

NUKES ON THE ROAD TO NOWHERE



The Chinese word for crisis combines two symbols. One denotes 'danger', the other 'opportunity'. At some point the government will decide we are sliding into the middle of a pensions crisis and that 'something must be done'. We need to remind ourselves at that point that how we respond should be driven by the opportunity to do things differently (and better), rather than the danger of doing nothing at all.

At one level, the pensions debate is more biological than political. We now expect to live longer, fuller lives. Average life expectancy has risen by 3 years in the last 36 years. Over the next 30 years, the proportion of the population aged 60 and over is set to rise from 20 per cent to 30 per cent.

Against this is the fairly straightforward fact that we are not collecting (or putting aside) enough money to meet these pension needs. At this point demographics end and politics begin. No one should pretend that Britain is too poor to provide ourselves with decent pensions. The fourth richest nation on the planet, which can set aside £5 bn for a war on Iraq that no one but the Bush administration wants, can certainly afford to pay its pensioners properly. And the best way of doing so is still by raising the value of the state pension and its link with earnings.

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Currently the combined basic pension and minimum income guarantee account for £40 bn of the £60 bn of state benefits paid to pensioners. Governments usually only quote such figures to frighten the chickens; restoring pensions is seen as involving unsupportable tax increases and electoral suicide. Forget the increasing significance of the pensioner vote, the claim itself isn't true.

Very few pensioners have time-share apartments in Belize or numbered bank accounts in Switzerland. Pensioners are the most patriotic of spenders. Most of this money circulates within the domestic economy – supporting other people's jobs, wages and (yes) tax contributions. The money we pay out all comes back. The question is not whether we can afford it but the fairest means of doing so.

The Beveridge system of social insurance was far more than a means of paying today's pensions out of today's taxes. It was an act of solidarity from one generation to another; a recognition of our debts and interdependence. More than that, it bound the employer, as a contributor into the nations national insurance funds. Pensions were paid out of a 3-way partnership between workers, employers and the state. Even the state second pension (SERPS), though targeted more directly to individual workers'

earnings, was based on the same presumptions of a contributions partnership.

All this is being broken down by changes in the capitalist system. Capitalism now drives the state to abandon universal pensions and drives individual pension contributions into the hands of speculators. If there is a crisis to be addressed it is the crisis in capitalism itself rather than a crisis in pensions. In today's global economy there is structural over-capacity in virtually every sector of production. We produce more goods than can be consumed, largely because the poor in the developing world (who would gladly consume surpluses) do not have the money to buy.

Competition between companies became a matter of driving down costs (wages) and burdens (taxes and NI). Companies played with this first by giving themselves pension holidays and then by raiding the funds themselves. Many cut their NI contributions by 'outsourcing' – selling workers their own jobs, but without holiday, sickness or pension rights. Others cut costs by moving somewhere cheaper to exploit. The message to government was clear – cut company taxes or we go. Successive governments failed to see that there were more appropriate ways of responding to changes in the modern productive economy and to the more cynical demands that capital should be freed of its responsibilities towards labour.

There has long been a case for shifting employer NI contributions across to a more broadly based social insurance levy based on net turnover. This contains no hidden incentives to save on insurance contributions by laying people off.

Why should employers who replace labour with machines be tax-rewarded and those who continue to employ people be the only ones making social insurance contributions? To create a system that rewards those who abandon labour – and pass the costs of unemployment and pensions across to those who continue to pay NI – simply seems perverse. The principles of universality and equity should drive this case for change.

No less traumatic are the upheavals threatening the world of private (second) pensions. As stock markets continue to fall on the sword of their own greed and corruption, workers are being told their pension prospects have disappeared with the dividends. Companies are closing down 'final salary' pensions schemes as fast as they can find them. Replacement schemes are set to deliver around 14 per cent of a final salary, whereas existing ones guaranteed pensions of around a third of final salary.

The only option, we are told, is that we are all going to have to contribute a lot more towards our pension expectations. At best there is only a partial truth to this. Some may be in a position to contribute more, but low pay and flexible (disposable) labour markets have created a huge fall out rate from private schemes. Those who have no savings and no housing or pension wealth are all in the poorest 50 per cent of the population. All would currently be eligible for means-tested benefits in retirement. To force the poor to save what they haven't got would be to force them to borrow (more expensively) to feed themselves. If the poor are to save more they must first be paid more.

Then we come to the biggest issue of all. If twice the amount of money had gone into private pension schemes, would we now be better off? The answer is almost certainly 'no'. About £70 bn a year is currently paid into UK pension funds. At least 70 per cent of the pension tax relief given to these funds has gone into stock exchange speculation, not new investment. Some £14 bn of government subsidy has

gone, along with workers savings, into inflating the stock market bubble that has just burst. The London exchange alone has lost £450 bn in value over the last two and a half years. Throwing more money in would have merely exaggerated the unreality and accelerated the collapse.

No one pretends they are saving when they go to the bookies. Yet that is what we have allowed our pension savings to be used for. And it is the use of our pension funds to underpin a global casino that we should now fundamentally challenge.

Equities markets are by no means the most sensible place for pensions savings. They take savings from those who have long-term pension interests and put the money into company shares driven by short-term market prospects and dividends. A more sensible contract would be between pension schemes and government infrastructure programmes.

This year the government will invest £35.9 bn in public works. Of this, £3.7 bn will come in the form of widely discredited PFI schemes. The government has ruled out public bonds to finance this work, largely to avoid falling foul of the Maastricht rules for the single currency. Yet government (or local government) bonds would be a far safer vehicle for both secure investment and secure pensions. Only 5 per cent of current pension savings would need to be diverted in this way to get rid of PFI altogether.

In return, pension savers would get both a secure rate of investment on the bond and a 'quality of life' dividend on the infrastructure investment. Better hospitals, new schools, a modern national rail network, a national housing programme, energy technologies for a sustainable future....all are within reach if what we save for tomorrow is invested in the services that will make tomorrow safe.

Capitalism will not address this. Current market rules would throw extra pension savings into increased global instability. Free market politics would take the state and the employer out of the pensions equation, leaving workers responsible for their own poverty in older age. Restoring the principle of universal pension rights, and reclaiming the right to direct our pension savings into public service investment, is the political high ground Labour must occupy.