What’s behind the attack on pensions and social security?

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One of the most significant features of government policy in all the advanced capitalist countries is the growing attack on the pensions and social security systems developed in the post-war period. While earlier retirement was once regarded as a sign of social progress, pressure is mounting to lift the retirement age as the existing pension arrangements are declared unaffordable due to an ageing population.

Two speeches last week were graphic illustrations of this process. In the United States, Federal Reserve Board Chairman Alan Greenspan told a congress committee that due to the “dramatic demographic change”, which would occur as the “baby-boomers” become eligible for Social Security beginning in 2008, it was necessary to take action to reduce spending commitments.

At the same time halfway around the world, Australian Treasurer Peter Costello was delivering the same message. The decline in the ratio of the working population to retirees, he insisted, meant that action had to be taken to delay retirement and reduce government outlays. “The longer we leave our response the greater the changes we will need and the harsher the remedies will become” he warned.

Costello and Greenspan both ruled out tax increases on businesses and the wealthy and sought to present the planned attack on social security as the inevitable result of changes in the demographic structure of society. In Costello’s words, “demography is destiny”. That is, problems associated with the funding of pensions and other social services have nothing to do with government policy, let alone the functioning of the capitalist economy or the ever-increasing appropriation of resources by the rich and super-rich. They are the inevitable result of natural processes—declining fertility rates and the ageing of the population—which leave no alternative but to cut benefits and lift the retirement age.

However, a critical examination of this issue immediately raises a number of questions. Why was it that in the post-war boom, when the potential size of the workforce was smaller than today, with a larger proportion of women remaining at home, pensions and social services were able to be improved? And why is it that today, when major advances in technology have led to vast increases in the productivity of labour, it is not possible even to maintain pensions at their previous level, let alone increase them?

It is not possible in the space of a single article to provide an exhaustive answer to these questions. But the basic processes at work can be drawn out.

Whatever the means used to finance them, pensions and others social services are, in the final analysis, a deduction from the mass of surplus value extracted from the workforce in the capitalist economy, whether it be white or blue collar. The extraction of this surplus value, which is divided up among the various sections of capital in the form of industrial profit, interest and rent and which forms the basis of capital accumulation, is the driving force of the capitalist economy.

The rate of profit, which indicates the pace of accumulation, is determined by the ratio of this mass of surplus value to the total capital that it is called on to expand.

However, as Marx demonstrated, there is a contradiction at the heart of this process—an inherent tendency of the rate of profit to fall. This tendency arises because at every stage in the development of capitalism, living labour, the sole source of surplus value, is replaced in the production process by dead labour (capital). In Marx’s day this replacement of living by dead labour took the form of increased machinery. Today it also encompasses the vast changes to all forms of capitalist enterprise made possible by the development of computerisation and information technology.

This does not mean that everywhere, and at all times, the rate of profit falls. On the contrary, in certain periods and under certain conditions the rate of profit will increase as a result of technological advances. However, at a certain point the tendency will re-emerge.

Throughout his analysis of this phenomenon, which he once described as the most important law of political economy from the historical point of view, Marx insisted on one central point. Contrary to the two great founders of political economy (Adam Smith and David Ricardo), the tendency of the rate of profit to fall was neither a result of increased competition (Smith) nor a result of the falling productivity of labour (Ricardo). It was the contradictory outcome, under capitalism, of an increase in the productivity of labour, to which capitalism itself continually gave rise.

On the basis of Marx's analysis, we can identify the root cause of push to change the pension system. The post-war boom (extending roughly from 1945 to 1973) was marked by a steady or increasing rate of profit. New methods of production in all the advanced capitalist countries ensured a rapid increase in the mass of surplus value, which provided the basis for concessions to the working class in the form of rising living standards and improved social services, including increased old-age pensions.

But the re-emergence of the tendency of the rate of profit to fall from the mid-1970s onwards and its persistence, despite the vast increases in productivity associated with computer technologies, has led to ever-increasing attacks on real wages, social services and now pensions. Under conditions where the pool of available surplus value is too small in relation to the mass of capital it is called on to expand, and profit rates tend to fall, capital demands that all previous deductions from surplus value be clawed back. That is the source of the attack on pensions.

Marx's analysis also illuminates another striking feature of the present situation. As profit rates tend to fall, capital seeks to counter this process—at least in the short term—by financial speculation. The accumulation of profit by means of financial operations, rather than through the processes of production, depends on a continuous inflow of new money into the equity and money markets.

Accordingly, we find that in Australia governments over the past 15 years have been striving to boost the growth of superannuation funds in order, on the one hand, to reduce government pension payouts, and, on the other, to ensure an increased inflow into the financial system. In America, the Bush administration is committed to privatisation which would see the payroll taxes which fund Social Security diverted into individual savings accounts that would then be invested thereby boosting the share and money markets.

Even this preliminary investigation makes clear that the attack on pensions is rooted not in demographics but capitalist economics. Moreover, the drive to reduce pensions and social services in general highlights the inherent contradiction under capitalism between the development of the productive forces and the system of social relations based on the accumulation of private profit.

Increased productivity of labour is, in the final analysis, the material basis for the advancement of living standards and human progress in general. But increased labour productivity under capitalism results in downward pressure on the rate of profit, leading to the cutting of social services such as pensions.

The resolution of the pension crisis lies not in working harder or longer—the reactionary perspective advanced by the spokesmen of capital such as Costello and Greenspan—but in the complete reorganisation of the economy and the overturn of the profit system so that increases in labour productivity can be used to improve social services and society in general.