Why are retirement pensions under attack?

Jean Shaoul
17 November 2003

Under the guise of reform, pensions are under attack in virtually every industrialised country in the world. As a result, millions of workers face appalling poverty and isolation in their last years and pensions are fast becoming one of the most bitterly contested political issues.

How is it that state pensions, the first piece of social insurance to be introduced more than 100 years ago in Western Europe and still the most significant aspect of the welfare state, are supposedly no longer affordable at the beginning of the twenty-first century?

A recent edition of the *Economist* business magazine featured on its cover the picture of a young woman imitating Munch's "The Scream" alongside its headline that the solution to Europe's pension problem was for people to work longer and have more babies. The *Economist* is by no means unique in attributing the pensions problem—and to some extent its resolution—to demographics.

The liberal columnist Will Hutton writes in the *Observer* newspaper, "A declining birth rate means that the flow of new young workers to support the profits and taxes out of which higher pensions and council-tax rebates [to the elderly] will be paid is falling. How fair is it on them to pay higher taxes and forgo wage rises just because they live in a society which is ageing and didn't save enough 20 or 30 years ago to provide for its retirement today? Everywhere you look in this debate, issues of equity and morality loom large."

This diagnosis of the pensions problem is fundamentally flawed. A careful examination of the empirical evidence—often complied to support the case for shifting the "burden" of pension provision onto individuals themselves—gives the lie to the demographic argument.

It is indisputable that life expectancy has increased and there are more pensioners living longer in the advanced capitalist countries. But this has not been a problem since it has been offset by a declining birth rate, leaving the dependency ratio—the number of dependants (those under 16 or over 59 years of age) per adult worker—largely static if not declining.

Data from the *United Nations' World Population Prospects: The 1998 Revision* shows that the dependency ratio actually declined between 1950 and 1998. In the developed world the dependency ratio declined from 64 to 61, while it rose from 88 to 90 in the least developed countries. Thus in those countries where state pensions actually exist the age structure of the population is not the source of the problem. While it is true that a significant minority in the West does not start work until their twenties, since some retire much later than 59 years of age, this does not undermine the basic argument.

This means that if pensions were or are a burden, then we must look for the cause not in demographic pressures but elsewhere.

In 1996, the OECD showed in its *Ageing in OECD Countries*, written to argue the case for pension cutbacks, that state pensions in 2000, assuming unchanged policies, would account for a smaller proportion of GDP than in 1995. Even in 2010, they would still account for a lower proportion of GDP than in 1995 in many Western European countries. It would take till 2020 for state pensions in almost all of Western Europe to claim a higher proportion of GDP than in 1995.

The United Nations study, extrapolating from present trends, goes on to make a series of population forecasts for 2050. Using its medium range of predictions, there is indeed likely to be a 50 percent increase in the dependency ratio in the developed countries by 2050. But this is more than matched by annual increases in productivity, even assuming productivity increases at no greater than the average two percent per annum in the major Western economies. Increased productivity could easily accommodate a shorter working life and/or increased longevity.

Also in many countries a higher level of pension provision was provided in the 1960s, 1970s and early 1980s when fewer women worked. And the present level of pension provision has been met despite historically high levels of unemployment. If the shortage of workers relative to the number of dependants were really the problem, it would be a simple matter to draw in the large number of unemployed or underemployed people into the workforce, if not from within the country then by immigration from others. But there is an over abundance of workers not a shortage and the advanced countries have closed their doors to immigrants.

If the cause of the pensions "problem" does not lie in either demographic pressures or productivity constraints, therefore, it must lie within the economic system itself.

Like all welfare provision, pensions represent in the final analysis a deduction from the surplus value extracted from the working class and realised for the capitalist corporations and their owners in the form of profit. Any increase in the retirement age or reduction in pension benefit—be it in the form of corporation tax or employers' contributions to a state and/or occupational pension plan—represents an attempt by the capitalist class to increase their profit or the rate of return on capital employed.

During the post-war period when profit rates were rising or at least not falling, governments of all political persuasions were able to increase welfare provision—including a reduction in the retirement age and improved pensions. But as the absolute amount of capital employed in modern industries has risen astronomically, there has been a tendency for the rate of profit measured against investment to fall.

Corporate bosses have sought to counter this by cutting out swathes of the workforce, attacking wages, gutting working conditions, driving up productivity and eliminating their rivals. They have demanded that governments cut corporate taxation and employers' contributions to social insurance funds as a way of restoring the level of profit available for distribution to their shareholders. They have demanded, and got, a reduction in their own personal income tax at the expense of ordinary people as the top rate of income tax has been cut. The billions in revenues lost have then been clawed back via regressive taxes on the consumption of basic goods and services that hit the poorest families the hardest. They have also demanded a cut in the lower rates of income tax as a way of providing a subvention to the miserly wages paid by the corporations.

This venal layer is determined not only to pay no tax itself, but to place the full burden of social provision onto individual workers. Pensions and other forms of social insurance, healthcare, education and transport must be turned into commodities produced for profit and purchased by workers. Hence, politicians, corporate bosses and economists in every country endlessly repeat the mantra that the present level of pension provision is unsustainable and call for the extension of the working life and a reduction in the state pension. Anything else, they say, constitutes an unfair burden on young workers. This is the classic technique of divide and rule, with the aim of pitting one generation against another.

Governments have promoted individual pension plans or stakeholder pensions based on investments in shares, with demagogic invocations of freedom and individual choice, in an attempt to undermine the conception that the provision of pensions is a social right rather than an individual responsibility.

All economic and social life is run in the interests of this tiny financial elite. It is this that lies behind the universal turn to "reform" and privatised pensions. The attacks on pensions throughout Europe can only be understood as part of an ongoing international offensive of the ruling elites all over the world to make working people pay for the growing economic breakdown of the profit system. But of course, pension reform cannot be discussed in these terms. Hence, the resort to obfuscation, deceit and the oft-repeated invocations of demographic pressures without presenting a shred of credible evidence to support these assertions or permit an informed public debate.

That the financial elite have been able to get away with gutting pensions and other forms of social provision is directly attributable to the renunciation by all the old parties, trade unions and organisations of the working class of their previous reformist programmes and their embrace of the "free market" neo-liberal agenda. In every country the parties once associated with the introduction of welfare reforms have played a key role in their destruction: either by cutting pensions themselves or allowing another ruling party to do so without lifting a finger to stop them.

The failure of the old organisations to defend any of the economic or social gains of the working class is not simply a product of the mistaken policies or spinelessness of particular leaders. It expresses the historical dead-end of the political programme of reformism, which has its foundations in the acceptance of the wages system and the social relations of capitalism.

Any examination of the past century reveals that whatever gains were made were by-products of major political and social struggles of the working class, struggles that were often led by socialists and more often still were conducted in a rebellion against the existing opportunist leaderships. As Rosa Luxemburg pointed out 100 years ago in *Reform or Revolution*: "Work for reform does not contain its own force, independent from revolution. During every historic period, work for reforms is carried on only in the direction given to it by the impetus of the last revolution, and continues as long as the impulsion of the last revolution continues to make itself felt."

In the most fundamental sense the reforms granted by the bourgeoisie in the period following World War II were a response, firstly, to the socialist revolution carried out in Russia in 1917, and secondly, to the threat of revolution posed by the sustained upsurge of the working class and oppressed masses internationally in the mid-to-late-1940s.

The very success of the ruling classes in prosecuting their offensive during the past 20 years, including the assault on state pensions, has been directly bound up with the absence of any politically conscious movement in the working class. The socialist conceptions that animated large sections of workers in the aftermath of the Russian Revolution were progressively compromised and destroyed through the combined agencies of Stalinism, labour reformism, trade unionism and their political apologists—all of which attacked genuine socialism and its central axis, internationalism.

The right to a decent standard of living in retirement while still in relatively good health poses not the return to the "golden age" of the post-war period with its system of pensions based on deductions from workers' wages. Rather, it requires the development of a political movement of the international working class on the basis of a socialist programme aimed at the abolition of an economic system based on the exploitation of the vast majority by a tiny handful of people and the reorganisation of society based on human need not private profit.