

Western European Pensions Privatisation: A Response to Jay Ginn

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Our recent paper on state-mandated private pension schemes in Western Europe has been criticised by Ginn because it did not look specifically at the impact of private provision on women. This was not our intent, but she raises important issues that are largely ignored in economics-driven pension privatisation policy discourses. She has addressed this omission by demonstrating that private pension provision may result in significant levels of economic disadvantage among women retirees. We do not disagree with the broad thrust of her analysis and its conclusions. However, because she has failed to appreciate the crucial difference between voluntary and state-mandated private pension provision, her thoughtful analysis does not invalidate our proposition that the state-mandated provision of private pensions in Western Europe is consistent, to varying degrees, with the notion of collective responsibility for needs satisfaction.

Introduction

Ginn's timely response to our article (Hyde *et al.*, 2003) makes a number of valuable contributions to the debate about Western European pension systems, their reform and their social impact. Specifically, she demonstrates that women are undoubtedly disadvantaged in employment-related pension provision; provides a useful illustration of the ways in which the link between 'labour market career' and pension benefits may be attenuated by redistributive design features, resulting in the potential for more favourable entitlements for women retirees; presents an analysis of comparative poverty and income data that usefully highlights the risk that voluntary private pension provision may diminish women's retirement income; and presents a number of arguments that highlight the risk that private pension provision may undermine the publicly provided components of retirement income protection, upon which women rely disproportionately. We do not disagree with the broad thrust of her analysis and its conclusions.

Ginn takes issue with our proposition, in her words, that 'pension privatisation need not be to the detriment of social cohesion and the needs of the vulnerable' (p. 130). She draws this conclusion because of her concerns about the voluntary (market-driven) private pension industry's sins of omission (the exclusion of women outside the labour market or in marginal and atypical employment) and commission (personal pension mis-selling, and employer manipulation of company pension schemes), which are concerns we share (Hyde and Dixon, 2004). Unfortunately, her knee-jerk reaction to 'pension privatisation' *in any form* has created a blind-spot towards state-mandated (public-interest sensitive) private pension provision. Her thoughtful analysis does not invalidate

our proposition that the state-mandated private pension schemes introduced in Western Europe have been made consistent, to varying degrees, with the principle of collective responsibility for needs satisfaction. The informing values of community solidarity, social cohesion and citizenship rights, were seen by the national governments concerned to be superior to the values of individual responsibility, freedom of choice and contractual rights that underpin the individualist, neo-liberal, perspective. Moreover, the Western European schemes included in our study are all second-tier or complimentary, employment-related pension schemes that either replaced or were established in lieu of state administered, employment-related, second-tier pension provision. This approach stands in stark contrast to the Latin American approach, where state-mandated private pensions predominantly replaced public first-tier pensions (Dixon, 1999). The intent of second-tier pension provision – whether public or private – is to provide a vehicle for those men and women in employment to supplement their retirement incomes. In saying this, we fully acknowledge that women are undoubtedly disadvantaged in employment-related pension schemes – whether private and public.

We address Jay's concerns under four headings: definitional issues; poverty and income data issues; retrenchment issues; and benignancy issues.

The definition of privatisation

We start by restating our definition of 'pension privatisation'. We are concerned with those statutory measures that have transferred responsibility for the provision of retirement income protection from the state to the private (non-state) sector by the mandating of private pension provision – what has been described elsewhere as 'forced saving' (Bateman *et al.*, 2001). This we made clear in the technical footnote in our paper. Such a redefinition of the public-private boundary, however, does not, *in itself*, mean that the state has necessarily retreated from its retirement income protection responsibilities, rather it means that those responsibilities no longer manifest as direct provision; the role of the state has shifted to that of an enabler through regulated private (non-state) provision (or even to public subsidization of the beneficiaries of private provision). While a growing number of national governments have adopted this pension privatisation strategy – so far 32 countries world wide have done so and a further eight are known to be planning to do so (Dixon *et al.*, 2004) – others have opted for the 'privatisation-by-stealth' strategy – the retrenchment of state retirement income provision (for example, by reducing benefits, or by tightening eligibility or coverage criteria) in order to create a 'social protection gap' (Bonoli *et al.*, 2000) in the hope that people will voluntarily make private provision for their retirement, thereby creating a market for the private pension industry to exploit, to the extent, of course, that it is profitable to do so. This latter approach is likely to penalise those who rely disproportionately on public provision, including those whose time-use is devoted predominantly to informal caring. We would observe, however, that voluntary private pensions play only a residual role in most Western European pension systems, with the United Kingdom being a conspicuous exception.

Our concern is where the state, through the passage of legislation, requires all or some employees to purchase state-approved pension products administered by the private (non-state) sector instead of contributing to a state-administered second-tier or complimentary pension scheme. This definition of 'private' has a broader compass than that which typifies much of the economics-driven pension privatisation literature, where the emphasis

is on commercial-for-profit pension provision. Essentially, our definition extends to state-mandated pension provision by any non-state agency, including, for example, commercial-for-profit companies, mutual associations, voluntary organisations, popular-representative organisations (such as trade unions and community based associations) and social partner organisations. We are not therefore concerned exclusively with commercial market-driven provision.

Poverty and income data: what do they show?

We turn now to Ginn's use of comparative evidence of poverty incidence and income shares to challenge our conclusions. We accept that women are disproportionately reliant on public social security programmes, because of 'interrupted and unpredictable employment trajectories' (Ginn, 2003: 21). Thus we were not surprised to learn that, relative to men, they derive a lower proportion of their income from private pension schemes. This much we can agree on, although there are flaws in the data that are used by Ginn to support this argument. Curiously, she treats income from the publicly administered earnings-related second-tier pensions (SERPS) in the United Kingdom as private pension income, whereas the comparable Supplemental Social Security Income in the United States she properly regards as public pension income.

In terms of Ginn's case against our findings, the analysis of the European poverty and income data she presents is irrelevant. Her focus is on private pension provision *in toto*, which, given her selection of countries, in effect, means voluntary (market-driven) private provision, rather than state-mandated private provision, which, of course, is our focus. She provides no evidence that there has been any change to the degree of economic disadvantage of women in countries where complimentary state-mandated private pension schemes have been established, whether or not as a replacement for publicly administered, complimentary employment-based schemes. We are not convinced that women would, necessarily, be more economically disadvantaged by the introduction of a complimentary state-mandated private pension scheme than under a publicly administered, complimentary, employment-based scheme. But this merely says the obvious; both approaches entail a strong link between 'labour market career' and pension benefit entitlements, so both disadvantage women, albeit some more than others.

Achieving gender equity and distributive justice in post-retirement income provision is, it could be argued on public interest grounds, properly the responsibility of the publicly administered first-tier pension system. That a public retirement income protection system is unable to ensure that everybody's post-retirement standard of living is at a level that is both gender equitable and socially acceptable is a condemnation of the architects of that public system.

Does privatisation cause welfare retrenchment?

An important element of Ginn's argument is concerned with the impact of any form of privatisation on the publicly provided elements of retirement income protection systems. She quite properly highlights a number of factors related largely to 'privatisation-by-stealth' that may well undermine the public pension programmes upon which women rely disproportionately. This argument has become part of the accepted wisdom of those who have, hitherto, opposed welfare privatisation. Titmuss, for example, observed how

‘specific instruments of public policy encourage or discourage, foster or destroy, the individual expression of altruism and regard for others’ (1970: 130). The Fabian tradition that he represented was wedded to the belief that the welfare state, ‘with its commitment to the promotion of equality of opportunity, social harmony and the redistribution of wealth, promotes material changes and wins people over to altruism and egalitarianism’ (Williams, 1989: 130). By the same token, according to this logic, a reliance on the market and selective social services will undermine any hope for an inclusive society – an Australian might well take exception to that proposition. There can, however, be little doubt that these arguments capture the essence of recent developments in pension reform in the United Kingdom, where the contracting out of second-tier, complimentary public pensions into state-approved occupational and personal pension schemes has been actively (and misleadingly) encouraged alongside ‘privatisation-by-stealth’, achieved through effective reductions in state benefit entitlements (Andrews and Jacobs, 1990).

Whilst any account of pension privatisation that did not acknowledge this risk would be incomplete, the experience of pension reform in *continental* Europe suggests that pensions privatisation does not, necessarily, mean the retrenchment of the publicly provided elements of retirement income protection systems. A prime example is Finland, with its universal first-tier public pension scheme – the National Pension – that aims to ‘guarantee a minimum income in cases where the person has no earnings-related pension or the earnings-related pension is very small, thus giving security to persons who are outside the active working life’ (Leppick and Lindell, 2001: 5). It has survived, fundamentally unreformed, for over 40 years of complimentary pension privatisation. The French first-tier employment-related public pension scheme has also resisted fundamental reform despite over 30 years of mandatory private complimentary pension provision. The first-tier employment-related public pension schemes in Switzerland and Liechtenstein have also retained their integrity for 15 and 20 years, respectively, after the introduction of mandatory private complimentary pension provision. It is clear from these examples that the introduction of mandatory private complimentary pension schemes in continental Western Europe is consistent with the maintenance of the integrity of unreformed, relatively generous, publicly administered first-tier pension provision. Whilst we would not wish to minimise the risks to public provision that may, under certain circumstances, be occasioned by pension privatisation (as happened throughout Latin America in the 1980s and 1990s and in most of Eastern Europe in the 1990s and 2000s), it is equally clear that privatisation does not necessitate or cause retrenchment. The resilience of public provision in continental Western Europe might well be attributable to the strength of its collectivist ideological heritage, its reluctance to accept the values of individualism that underpin market-driven private pension provision, and its willingness to explore novel approaches to public-interest-sensitive pension privatisation.

A benign privatisation?

Finally, we turn to the question: is it possible to develop forms of privatisation that are consistent with the aim of promoting an inclusive society – a benign form of privatisation? We believe not only that it is possible, but also that it has been achieved to varying degrees in continental Western Europe (in stark contradistinction to the Latin American experience). Under state-mandated private pension provision the state can, and in many countries does, prescribe a set of programme design features that advance social

cohesion and inclusion and that require private pension schemes to meet the needs of the vulnerable, albeit, perhaps at some public expense. In this respect, this form of private provision is quite different to voluntary (market-based) private pension provision, which is Ginn's privatisation *bête noire*. Because the former are statutorily based, government can be prescriptive on the form of private pension provision permitted. Whether, of course, it is willing to be radically prescriptive to protect its perception of the public interest – including, it must be said, the interests of women – is a question of having, or indeed being given, the political will.

On the basis of global practices (Dixon *et al.*, 2004), the statutory requirements of mandated private pension schemes embrace:

- who is required to be a member of a private pension scheme (coverage exemptions on the grounds of temporary, casual or low-paid employment can be minimised, so advantaging women, as in Finland and France);
- how savers may choose a private pension provider (freedom of choice can be guaranteed, so empowering women, as in Sweden);
- who must pay contributions (employees can be exempted, as in Australia; and government can subsidise particular member categories, as in 18 countries around the world, which could include women temporarily out of the labour market because of child bearing and caring responsibilities);
- how contributions are collected and transactions on individual accounts are recorded (this could entail a public collection agency, as in 11 countries, including Sweden, which would advantage women who are in temporary, casual or intermittent employment);
- who can voluntarily affiliate and pay contributions (this can be anyone who can afford it, as in 12 countries; but it could include women temporarily out of the labour market because of child bearing and caring responsibilities for whom employers alone could be required to pay contributions);
- how much has to be paid as contributions, and by whom (differential contribution rates can be specified, as in 14 countries; and contribution floors can be specified, as in Ecuador; this could require employers to pay higher contributions to employees in low-paying jobs, so advantaging women);
- how eligibility is determined (immediate vesting and portability rights can be specified, as in 31 countries, which would advantage women who are in temporary, casual or intermittent employment);
- how benefits are paid (earnings-related benefits can be prescribed, as in Finland, Iceland and Liechtenstein; indexed annuities can be required, as in the Dominican Republic; benefits can be augmented by the state, as in Argentina, Chile and Mexico; and survivors' benefits can be prescribed, as in 30 countries, which are intended to assist dependent and surviving partners, so advantaging dependent women);
- how private (non-state) providers must conduct their affairs (competition can be guaranteed, as in Sweden; it is also possible to require the representation on pension fund governing bodies of employees, as in Australia and Switzerland, trade unions, as in Iceland, and contributors, as in Slovenia; this could also be extended to women);
- how contributions can be invested (mandatory forms of investments can be specified, as in 12 countries; and restricted and prohibited investments can be specified, as in 30 countries; these benefit all members, including women).

As we have argued elsewhere (Dixon and Hyde, 2003), the articulation of desirable statutory design features for state-mandated private pension schemes permits government not only to address the risks that emanate from the minimally regulated market environment that is the usual domain of the private-for-profit pension industry, but also, given the political will, to impose public-interest constraints on that industry, in return for providing it with a statutory market in which it can profitably sell its pension products. This government can do by means of a robust regulatory regime, or, more innovatively, by enabling public agencies, trade unions, community-based organisations or the social partners to establish private-not-for-profit pension funds to compete or work in partnership with the private-for-profit pension industry, as happens in, among other countries, Australia, Iceland, Hungary and Switzerland. This could readily be extended to enabling women's organisations to sponsor state-mandated retail private pension schemes, designed specifically to meet the needs of women in employment.

Conclusion

Our work has been concerned primarily with developing a robust definition of public pensions privatisation, and with the classification of existing Western European approaches to statutory pension privatisation. However, it is clear that we *endorse*, in principle, the statutory privatisation of pensions as an important element of a multi-tiered and multi-sectoral retirement income protection system designed to promote the economic well-being of those who have reached retirement age. The case for some acceptable form of privatisation is compelling: the changing demographic profile of nation-states calls into question the capacity of their governments to honour existing public PAYG pension commitments (Lindsey, 2001; Holzman *et al.*, 2003); the contract between the state and the individual, implicit in public pension provision, has no legal status, and may be changed, arbitrarily, without notice, to the detriment of scheme members (McKay, 2003); and savers and retirees are offered few, if any, opportunities to exercise voice and control in the administration of public pension schemes (Papadakis and Taylor-Gooby, 1987). Reflecting these problems, a number of recent attitude surveys have suggested that public pension programmes have failed to engage the trust of national publics (Boeri *et al.*, 2000; National Consumer Council, 2002; Taylor-Gooby and Hastie, 2003; Zogby *et al.*, 2003). However, it is not clear that this may be addressed to the satisfaction of the public by merely reforming state pension systems. According to two recent attitude surveys (Forma and Kangas, 1999; Boeri *et al.*, 2000), a majority of respondents in six of the seven countries surveyed endorsed regulated forms of private pension provision, where the risk of market failure is minimised. This is a view that is shared by a growing number of national governments, as our other work on public pensions privatisation suggests (Dixon and Hyde, 2001, 2003; Hyde and Dixon, 2002; Dixon, *et al.*, 2004), and by international agencies engaged in the reform of social security (Deacon *et al.*, 1997). Instead of lamenting the demise of the welfare state and burying our heads in the sand by rejecting – outright – any and all forms of pension privatisation, we believe that pension policy analysts of all intellectual and ideological hues should engage with this growing consensus – currently informed at the technical level predominantly by economists – thereby developing arguments for pension reform – including the privatisation of pensions – that accord with the collectivist social justice aims of an inclusive society. We believe that our work has made such a contribution.

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