Britain: Labour's new pension plans will impoverish the elderly

Jean Shaoul
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The Labour government has announced its plans for "reforming" pension provision. The new arrangements signal an end to one of the central pillars of the welfare state: universal pension provision through the redistribution of income by the state.

Tony Blair, in his introduction to the Green Paper, *A New Contract for Welfare: Partnership in Pensions*, said, "We are building a new contract for pensions between the state, the private sector, and the individual. We believe that those who can save for their retirement have the responsibility to do so, and that the state must provide effective security for those who cannot."

The proposed reforms attack broad layers of those whom Labour claimed to represent--so-called "Middle England". They will introduce top-up private pensions for the increasing number of people who are either self-employed or whose employers refuse to provide a decent occupational pension and presently rely solely on the state pension. This represents a staggering 50 percent of workers, a figure inflated beyond that existing in a country like the United States by the previous history of state pension provision. It will herald a social catastrophe for millions of elderly people who face dreadful poverty in the last years of their lives, both now and in the future.

The basic state pension is to remain, but "will eventually wither on the vine", as one actuary said. The state pension, currently just 14 percent of average earnings and set to decline to 9 percent of average earnings by 2020, is so low that more than one-third of pensioners are on the state benefit, income support. Even with income support, it will be worth only £75 per week from next April. The new "guaranteed minimum" for pensioners will be a miserly 20 percent of average earnings, and not enough to live on. Even this will remain means tested, as the only source of pension provision for the extremely poor, those earning less than £9,000 per annum..

The secondary State Earnings Related Pension (SERPS) is to be phased out and replaced with a flat-rate second state contributory pension for those earning more than £9,000. Flexible, private or "stakeholder pensions" will be introduced, offering penalty-free rights to stop and resume contributions and the right to transfer to another fund. Those earning between £9,000 and £18,500 (£175-350 per week) will receive rebates from their state contributions to "encourage" them to take out the new pensions or make other private provision. Most of those earning more than £18,500 already have either occupational or personal pension plans.

Although workers will not be forced to take out stakeholder pensions, Alastair Darling, the Social Security secretary, was careful not to rule out compulsion in the future if the new incentives fail to increase personal pension saving.

Carers, disabled people, those with broken work records and mothers with children under five will be credited into the second state pension as though they were earning £9,000 a year. But big questions remain about age-related benefits for personal pensions, and the impact of the new system on other means tested benefits such as housing benefit and council tax. Anyone taking out a stakeholder pension in the next few years could well see it erode entitlement to these benefits on retirement.

Low paid workers will find that they simply cannot afford a decent pension and, when they retire, they will have to supplement the meagre state pension by taking what work they can. Thus the pension changes will create an additional pool of cheap and experienced labour. The government intends to increase opportunities for "volunteering" and "learning new skills" and encourage older people "to participate in the labour market". The benefits and tax system is to be overhauled so as to discourage workers from taking early retirement.

What is so striking about these proposals, which affect more people than any other out of the raft of changes being made to the welfare state, is how little public discussion there has been on the subject.

Evidently few commentators have read the Green Paper sufficiently carefully to note the ominous warnings about the financial state of many public sector occupational pension schemes. It notes that the scale of early retirements, or "voluntary redundancies", means that the financing of the services are in jeopardy. Too few workers remain to contribute to the schemes. Reviews of the police and firefighters' schemes have already begun, and others will follow. In some cases state enterprises, such as the water industry, were sold off with the added bonus of pension schemes in healthy surplus, leaving little for the work force that was transferred to the Environment Agency. It presages the end of decent occupational pensions in the public sector.

No one ever questions the basic assumption that a decent pension is unaffordable. Insofar as it is unaffordable, it is because National Insurance contributions (to pensions) are set to fall as a percentage of total earnings. In the late 1980s, income tax for the rich was cut so that income tax now accounts for less than a third of government receipts. Corporate taxes today are the lowest in the industrial world. Britain has become Europe's offshore tax haven. The Institute of Fiscal Studies calculated that if Britain paid as much tax as Germany, spending on health and education could be doubled, while taxation at the French level would enabling spending on Social Security to be doubled.

Neither can "unaffordability" be ascribed to the proportion and number of elderly people, as this figure is not expected to increase significantly in the coming years.

In the post-war era, social reforms were carried out in Britain and other advanced industrial states under conditions where the economy was nationally based in order to ameliorate social conflict. As the economic strategist John Maynard Keynes wrote in an open letter to President Roosevelt about the New Deal, "If you fail, rational change will be gravely prejudiced throughout the world, leaving orthodoxy and revolution to fight it out."

The inherent drive of the productive forces to break free of the constrictions of the national state today strikes at the concessions each national ruling class was forced to make to its "own" working class to stave off revolution. Sweeping changes in the global economy over the last 25 years mean that many transnational corporations (TNCs) have an economic weight greater than even medium-sized countries such as Argentina. As they undertake production, investment and complex financial activities on an international scale, all the major TNCs demand--and have the financial muscle to achieve--a reduction in both the restrictions imposed on their activities and their taxes. It is to these demands for ever lower corporate taxes and contributions to the national exchequer that Blair is responding to in his bid to slash state expenditure on pensions and other welfare provisions.

Private pensions also offer a vast new source of profiteering to big business and the City, of which the government is well aware. Its paper declares, "The value of private pension assets and rights are significant. For example, the market value of the financial assets of all funded occupational pension schemes and personal pensions is about £830 billion. With such amounts at their disposal pension funds are a major player in domestic and overseas financial markets and are an important element in the stability and growth of the wider UK economy."

In order to channel this new source of funds to the capital markets the government is forced to give generous rebates on National Insurance contributions that will cost the Treasury £700 million in lost revenues for every million workers that transfer to stakeholder pensions. Thus the new pension arrangements mean a new massive subsidy to the City and a further round of public expenditure cuts to make good the lost revenue.

There are further long-term implications of this switch to private pension provision that have been missing from the public discussion. Private pension plans work by placing workers' contributions in pension funds or insurance companies, which in turn buy shares in corporations quoted on the stock market. Whereas 30 years ago most pension funds were invested in government bonds, now more than 50 percent of funds are held in UK company shares, and 17 percent in overseas securities. Pensions are thus derived from the dividends paid out of the profits generated by the work force.

A switch of even half the present level of national insurance contributions, or £20 billion, to private pensions--3 percent of GDP--means that more profits must be generated to pay for the pensions, leading to yet another turn of the screw and more speed-ups, casualisation and redundancies. But the scope for more intensive surplus extraction is limited because dividends are already 28 percent of corporate profits, up from 9 percent in 1975.

The scope for extending surplus extraction from the corporate sector is limited because more than 80 percent of the industrial and commercial sector now have placings on the stock market. The last 15 years have seen a massive increase in the number and value of industrial and commercial companies quoted on the Stock Exchange. What remains is chiefly family and small-scale businesses, and the public sector, which accounts for 41 percent of GDP.

It is this search for new sources of profit that lies behind the drive to restructure, via the Private Finance Initiative, Private/Public Partnerships, etc., the non-surplus-generating sectors such as health and education so that they become surplus generating. The move to private pensions presages a huge increase in the sale of public assets, in turn leading to a further round of sackings. It will also intensify the turn to sources of profit overseas, where British Corporations already have more than 25 percent of their employment.

The scale of the transfer of funds to the stock market will intensify the speculation and frenzy and add to its volatility. Already more than 50 percent of corporate securities are held by pension funds and insurance companies. Whereas in the mid 1960s pension funds held their shares for 23 years, now they only hold their shares for 18 months, in their drive for ever higher returns.

Thus not only will the new arrangements, currently being discussed in all the advanced capitalist countries, make the income of retired workers dependent on the uncertainty of the stock market, they will lead to a huge increase in the rate of exploitation of the work force.

Capitalism has no answer to the needs of the elderly for a decent income in their retirement. It demands the dismantling of the social provision of pensions, hitherto considered fundamental to any civilised society, and the purchase of a private pension as a commodity. The provision of an income for one's old age is now the personal responsibility of each individual. Workers will no longer be able to rely on the state to provide for their old age. What were considered social rights are no longer recognised as such. Instead Blair proposes a contract: each individual's responsibility is to work, be independent, support family members and save for retirement. The state's role is to provide a work force for the corporations, ensure that people do work and thus become "economically independent".