World Bank admits 85 percent of world's population has no retirement income

Jean Shaoul
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Less than 15 percent of the world's population over 65 years of age now receive any income in retirement, according to *New Ideas about Old Age Security*, a book published recently by the World Bank.

The worldwide assault on social insurance and publicly funded pension systems has left millions of working people without any prospect of receiving support when they retire.

The worst affected countries are in Latin America and the former Soviet Union. But the impact is also beginning to be felt in the advanced countries. It has created a social catastrophe for elderly people, who face appalling poverty and isolation in the last years of their life.

The book examines what has happened since 1994 when the World Bank set out its policies for pension reform in its misnamed report, *Averting the Old Age Crisis*, and *g*overnments of all political shades shifted to private pensions and privately funded schemes.

The authors, Austrian Professor Robert Holzmann, the World Bank's pensions specialist, and Joseph Stiglitz, its former chief economist, cannot hide the fact that in a relatively short period pension coverage has declined significantly. Only a few years ago, Professor Holzmann claimed that in the year 2000, just under 20 percent of the population aged 65 years and older and just under 30 percent in the 15-64 year old age bracket would have some formal pension coverage.

The authors also acknowledge that the so-called pensions revolution has failed to deliver even the World Bank's own economic and financial objectives of increasing individual savings. The much-vaunted efficiency of the market has proved to be a chimera. The cost of administering private pension schemes ranged from 6 percent of total contributions in the case of Bolivia, to a massive 23 percent in the case of Argentina, and contrasted starkly with the lower running costs of public schemes. In the UK, the selling of completely inappropriate private pension products and the inability of the regulators to prevent scams and swindles has also brought the private pension industry into disrepute. There is widespread recognition that it would require governments making some element of private pensions mandatory if they were to supplant public pensions. But the authors go on to insist that this is a short-term phenomenon that should not deflect anyone.

Following proposals by the International Monetary Fund (IMF) in 1985 and the Organisation for Economic Development (OECD) in 1988, the two organisations insisted any loans made were conditional upon pension reform. By this the World Bank meant the type of "reforms" pioneered by Chile in 1981 under Pinochet. International finance capital was determined to get its hands on the social security funds that formed the basis of retirement income in industrialised and some East Asian countries, and channel it into the capital markets.

The World Bank also believes people must also be encouraged to extend their working life. To meet the cost of pensions and medical care for the elderly, estimated at $64 trillion worldwide, "industrial countries need to create an institutional framework that minimises the threat of inadequate savings by ensuring that social security schemes are fully funded and by discouraging early retirement", it said. (In official terminology, pension schemes where the benefits paid to retirees are met from the contributions made by the existing workforce are misleadingly known as "unfunded schemes," and those based on the dividends invested on the stock market, whether public or private, are known as "funded" schemes.)

The World Bank demanded a shift away from publicly funded pensions based on general taxation and/or contributory social insurance levied from both workers and employers, to private pension schemes invested on the stock market. Where pensions remained public, they were to be converted to "defined contribution" schemes whereby entitlement to retirement income depends upon the level of contributions made by the individual. Its goal was a two-tier mandatory scheme with declining levels of pension provision by the state and an increasing component funded directly through individual contributions to either a private or publicly administered scheme. In effect, everyone would have his or her own individual "retirement account", which could then be collectively invested on the stock exchange.

Many countries such as the US, Germany and Britain have embraced some aspects of the World Bank's policies. Pensions are often the state's largest single item of budgetary expenditure. According to the most recent *World Bank Indicators* report, publicly funded pensions paid for by workforce and employer contributions in Austria, Poland and Italy account for 15 percent of GDP, although the average in the West is about 10 percent. In the countries that made up the former Soviet Union, they account for only 5 percent of GDP, and in many of the world's poorer nations pension provision is non-existent, apart from a wealthy elite and a few top government officials.

In Latin America and the former Soviet Union, the World Bank has expressly linked the provision of credit under its Public Sector Adjustment Loan scheme to implementing the privatisation of public enterprises and pension reforms.

The lack of a decent pension means that when workers retire, they will have to supplement their meagre pension by taking what work they can. Thus the pension "reforms" create an additional pool of cheap and experienced labour. The OECD's book *Maintaining Prosperity in an Ageing Society*, states openly, "An important part of the strategy for maintaining prosperity will involve encouraging people to work longer by making it financially more attractive for them to do so."

Private pensions also offer a vast new source of profiteering for big business and the financial institutions, as the OECD acknowledges: "Consequently financial market infrastructures will need to be strengthened to cope with large increases in private pension fund assets". The huge scale of the transfer of funds to the stock market has added to its volatility and served to intensify speculation. More than 50 percent of corporate shares are held by pension funds and insurance companies in the UK. Whereas in the mid 1960s, UK pension funds held such shares for 23 years on average, now they only hold them for 18 months, in their search for ever higher returns. Thus not only does the turn to private pensions make the income of retired workers dependent upon the uncertainties of the stock market, as Chilean and Malaysian pensioners found to their cost when the economies of these countries crashed in 1997; it is also leading to a huge increase in the rate of exploitation of the workforce.