Half a Century of Political Controversies Relating to Social Security Reforms for the Elderly in Europe

Report by Maarten Ghielen

Professor **Carla van Baalen**, director of the Centre for Parliamentary History opened the first day of the conference. After a warm word of welcome she introduced the first keynote speaker of the day, Professor **Pat Thane** from King's College London.

Professor Thane started her presentation with the question why the elderly in the United Kingdom are poorer than in other European countries. She explained the current situation by delving into the history of the British pensions system. Pension laws were first introduced in 1908, but only for the poor over the age of 70. From the very beginning, these pensions were insufficient to guarantee adequate living conditions and therefore required supplements. During the 1920s and 1940s few reforms were implemented. These mostly dealt with the pensionable age of skilled workers, which was set at 65, while the pension age for the poor remained unchanged. Most notably, laws were passed to grant women the pensionable age of 60; this form of discrimination was only abolished in the 1990s under pressure of the developing European Union.

Pensions in the UK were never intended to provide sufficient means of subsistence. During the Second World War, a government report was published to address these issues, the Beveridge report. Among other things, the Beveridge report aimed to enact a universal standard to provide basic benefits to the elderly. These benefits should ensure a basic standard of living for all citizens by implementing national insurance. A non-income related flat rate was recommended. The post-war Labour government did support the Beveridge report, although it did not implement all the recommended measures. A flat rate pension was introduced, but still not at subsistence level. A means tested supplement remained a necessity for the elderly. The creation of the National Health Service (NHS) did provide help for the elderly. Thane argued that the main reason the Beveridge report was never fully implemented was a lack of pressure on the government which followed from the low level of organisation among the elderly.

Subsequent conservative governments never supported any of the plans recommended by the Beveridge report and instead preferred earnings-related pension schemes. Because of this focus on earnings, conservative policies often disadvantaged women as they were often involved in part-time work and had irregular working hours. As a result, existing pay gaps continued into pension gaps, a fact that is often overlooked according to Thane. While opposing conservative policies, Labour did little to reform the pension system when it was in power, although some minor improvements were made. Again, Thane argued this was mainly due the low level of organisation among the elderly, although the deficits caused by the conservative government didn't help either. During the 1980s, the elderly did start to get organised as they experienced rising inequality, discrimination and poverty after the Thatcher government took office in 1979, which led to a period of eighteen year of consecutive neoliberal policies by conservative governments. During this period, pension plans were further reduced and the pension market was partly privatised, harming a large number of elderly citizens.

Under the leadership of Tony Blair, Labour re-entered government in 1997. The economy was doing well and while income inequality grew, poverty levels dropped, although income inequality kept growing. Some improvements were made to the pension system but the benefits still did not provide the necessary means of subsistence. Nowadays UK pensions are the least generous in the world, particularly for women and the poor. The age of retirement continues to rise, which particularly hurts the poor, as they often do not live as long as average life expectancy.

Recent Conservative governments implemented various austerity measures, but pensions have not been cut as strongly as other social security programmes. According to Thane, this has to do with the fact many among the elderly vote for this party. However, more groups of people are excluded from having a pension, such as the self-employed or those without fixed contracts. The pressure of organised elderly citizens has never been strong enough to mend these problems, whilst the pension industry lobbies to make sure this does not change.

The second keynote lecture was delivered by professor **Lex Heerma van Voss**, director of the Huygens Institute and professor by special appointment at Utrecht University. In his lecture, Heerma van Voss explored the question why the Dutch pension system is better than anywhere else. Before delving into the Dutch system, he explained the three standard models of welfare capitalism as laid out by Gøsta Esping-Andersen. The first is the liberal or Anglo-Saxon model, which means limited benefits and a market oriented system. The poor are targeted as a problem and have to deal with means testing and stigmatization. This system is cheap to maintain and income inequality is unavoidable. The second model is the social democratic or Scandinavian model and promotes decommodification and universal entitlement. Benefits are high and market forces are not at play. No stigmas are attached to receiving benefits, but taxes are high to maintain this system. The last model, the conservative or corporatist model is aimed to uphold the social status of groups of citizens and safeguards traditional values like the stay-at-home mother. The state will only intervene when civil society lacks in supporting its beneficiaries.

This categorisation has been criticized, but remains useful for research into different welfare state models. According to Heerma van Voss, the Dutch system is a combination of the three models. The earliest pension laws date back to the nineteenth century and saw some attempts at collective pension plans. In the early twentieth century, a national pension scheme was implemented for the poor, but the responsibility for retirement remained at the individual level.

During the Second World War a Beveridge-like commission was created in the Netherlands, the commission-Van Rhijn. This commission shared some ideals with its British counterpart, but ultimately recommended a mixed system, which would be part state-supported, and part private. After the war, many of these plans were implemented. In 1947, Willem Drees, then Minister of Social Affairs, implemented the emergency act old-age provision. In 1957 this led to the AOW, the General Old Age Act. This act was implemented to look like an insurance, but has a flat rate and is paid for by taxes. Drees made it look like an insurance to overcome the opposition, because they preferred private pensions. Over the years, the amount of pension received would grow until equal to the minimum wage. The AOW represents the social-democratic model of welfare, whereas the conservative part is represented by occupational collective pensions. These pensions supplement the AOW up to 70% of the income last received.

While the retirement age was set at 65, early retirement plans were implemented during the 1980s. As unemployment had grown staggeringly, older workers were offered the opportunity to retire earlier with increased benefits to provide more jobs for younger people. This was achieved with tax money. Employers supported this plan because they did not have to pay for the leave of the older employees and younger workers were cheaper and also better in their opinion. During the 1990s this system was phased out because of increased employment and eventually abolished by the second administration of the Christian-democratic Prime Minister Jan Peter Balkenende.

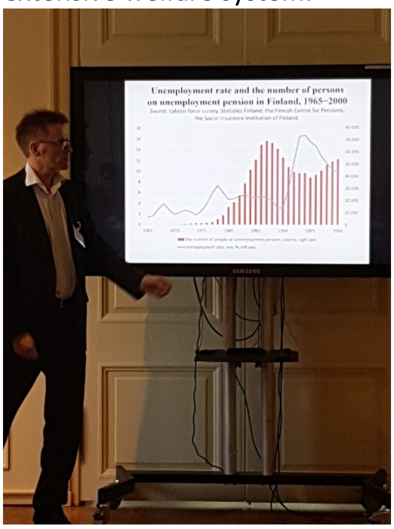
Now, the AOW includes half of the elderly pensions supplemented by occupational pensions. The AOW can be seen as part of the social democratic welfare system and the corporate occupational pensions as the conservative part. Liberal private pensions exist, but are negligible. As Heerma van Voss explained this history, he emphasized that the system was develop over time and is not resistant to change. Although the Dutch are what Heerma van Voss calls 'welfare nationalists', as they prefer their national system over foreign ones, the Dutch system is under continued criticism. It is a complex system, which needs international comparison to achieve interesting discussions of any value. On that note he ended his talk. The first day was concluded by Professor **Han van Krieken**, rector magnificus of Radboud University.

The second day of the conference opened with a lecture by Professor **Jef van de Langendonck** from the University of Leuven, who opened his speech with the provocative statement that ‘Belgium is not a progressive country’. When Belgium was formed in 1830, it did have the most progressive and liberal constitution in Europa, but rapid industrialisation led to proletarianization as well as social problems. Initially, the government chose not to combat these issues as it saw poverty as an individual problem. The first pension laws were enacted in 1844, but only for civil servants. That law and subsequent laws were based on French laws, which entailed that pension was not a right, but granted by the king’s grace. This implied that the pension laws were a conservative force from the start. Although reality has changed since then, the laws have not.

Belgian pensions perpetuate a class system according to van de Langendock. There are big differences between public, private and self-employed pensions. Public pensions are very generous and require no extra savings to have a sufficient pension. The self-employed pensions represent a meagre pension and do need additional savings. Private employment pensions are in the middle, not as good as the public pension system, but not as bad as the situation for the self-employed. These three systems have widely grown apart and each is very complex. New laws only made the situation more complicated. Attempts have been made to bring the systems together, but they have failed.

During the discussion, led by Professor **Teun Jaspers**, gender equality was brought up and Van Langendock noted that, while improvements have been made, the system is not all that good for women. Pensions for women do not provide a decent standard of living, while laws to obtain a widower’s pension have become stricter. Van Langendonk did not expect that the Belgian pension system will be improved in the future. This is not only because of the federal structure of the country, but because trade unions are conservative forces too.

Next was the lecture by Dr. **Matti Hannikainen** from the University of Tampere. Finland has a long tradition of comparing its social security and pension system to those of other countries. Hannikainen even considered it to be part of the national identity. After the Second World War, Finland had fallen behind, but in accordance to Moses Abramovitz’s Catch-up growth theory, by implementing technology and social policy the potential for growth could be established. Finland transitioned from a poor agricultural nation to a wage working industrialised nation with an extensive welfare system.



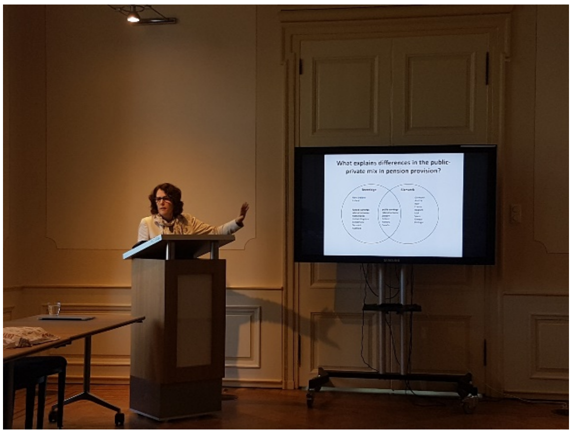
Dr. Matti Hannikainen

Finland has a two-part pension system. A national pay as you go pension to provide a flat rate guaranteed minimum and a private earnings-related part. The latter combines pay as you go with a prefunded system to maintain the income levels of the elderly. From the 1970s onwards the national part of the pension system decreased as the private part increased. The retirement age posed a big problem in Finland as the large number of physically demanding jobs caused many not to reach the retirement age of 65. During the 1990s, employers agreed this was not working anymore and came to a common understanding with labour organisations. This meant the implementation of a number of regulations to retire before the age of 65.

Because of the political tensions during the Cold War, employers were afraid of communist influences. This led to a willingness to work with the social democrats, which meant improved benefits for the working class. This in turn created support for a democracy and social reform. During the nineties this system collapsed under the pressures of the economic downturn and an aging population.

The discussion opened with a question about the unemployment pensions. Were they part of the system? And why so? Hannikainen explained they were part of the private system and were implemented during the rapid changes of the sixties and seventies, when unemployment increased in rural areas and in smaller companies. Another question considered the tensions between communists and social democrats. Hannikainen remarked that, although the communists preferred a national pension, they agreed that the private pensions were very good. When asked to elaborate on the distribution between the public and private pensions, he explained that the current mix causes a problem. As the national pension does not provide subsistence, a private pension is needed to achieve a living standard. This is Finland’s biggest elderly poverty problem, for many lack any additional private pensions and only receive a public pension. This topic pops up every election.

Dr **Karen Anderson**, from the University of Southampton, opened her lecture by asking why workers would trust markets to provide pensions. Her lecture centred on the public/private mix of pensions in Europe. The Dutch system provides a solid basis with the AOW, which is supplemented by a generous occupational part. Why is the occupational part prefunded? A system in which pension contributions are made to a fund that invests through the stock exchange. Market profits make for a secure pension fund. In the Netherlands, Denmark, and Sweden the workers unions and employers agreed to collective pension funds to generate a secure income and made sure these funds were not internal to the company, but external, so they would not evaporate if a company went bust. This meant pensions were portable and secure for the workers.



Dr. Karen Anderson shows the differences between the Beveridge and Bismarck pension model.

The capital itself is the property of the workers and this highlights the importance of collective bargaining. The law was used to cement these principles created in agreement between employers and workers. Pensions were institutionalised. In the Dutch case, this caused little need for personal pensions in the form of life insurance or similar products. Because of the prefunded nature of pensions, this means changes to the model or the implementation of a new model is hard, because you are encroaching on their money. Workers and employers accepted a prefunded pension system, but market volatility means this system is under pressure. Volatility has caused cuts in the amount of pension received, instead of pensions based on the final pay, it changed to average pay. For civil servants pensions have been frozen or at least do not match inflation. In Denmark and Sweden, average profits have outgrown wage growth. In the Netherlands, nobody contests the funding method, but it does cause an intergenerational conflict, namely on the redistribution between young and old. According to Anderson, poverty among the elderly in the Netherlands is the lowest in Europe. She thinks it is partly by accident. High interest rates and market gains have secured pensions for a long time. Low interest and market volatility are, however, increasingly damaging pension funds. This might damage the collective organisations.

During the discussion it was remarked that portability of pensions was not achieved until the 1980s and the distrust between employers and workers had to do with early misuses of pensions by employers. Trusting external pension funds, at least in the Netherlands, might have to do with the corporate structures within society. Recent protest were aimed at this system because the funds were used to 'speculate with our money'. Anderson added it might also have to do with the fact the Netherlands is a 'high trust society'. The next question asked was about the role of the government. Anderson explained the government regulated the process and codified the collective bargaining.

Professor **Karl Hinrichs**' lecture was about the current challenges which pension systems face in Europe. The aging population and austerity measures as a result of the debt crisis have led to cuts and reforms. Institutional change is hard because its effects are long term, have big consequences and are hard to anticipate by those affected. That is why any changes in pension systems are enacted over longer periods of time. Most European states use a mixed system, part social democratic and part conservative. The Beveridge inspired tax funded flat rate pension without means testing and the conservative status maintenance in a pay as you go system.

Parameters change over time as the elderly increase in number, and so does the need for contributions. What part of the income should be replaced by pensions? To contain the rise of an aging population more groups of people can be employed, like women, immigrants or more elderly with a higher pensionable age. Another option is to lower the part of the income as represented in the pensions or supplement with tax money. All over Europe early retirement has been cut and women's pensions have been aligned to men's pensions.

Nominal cuts to pension expenses have been hard to achieve and are considered a dangerous political move as they are often unconstitutional. Indexing can be stopped, so inflation will not be compensated anymore. Or the formula on which the pensions are based can be changed, from being based on wages to prices or from last received income to average income. Both lowering pension expenses. The economic crisis and following sovereign debt crises have shown the weakness of private pension funds being so linked to stock and government bond markets. Linking the pensionable age to life expectancy is a form of blame avoidance argues Hinrichs, it automates and depoliticises the issue. This way critics of raising the pensionable age can be automatically considered unreasonable, as they would be against a 'natural' change or increase. Hinrichs ended his talk by saying changes and policies are very much country specific and comparisons are hardly meaningful.

In the following discussion the position of Greece was considered an outlying case. The fairness problem was tackled too, as life expectancy is very much unequal balanced, but it is hard to legislate these social differences. Increasing the pensionable age is one of the most disliked reforms possible. An option is too look at years worked instead of actual age.

In his talk, **Leon van Damme**, wanted to show how the Dutch AOW discussion was not as smooth and stable as is often claimed. Since it was enacted it has been discussed over 400 times in parliament. The fundamental question asked is whether the state is responsible for pensions. The AOW was implemented by Drees, during the 'Rooms-rode' coalition (Christian democrats/Labour). Social security and social justice were measures to safeguard democracy, but tensions were there from the start. Confessional parties preferred having as little as possible state involvement, the social democrats wanted firm state control and responsibility. This is why the AOW looks like an insurance, but in practice, it is funded completely by the state. The AOW represents a basic pension with a flat rate and a pensionable age of 65, with a complemental occupational pension.

Leon van Damme (left) in debate with Prof Teun Japsers.

During this period the Netherlands also had a policy of wage moderation, when this policy was dropped inflation increased and this effected pensions. This led to elderly poverty and showed a need to increase the pensions in some way, leading to tensions in the cabinet. A deal was struck; the AOW should represent a social minimum, which was paid for by taxation. During the eighties, under EU pressure, pensions were individualised. This benefitted gender equality.

The adjustments seemed to change the character of the pensions, which seemingly lost their insurance status. During the nineties, tabling pension reforms was political suicide, as any party that proposed it lost votes in subsequent elections. So pension reform was postponed, even during the 2006 campaign any attempt to change anything meant losing the elections. Only in 2008, the pensionable age was increased from 65 to 67, but these measures were softened later. According to Van Damme this short history shows no consensus on the issue, but ideological conflict. There is no end in sight to this discussion.

The subsequent discussion targeted the AOW first. Van Damme is convinced the AOW will stay, but the private part of the pensions might gain in importance. Pensions fully paid via taxes seems unlikely because the strong preference for individual responsibility by liberals and Christian democrats.

The penultimate last lecture was provided by Dr **Nicole Kramer**. She talked about how German inquiry tools were used by the parliament to influence law making and gain attention in the media. These instruments of scrutiny monitor the discussion and are sources of information. Germany used the conservative model of pensions from the 1960s and until the 1990s, little was changed in the welfare system. The breadwinner model was used to issue pensions.

The pension and welfare systems of Germany were enacted in 1957, but in the early sixties there was a need to improve pensions. From that point onward pensions were an important topic for discussion in parliament. More and more expert opinion was consulted, and these discussions hit a peak in the eighties. Part of this had to do with the introduction of the Greens in parliament. Although the gendered nature of pension entitlements were a topic throughout the 1970s and 1980s, reforms to changes gender inequality were slow. Things sped up when the elderly women were framed as working during the Second World War and dying before getting any pensions.

During the nineties Germany also faced demographic challenges which led to many commissions to assess what the options were to combat these problems. Cutting social security and migration were both options on the table.

The subsequent discussion started with questions about conflicts between experts, as calling on expert opinion does not mean experts did not have political beliefs. Kramer naturally recognized this problem, but it was true that politicians increasingly wanted to get information from the fields of expertise outside of the political arena. The second topic discussed was migration. Demographic research was hard to do because of the terrible things that happened during the Second World War, but around the seventies this problem started to fade a little. An active birth policy was still controversial, so migration was used to support the care systems. This started the discussion about needing immigrants, but having part of the population not wanting them.

The last lecture was given by Professor **Maria Petmesidou** about gender equality in Greece. A distinctive feature of Greece is that looking at its legal system, the constitution and legal practice, things seem equal. The problem is that practice lacks behind and little has changed other than women's education levels. The current problems in Greece have increased this discrepancy. There are three main problems. In the labour market public jobs in government or education are not the problem. But the private sector has many problems regarding gender equality as the laws that exist are not enforced. Greece maintains a breadwinner model, meaning that women are seen as helpers and not as fully capable workers, resulting in fewer less benefits. The characterisation of women as helpers extends to women being seen as solely responsible for care in the family. Poverty among elderly women is a bigger problem than among men. EU pressure and the occasional socialist government tried to improve this situation. Women employment increased and pregnant women got better protections because of this.

The gender pay gap was enormous before the Greek crisis, after both male and female pensions were damaged, but women's pensions to a far larger extent. Employment for women is hard in the private sector, women mostly work in what is called the 'grey economy'. It is hard to get any numbers as to how big this part of the economy is and, needless to say, it does not provide benefits for those working in it. Hourly wages show a huge gender gap, which leads to an equally large pension gap. The Greek pension fund system is fragmented, therefore it is complex and has varying degrees of quality.

Prof. Maria Petmesidou on gender equality in Greece.

Positive discrimination of women does exist, like pensions after 15 years of public service or the possibility for unmarried daughters to inherit the pension of their fathers. These measures largely have to do with the double role women have to fill as caretakers, whilst external cares services are non-existed or very expansive. Poverty is relatively higher among women, and increased during the crisis. The situation is even worse than in other southern European countries. Pension reforms after 2010 have not helped the situation as collective bargaining has been dismantled. Regarding work/life balance the public system is generous, but the private sector not so much. Smaller companies do not have to deal with laws regarding the dismissal of pregnant women or they just put new mothers on part-time jobs without their consent. To start criminal proceedings is expensive and women are afraid of being fired if they complain. The unpaid work gap is large too; institutional support was low before the crises and lower after. Representations has been problematic in bigger corporations as well as in the cabinet. The changes forced on Greece by the Troika have been gender blind.

The discussion first turned to representation, Petmesidou explained the traditional parties did have women organisations as part of the party, but these parties were defeated in elections. New parties don't have affiliated women's groups. One question regards the lack of reference to a discussion about the aging population. Petmesidou explained that this is part of the discussion in Greece, but the government is only looking for things to cut and save money on. Labour unions and employers organisations have lost their influence and civil society is non-existent in Greece, politics is everything.