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# Social progress in the 21st Century

Social investment, labour market reform and intergenerational inequality

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- ▶ A decade into the new century, Europe is beset by a striking mood of social pessimism. The post-war baby boomer generation harbours real fears about the future; it looks like life will not be as good for their children and grandchildren as it was for them.
- ▶ Such anxiety presents a particularly de-habilitating political problem for social democracy. Historically, the promise of social progress has been a powerful force in all of its projects, and a cornerstone of the movement's political offer.
- ▶ Despair and shades of nostalgia will not return European social democracy to the political frontline. Returning as the parties of social and economic progress requires new ideas and political narratives. It is here that this volume contributes with papers on social investment and the European welfare state; the workplace and labour market; and social protection and intergenerational inequality.

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# Allying generations and modernising social protection

Karen Anderson

**The dual achievements of ageing populations and new labour market trends now threaten the sustainability of Europe's social protection institutions. Designed on the premises of high fertility, employment, and growth, if left unreformed the institutional organisation of European pensions systems will result in intergenerational inequality and conflict**

Two challenges dominate debates about the future of social democracy and the sustainability of European welfare states. First, the dramatic ageing of populations creates unprecedented pressure on social protection institutions that were designed for a high fertility, high employment, high growth socio-economic context. According to the most recent projections of the European Union, the proportion of people aged 65 and over in the EU-27 will increase from 17% in 2007 to 30% in 2060. Moreover, the ratio of elderly persons to working age persons (age 15-64) will increase from one to four today to one to two in 2060. Population ageing coincides with a second challenge: rapidly changing labour markets and employment patterns. Full employment for standard, full-time workers seems to be a thing of the past. Instead, "dual" or "segmented" labour markets have emerged in many European economies,<sup>1</sup> characterised by high levels of youth unemployment, the expansion of part-time and atypical work, and persistent long-term unemployment.

To be sure, we should celebrate population ageing to the extent that it reflects rising standards of living (increased life expectancy) and the ability of women to choose the conditions under which they bear children (declining fertility). Yet we cannot escape the very real economic, social, and political consequences of ageing. We should also embrace the decline of the standard employment relationship to the extent that it means saying goodbye to the standard full-time worker defined as a male breadwinner who was usually white. Nostalgia for the "golden age" of full employment and high economic growth that lasted from about 1950 to 1980 is really a false nostalgia, because the "golden age" was usually only golden for white male breadwinners; it certainly was not a golden age for most women and minorities. I do not mean to argue that full-time standard employment is not desirable, only that ageing and rapidly changing labour market patterns – as destabilising as they are in many ways – also partially reflect tremendous social progress.

How can social democracy respond to the intergenerational inequalities – and potential conflicts – produced by population ageing, shifts in family patterns, and changing labour markets? The response I propose here emphasises three core values set out by Jane Jenson: autonomy, security, and social inclusion. Autonomy refers to the capacity to form an independent household; security means having access to sufficient income, health care and housing; and social inclusion means participating in collective/societal/civic life.<sup>2</sup> An inclusive society that promotes autonomy and security must put these principles to work not only for the working age population and retirees, but also for those under the age of 18. The challenge for social democracy is to devise a policy approach that unites, rather than divides, the generations.

The single most pressing challenge related to intergenerational inequality concerns paying for the pension and health care costs of growing numbers of pensioners. Appealing to some notion of a "contract between the generations" is particularly problematic in this context because this is just

<sup>1</sup> See for example, Palier, Bruno and Thelen, Kathleen. 2010. "Institutionalizing Dualism: Complementarities and Change in France and Germany." *Politics and Society*, vol. 38, no. 1, pp. 119-148.  
<sup>2</sup> Jenson, Jane. n.d. "Seeking a roadmap for gender and generational equality." *Progressive politics*, vol. 4.3.

another way of saying that current workers – who had no influence on the contract in the first place – should finance current pensions. Such appeals are clearly unsustainable in the light of rapidly rising old age dependency ratios and tight government budgets. Moreover, growing levels of spending on the elderly crowd out spending on the kinds of social investment strategies that should be at the heart of social democracy’s political project (I return to this point below).

How, then, should public, pay-as-you-go pensions be reformed? In my view, the fairest and most progressive approach is to weaken, if not sever, the link between the generations in collective pension systems (both public and private). The heart of the “pension problem” lies in the fact that fewer and fewer workers will be financing more and more pensioners. The more that pensioners believe their pension rights to be earned (on the basis of contributions on earnings) and therefore to have the status of rights, the less likely they will be to support pension reductions. This dependency of older generations on younger ones often generates severe distributional conflict when revenues are not sufficient to cover pension costs, because neither pensioners nor workers are likely to want to cover the funding shortfall. Thus the “contract between the generations” is just as likely to unleash intergenerational conflict as it is to foster intergenerational solidarity.

The 1994/98 reform of the public pension system in Sweden demonstrates how *intergenerational* solidarity can be replaced with *intra-generational* solidarity.<sup>3</sup> The ATP pension system introduced in 1957 was a defined-benefit (DB), pay-as-you-go scheme.<sup>4</sup> The recent reform transformed the old DB scheme into a notional defined contribution (NDC) scheme. Financing remains pay-as-you-go, but the shift from DB to NDC replaces *intergenerational* solidarity with *intra-generational* solidarity. Rather than each generation depending on subsequent generations to finance their pensions, each generation now “pays for itself.” Each worker in Sweden has an account with the Swedish Pension Authority; contributions (based on employment) are credited to the individual account, and the balance is adjusted annually by the internal rate of return (based on economic growth and wage growth) in the system.<sup>5</sup> The value of notional pension capital in an individual’s account is also adjusted for changes in life expectancy for that person’s birth cohort.<sup>6</sup>

The role of social democracy in responding to these trends should be to improve the situation of the most vulnerable pensioners and to devise a political strategy for increases in taxes for the most affluent

A second challenge related to pension reform concerns growing income inequality among pensioners and between pensioners and the working population (obviously these two trends take different forms in different countries). The OECD reports that in the mid-2000s, people 65 and older had an average income that was 82.4% of average population income. Those aged 66-75 had higher average incomes than those aged 76 and older. Women are more likely to be represented in the over 75 group because of their higher life expectancy, and their non-standard earnings biographies (part-time, career breaks, etc.) result in lower earnings and therefore lower pensions. The OECD also reports that in 13 of the 25 OECD countries studied, the incomes of the elderly grew more quickly than that of the working population between the mid-1980s and mid-2000s.<sup>7</sup>

These statistics point to growing pensioner affluence, even if average pensioner incomes remain below that of the average income for the entire population. In other words, pensioners have an increased capacity to maintain an autonomous household, to be “socially included”, and to enjoy security in terms of health care and housing. At the same time, however, the numbers of frail elderly

3 Anderson, Karen M. and Immergut, Ellen M. “Sweden: After Social Democratic Hegemony.” In Ellen M. Immergut, Karen M. Anderson and Isabelle Schulze (eds.), *The Handbook of Pension Politics in Western Europe*. Oxford: Oxford University Press, pp. 349-395.

4 The ATP benefit formula was generous: the best 15 of 30 years of labour market participation determined the level of the pension (up to a ceiling). The system was partially funded. Excess contribution revenue was placed in five public trust funds that invested in housing and later in stocks and bonds.

5 The internal rate of return can be negative, as it was for the first time in 2010.

6 The new pension system also includes an individual, funded pension account called the premium reserve. See Anderson and Immergut (2007).

7 OECD. 2011. *Pensions at a Glance*. Paris: OECD: 146

are growing, as are the numbers of females over the age of 75 with low incomes. The role of social democracy in responding to these trends should be to improve the situation of the most vulnerable pensioners (often women over 75) and to devise a political strategy for increases in taxes for the most affluent pensioners.

So far I have emphasised two policy responses to the consequences of population ageing: switching from defined benefit to defined contribution pension schemes in order to reduce intergenerational dependency, and increasing taxes on the growing incomes of pensioners in order to free up resources for low income pensioners and to finance other policy priorities. Again, the attractiveness and feasibility of these two policy options will differ across countries because of the difficulty of proposing uniform solutions for what are often vastly different institutional settings.

### Shifting the social policy centre of gravity

How can social democracy apply the values of autonomy, security and social inclusion to policies affecting the working age population and their children? And how can such a strategy form the basis for an alliance across generations? As many authors have noted, social investment should be a central element in social democracy's political programme. The elements I would like to emphasise here are policies that facilitate the reconciliation of work and family, early childhood education, job training and re-training, and labour market activation (these categories are not mutually exclusive). As Julia Lynch argues, welfare states have an "age orientation" in the sense that social policies provide benefits and services to different age groups.<sup>8</sup>

Every welfare state is characterised by its own mix of programmes aimed at different age groups. It can and should be the task of social democracy to shift the social policy centre of gravity where possible toward the education and development of children and young adults and to the continuous re-skilling and up-skilling of workers. This is not to advocate deep cuts in pensions in order to finance the expansion of public day care, but rather to suggest a slowing or reversing of the increase in spending on social policies oriented towards the elderly and raising taxes on the affluent elderly in order to create resources for more "youth-oriented" social investment based policies.

The emphasis on education, skills and employment should promote high levels of labour market participation, especially of women

Shifting the social policy centre of gravity towards early childhood education, general education and labour market training has several advantages that are central to the social democratic political project. First, there is ample scientific evidence demonstrating that early childhood education is one of the most important factors in improving the educational performance of children from immigrant families and disadvantaged families. Second, the old age dependency statistics I presented earlier will mean labour shortages in many European countries in the not too distant future. This will increase the demand for skilled workers. Third, the emphasis on "skilling and up-skilling" will make labour market re-entry easier after a spell of unemployment. Finally, the emphasis on education, skills and employment should promote high levels of labour market participation, especially of women. It is well known that women earn less than men, partly because of part time work and career interruptions. These lower earnings result in lower pensions and can be disastrous for the woman in the case of marital breakdown. In other words, investing in both education and increased labour market participation, especially of women, will enhance the capacity of those below the age of 65 to maintain an autonomous household.

<sup>8</sup> Lynch, Julia F. 2006. *Age in the Welfare State. The Origins of Social Spending on Pensioners, Workers, and Children*. Cambridge: Cambridge University Press.

I would like to conclude by noting that the trickiest parts of the policy approach proposed here concerns raising taxes on affluent pensioners and further increasing the labour market participation of women. Again, the details of national institutional and political contexts will shape how debates over these two issues unfold. As the literature on “new social risks” shows, it is not impossible for political actors to forge alliances between disparate groups who stand to gain from reforms aimed at modernising social protection.<sup>9</sup>

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<sup>9</sup> See for example, Häusermann, Silja. 2010. *The Politics of Welfare State Reform in Continental Europe: Modernization in Hard Times*. Cambridge: Cambridge University Press.