Britain: Facts and myths about Turner's plans for pensions

Part 2

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This is the conclusion of a two-part series examining Lord Turner's proposals for reforming Britain's pensions. The first part *was posted December 20.*

After the Labour Party's return to power in 1997, its sole contribution to resolving the pension crisis was to introduce "pension credits"—a means-tested benefit targeted at the poorest pensioners who must have savings and assets including homes worth less than £12,000, which many who qualify for still don't claim.

Thereafter, all the concessions were to big business. Labour announced that it wanted to accelerate the move to private or occupational pensions and reduce the dependency on state provision even further. To this end, it launched a private stakeholder pension for those without an occupational pension, raised women's retirement age in stages from 60 to 65, and closed the state earning-related pensions to new workers who were instead to be offered a flat-rate second state pension.

As far as the government was concerned, the role of the welfare state was to provide for those risks that its citizens cannot foresee, while citizens should take responsibility for those risks that were foreseeable. The message was very clear: as old age is foreseeable, it was not the responsibility of the state.

The government turned to former chairman of the Confederation of British Industry, management consultant and vice chairman of Merrill Lynch Europe, Adair Turner, whom it then ennobled, to head a commission to examine whether a voluntary system of pensions to top up the state pension can survive. In other words, his task was to examine whether workers should be compelled to save for their own age. While a review of the state pension system was beyond his remit, Turner was forced to examine it because the two are so intertwined.

The paltry level of the state pension notwithstanding, support for the elderly remains the most significant element of the welfare state. Pensions and means-tested pensions benefits to the elderly have grown from £45 billion in 1998-1999 to £60 billion in 2003-2004. This constitutes 50 percent of the Department of Work and Pension's budget, the social security budget, and 4.4 percent of GDP.

Further benefits paid to the elderly because their income levels are so low, such as housing benefit, disability and carer's allowances, add a further 1.9 percent to GDP, making a total of about £76.3 billion or 6.23 percent of GDP.

There is indeed a pension crisis in Britain and other advanced capitalist countries, but not in the sense suggested by the British government. Everywhere, the myth is endlessly peddled that demographic trends make state pensions unsustainable in order to stampede public opinion into accepting compulsory individual savings as opposed to the social provision for retirement.

The demographic argument, the so-called pensions savings gap, and the claim that decent pensions are unaffordable are used to mask the fact that as with every other social issue, there are at least two perspectives—that of the ruling elites and that of working people.

Life expectancy has grown, but this is 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, the Organisation for Economic Cooperation and Development, and other institutions committed to private pensions shows that the dependency ratio actually declined between 1950 and 1998.

A UN study, extrapolating from present trends, goes on to make a series of population forecasts for 2050. Using its medium range of predictions—a rough guess based on assumptions of an arbitrary character—there is likely to be a 50 percent increase in the dependency ratio in Britain and other developed countries by 2050. But Tomorrow's Company, a city-based research group committed to promoting business, argues that a more relevant ratio is the "economic support ratio," which relates the number of people working to those not working, including children, students, and pensioners. Using this ratio, they argue that the ratio falls by only 13 percent between 2003 and 2041.

Their "total economic support ratio", based upon a consideration of goods and services produced for those working's own consumption, falls from 48 percent in 2003 to 45 percent in 2041, the same as it was in 1961.

It should be remembered that a higher level of pension provision was provided in the 1960s, 1970s and early 1980s when fewer women worked. Tomorrow's Company also rejects the argument that there is such a thing as a quantifiable savings gap—variously estimated by City sources as between £27 billion and £50 billion—and that the solution to the growing ageing population is more saving. Savings are not necessarily linked to investment in productive resources and economic growth, and in some circumstances can slow economic growth. And there is a failure to distinguish pension savings from other savings.

In fact, the UK has more pension wealth in the form of pension savings than the rest of the European Union put together! The problem is that it is unevenly distributed: while the well-off can look forward to a comfortable retirement, more than half the population have no significant savings and cannot afford to save for their old age.

It is this growing gap between rich and poor that lies at the very heart of the crisis over pensions. The number of extra pensioners is more than matched by annual increases in productivity. Assuming productivity increases at 1.75 percent per annum, lower than recent trends, the average British worker will produce twice as many goods and services in 2045 as now. Thus, increased productivity could easily accommodate a shorter working life and/or increased longevity. But the issue is once again who benefits from this productive labour?

Fundamentally, the crisis facing both today's pensioners and workers stems from the crisis of the profit system as a whole. British workers have depended on three sources of income for their retirement: private pension plans, occupational pensions, and the state pension system.

Actuarial studies have shown that personal pension plans have suffered losses of up to 30 percent of fund value between 1999 and 2002 as a result of stock market losses. Many occupational pension funds are in deficit again not only as a result of the fall in the stock market, but also due to pension "holidays" by employers—who have stopped payments into the fund in order to artificially boost their companies' balance sheets and profitability. Additionally, there are the voluntary redundancy deals struck between the corporate bosses and trade union leaders, which are largely paid out of the pension fund and threaten its long-term viability.

The combined pension fund deficit of just the top 100 companies is believed to be about £60 billion, a sum that would take at least 15 years to wipe out. Of those occupational pensions with defined benefit schemes, upon which an estimated 50 percent of the workforce depend, a recent survey showed that 39 percent are closed to new members. Additionally, 18 percent are being considered for closure, 14 percent have been closed and a further 10 percent have been wound up or are providing reduced benefits.

Finally, successive governments' refusals to increase the state pension in line with earnings means that the number and proportion of pensioners living in poverty have risen. Fully 21 percent of pensioners were living in poverty in 2001 compared with 16 percent in 1981. More and more elderly people, particularly women, are forced to rely upon means-tested benefits.

Half of all those eligible are not claiming the 23 potential benefit entitlements. According to Malcolm Wicks, the Minister for Pensions, only 2.53 million out of a possible 4.9 million are receiving Pension Credits. The low take-up is hardly surprising: pensioners have to fill in a 35-page form of Byzantine complexity. According to a Public Accounts Committee report published in April 2003, £2 billion of the main pot of benefits went unclaimed. While 1.5 million pensioners are eligible to claim Council Tax relief, less than 40 percent do so, leaving a massive £750 million in benefits unclaimed.

A Eurostat survey of European households shows that the UK poverty rate of people over 65 is higher than the EU average and that they suffer a larger drop in their standard of living after retirement than those of other EU countries.

The government routinely portrays decent state pensions and welfare provisions as unaffordable without massive tax increases. But the Government Actuarial Officer's own data shows that not only did the national insurance fund have a surplus of £24 billion in 2000, but its surplus is rising by £4 billion per year.

The public subsidy through tax relief to private and occupational pensions has increased from £1.2 billion in 1979 to £16.6 billion in 2004—or one third of the total amount spent on payments to the elderly. But once again, the main beneficiaries of such tax relief have been the wealthy. Fifty-five percent of the tax relief has gone to the top 10 percent of tax payers, while a staggering one quarter has gone to just 2.5 percent of the top tax payers, thereby exacerbating the class and gender inequalities.

The tax relief on private and occupational pensions is, of course, only one of many subsidies given through the tax system to the rich.

Why then does the government claim that decent pensions are unaffordable?

The attack on pensions in Britain and elsewhere can only be understood in its broader political context: the complete restructuring of economic and social life in the interest of a narrow financial elite that has vastly strengthened its position as a result of globalisation of production and the degeneration and collapse of the old labour movement.

The Labour government, like governments everywhere, is stoking up fears of a crisis in order to radically reorganise if not eliminate the social protection provided by what remains of the welfare state—transferring the burden onto individual workers and creating new sources of profit for the City through its privatisation.

Like all welfare provision, pensions represent in the final analysis a deduction from the surplus value extracted from the working class and available to 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 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 in the 1970s, as the absolute amount of capital employed in modern industries rose, the rate of profit began to fall.

Corporate bosses sought to counter this by moving production overseas, cutting out swathes of the workforce, slashing wages, gutting working conditions, driving up productivity and eliminating their rivals as a way of restoring and then increasing the level of profit available for distribution to their shareholders. Later, they turned their attention to undermining and eliminating the welfare state.

Facing little opposition from trade union leaderships that have become ever more craven and openly part of management, they demanded that governments cut corporate taxation and employers' contributions to social insurance funds. They insisted upon, and got, a reduction in their own personal tax via cuts in the top rate of income tax at the expense of ordinary people. At the same time, they sought a cut in the lower rates of income tax as a way of providing a state subvention to their workers' poverty-level wages.

Governments have clawed back the billions thereby lost via regressive taxes on the consumption of basic goods and services that have hit the poorest families the hardest. This only served to further embolden the super-rich.

Unrestrained by any political opposition from a working class, thanks to the rightward lurch of the old Labour and Stalinist organisations, the financial oligarchy has become ever more venal, parasitic, and indifferent to the long-term consequences of its actions. With methods that have more in common with criminals and gangsters, its representatives lie, cheat, steal, cook the books and break the law—as the litany of scandal-ridden corporations such as Enron, WorldCom, KPMG, Shell, Hollinger, Merck and Parmalat demonstrates. With personal wealth that dwarfs the income of small and medium-size countries, they display levels of extravagance that bear comparison with the Roman Empire.

These billionaires demand ever-more-savage "restructuring" and wage cutting in the name of "international competitiveness." The imposition of a 40 percent wage cut on Delphi workers in the US is only the harbinger of what is to come in the advanced capitalist countries as the corporate bosses drive down conditions precipitously. In this context, the insistence on personal saving for earnings-related pensions when wages are set to plummet becomes a cruel joke.

Determined to pay no tax itself, this layer also refuses to countenance the social provision of public services and welfare benefits. Under conditions where 85 percent of the world's workers have no pensions, these oligarchs see no reason why the remaining 15 percent should be afforded such a luxury. If there is money available, then it should naturally go to them.

The task of carrying through this reversal of social policy in country after country is pursued with the same determination by right-wing parties and the nominally reformist parties once closely associated with the creation of the welfare state. Today, social democratic governments are told in no uncertain terms to remove the very social pillars that have served as the main prop of capitalist rule in the post-war period.

The widespread backing for Turner's pension proposals demonstrates that no section of the capitalist class has any interest in maintaining, let alone improving, the social provision of pensions or any other social protection. As with jobs, wages, housing, health and education, the right to a decent retirement income is bound up with the development of a mass, independent political movement of working people armed with a socialist programme.

If the profit system cannot guarantee some reward after a lifetime of labour, then it must be replaced. Power over the distribution of the vast wealth created by the working class in Britain and internationally must be taken out of the hands of the ruling elite, placed under democratic control, and allocated to meet the essential social requirements of all.

Concluded