for future pension. Contradictions?

What could be the New economic roles for pensions in the knowledge-based economy? Within the social investment strategy?

A beneficiary of other reforms…

IV. Current and future issues

Social preoccupations:

The multiples inequalities of the world of pensions:

Within pensioners (socio-economic status, big and small firms, well organised poorly organised sectors, gender inequalities)

Between current pensioners and current working people,

Between current pensioners and future pensioners…

Reforming pensions raise tremendous economic, political and social challenges…

Merci!