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PENSIONS

# CLR News

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## NOTE FROM THE EDITOR

As I write this editorial we are on the eve of one of the biggest demonstrations in Dutch history since the Second World War, after several disputes we have already had during the past weeks. I am quite sure that a lot of our readers will wonder: “The Netherlands? Isn’t that the country with the lowest strike rate in Europe (apart perhaps from Luxemburg) and with the famous model of industrial relations based on consensus?”

The main reason for these protests is exactly the policy that Bernard Friot describes in his contribution to this issue of CLR News – the policy of the Dutch conservative (liberal/christian democratic) coalition in the field of pensions and early retirement. After a period of turbulent political events in 2002, with a new populist movement coming out strongly in the spring elections (and collapsing soon afterwards), new elections delivered a right-wing majority in parliament. So far so good; in a political landscape of coalition governments nothing new on the scene.

But what has happened at the moment is a complete shift in the balance between the three main actors in the industrial relations field: government, employers and the unions. The important role of the social partners in shaping the labour market has never really been questioned in the post-war period. And this is exactly what the new government is doing. After tax reforms friendly to the ‘haves’, and a strict economic-monetary policy of saving and cuts in expenditure with no space for anticyclical measures, the new government started to attack the existing system of industrial relations.

In recent years several sectors have reformed their early retirement provisions to adapt to new circumstances and to keep open the possibility for coming generations to step out of the labour process on time. Now the new government comes along with legislation that makes these schemes impossible. The social partners had an agreement concerning the serious Dutch problem of long-term

occupational disability; the government throws this in the garbage bin.

Whereas Dutch society has functioned in the last decades as a pilot for social peace based on broad consultation with the social partners and civil society experts, the new coalition government has opted for a strict and unpolished free market programme without any dialogue. In the field of pensions, early retirement, unemployment benefits, and social security in a more general sense, deregulation and deterioration of provisions are taking place, using the argument that the recession and an aging society demand tough measures.

Whether or not this is true, the government's defence against criticism is even more astonishing:

- Several ministers have publicly declared that this is, in fact, a clash of generations. Criticism of the government is claimed to come from the old and grey; the trade unions are not representative of youngsters and only defend their members' interests. The younger generation has therefore to stand up against the easy life of older workers and those that want to quit work before the age of 65. One of the academics backing this view said, literally: "The baby boom is in fact a never-ending liberation party that has to be paid for by the young people born after 1980 (sic) who will have to pay the bill till far into the next century."
- The aging of the population is claimed to be the problem of the individual citizen and therefore his/her responsibility. Individual workers must organise their own career, pension or early retirement, social security and unemployment risks, take out individual insurance instead of expecting collective provision, as the latter only makes for laziness.
- There is an absolute lack of serious analysis as to how to deal with an aging workforce in the new century and what this has to do with collective bargaining, wage negotiations and the economic distribution of welfare in our society. The advice of the highest advisory bodies is disregarded.

As a consequence, employers can lean back in their easy chairs in the public debate. The government acts as a shelter for them. The move is no longer with them if the aging of the labour force is reduced to a problem of fertility and if future social security has to be tackled by the individual worker. Every stimulus for clever innovation and investment in people disappears out of sight.

From this perspective the contributions in this issue read like a warm bath. Bernard Friot knocks the bottom out of the reasoning used by this cuirassed and ultra-liberal approach that sets up a polarisation between the old and the young in our countries. His analysis goes right to the heart of the matter: social security is an integral part of our industrial relations and must be financed by the output of our production process. In this respect it is an important part of collective bargaining – even if the state is involved – that is, the outcome of negotiations between capital and labour, as has been the case in our society since collective bargaining began.

Before Bernard, Jörn Janssen places the debate about growing social security costs in historical perspective. He links the actual debate to the (historical) role of the state in the distribution of welfare and income and makes reference to the Charter of Fundamental Rights. Other contributors make a first attempt to come up with a European overview of the national debate.

In contrast to the approach of my own government, I do hope that the positions taken in this issue of CLR News lead to a fruitful dialogue and debate that contribute to a deeper understanding.

Jan Cremers, 29-9-2004.

## INTRODUCTORY NOTE

### **Pension, Social Protection and the Wage**

*Jörn Janssen, CLR-London*

A shift in the nature of wage labour relations has taken place during the second half of the last century, which has hardly been recognised by their protagonists, the Social Partners. The wage has changed its predominant contents or quality. That is what it is paid for. One may distinguish the nature of wages according to three main categories, whether they are paid for the amount of work delivered, for the time spent in working, or for the provision of labour force. Accordingly the issue of bargaining and agreement between the parties may be task, piece, annual, monthly, day, or hourly rates, and conditions of employment including social protection. Though usually the labour contract combines a number of these terms, each can be located according to its origin in the history of the relationship between the employer and the provider of labour in production. Thus, in both market and planned economies we have witnessed a marked shift in the dominant issue of wage bargaining from the level of wages to social protection. The proportion of the wage paid to employees for the time worked has been decreasing in relation to the wage – or wage related benefits - paid for the time out of work due to unemployment, illness, invalidity, maternity, vocational education, holiday, old age, etc. Under some regimes the direct wage bill represents only about half the wage package, the other half being contributed to funds for paying employees' time out of work and social protection. The trade-off between improvements in social protection and wage increases has become the rule in collective bargaining. A spectacular manifestation of this shift has been the huge demonstrations of pensioners in many European countries at the beginning of this millennium claiming adequate pay for the maintenance of their living standards.

These disputes about pensions seem to indicate a new stage in the history of wage labour relations. It will be useful, therefore, to trace its whole trajectory associated with the demise of feudalism and the

rise of the capitalist mode of production. In Western Europe wage labour came to be regulated by statutes from the years of the Black Death, e.g. in England by the Statute of Labourers<sup>1</sup> in 1349. For 200 years wage labour remained, however, closely associated with vagrancy or the landless poor, until it was raised to a respected civil status in English society with the Statute of Artificers<sup>2</sup> in 1562-3. It needed again another 200 years till it became eventually recognised as the predominant productive force<sup>3</sup> associated with the ‘Industrial Revolution’. Social protection for wage labour started to be introduced in 1881<sup>4</sup> and became firmly established by the “Weimar” Constitution of 1919 in Germany. A high level of social protection was an achievement also of the 1917 Soviet Revolution. During the Cold War 1945-89, finally, most West European capitalist states became engaged in a race to keep up with their socialist counterparts in the field of social protection.

From its origin there existed two ways for the provision of social protection, on the one hand through the state out of tax revenues and, on the other, through collective agreements out of the wage bill. Most regimes are a mixture between both regulated by law.

In the development of social protection, the construction industry often played a pioneering role. This is the obvious result of working conditions, which are more precarious than in other industries. Through the nature of the production process employment and earnings are notoriously discontinuous, disrupted by bad weather, seasonal change, temporary workplaces, frequent accidents, etc. As a result we find many provisions to protect construction workers against these vicissitudes in earning a living and, in particular, to cover extra costs associated with these working conditions.

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<sup>1</sup> Statutum de Operariis, 23. Edward III, c. 1-7, 1349.

<sup>2</sup> An Act concerning divers Orders for Artificers, Labourers, Servants of Husbandry and Apprentices, 5 Elizabeth I, c. 4, 1562-3

<sup>3</sup> See Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776.

<sup>4</sup> Kaiserliche Botschaft vom 17. 11. 1981 für die Einführung der Sozialversicherung, betrifft Arbeiterunfallversicherung, gewerbliches Krankenkassenwesen, staatliche Fürsorge im Alter und bei Invalidität. Unfallversicherungsgesetz verordnet am 6. 7. 1884.

Among the various items of social protection retirement has recently assumed the greatest level of attention due to a number of changes in the financing conditions as well as to the changing social status of labour in this stage of life. Typically the ‘third generation’ has ceased to be integrated into the households of their children. While life expectancy is rising fertility rates have declined in most industrialised countries resulting in a dramatically soaring ‘old age dependency ratio’ (number of people 65 years and over as a percentage of people aged 15-64). As a result contributions to funds for retirement benefits including expenses from national budgets are by far the largest among the various items for social protection with a continuing tendency to rise. Also it is one of the most sensitive issues as it divides the active and the retired workers into those who produce and those who are maintained, most obviously so in the pay-as-you-go regimes, but also in the hidden and distorted way of saving and insurance schemes for pensions, exposed to the hazards of economies and financial market speculation.

In the present situation, particularly since the end of the Cold War, social protection might appear to be on the defence. In most member states of the European Union there is a tendency to advocate the two privately-financed ‘pillars’ and to limit or reduce tax-funded state pensions. Such measures put more risk on the pensioners and have caused the demonstrations. However, from a long-term perspective one might come to see the debate, on the contrary, as a culmination or maturation of social protection as an inseparable and undisputed part of wage labour relations. The debate indicates only the centrality and further growing share of social protection in the wider wage package. It reflects the divergent interests of the parties in the distribution of the social product rather than disagreement on the need for social protection.

Significantly, social protection has also become an international issue as already incorporated in the Charter of Fundamental Rights of the European Union<sup>5</sup> as laid down in Article 34 on “Social security and

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<sup>5</sup> Charter of Fundamental Rights of the European Union, signed and proclaimed on behalf of their institutions by the Council and the Commission on 7 December 2000 in Nice

social assistance”:

- 1. The Union recognises and respects the entitlement to social security benefits and social services providing protection in cases such as maternity, illness, industrial accidents, dependency or old age, and in the case of loss of employment, in accordance with the rules laid down by Community law and national laws and practices.*
- 2. Everyone residing and moving legally within the European Union is entitled to social security benefits and social advantages in accordance with Community law and national laws and practices.*
- 3. In order to combat social exclusion and poverty, the Union recognises and respects the right to social and housing assistance, to ensure a decent existence for all those who lack sufficient resources, in accordance with the procedures laid down by Community law and national laws and practices.*

Following the proclamation of the Charter the EU Social Protection Committee was set up by the Laeken European Council in December 2001. Under the auspices of this Committee, a Joint Report by the Commission and the Council, “Adequate and Sustainable Pensions”<sup>6</sup>, was submitted to the European Council in March 2003. This report underlines three objectives setting the standards for the development of adequate pensions in the EU member states:

- 1. preventing poverty and social exclusion,*
- 2. enabling people to maintain living standards,*
- 3. promoting solidarity.*

The implementation of these standards, as they are defined in the report, will cause enormous problems and debates in many member states. But there is hardly any way of return into a form of wage relations without social protection. One way for employers out of their obligations is replacing the employment of labour by buying services. We are likely to see more attempts to turn back the course of social development and social protection will therefore stay on the agenda for some time.

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<sup>6</sup> See Reviews in this issue of CLR-News.

## SUBJECT ARTICLES

### **Financing pensions: the issue of employers' contributions**

*Bernard Friot/University Paris X*

It is easier to spend a lot when you are rich than to spend little when you are poor. As we will see, the financial aspect of the pensions' question can be spelled out in a few words: it is easier to spend 12% of today's GDP of 1500 billion euros on pensions than it was 40 years ago to set aside 5% of a GDP of 750 billion for this purpose. And it will be even easier in 40 years time to spend 20% of a GDP which will then total 3000 billion on pensions. Between one 40-year period and the next, the doubling of GDP in constant money terms makes it possible to devote between three and five times more to pensions while at the same time almost doubling the resources allocated to working people or investment.

All this is perfectly well known to the ruling class. So why its relentless quest to "save" an institution in perfect health? The reason is that **it is this healthy state which has caused them to panic**. When social security first came into being in France, the wage was made up of 85% direct wage and 15% social security contributions, which did not give rise to any particular consequences. Today, the ratio has reached 60/40: it is already hardly tolerable that 40% of the wage pays us to do nothing, in other words to work freely, to produce wealth and not for the development of capital. Continuing to finance pensions from social security contributions tomorrow assumes that over half of the wage would finance not work carried out under an employment contract but work free of subordination. Our destiny as labour power subject to the law of value could therefore be annulled, all the more so as – and this is the second subversive aspect of the financing of pensions by social security contributions – funding pensions without financial savings illustrates its parasitic nature... and therefore that it is also possible to finance productive investment (220 billion euros today, barely more than the 180 billion pension figure) without financial accumulation. Here, it is profit-making property rights which are at stake, and thereby the very foundations

of capitalism. It can be seen that the ruling class is engaged in a major political battle against the financing of pensions by increasing employers' social security contributions, and is prepared once again to see the French Prime Minister, Jean-Pierre Raffarin, sacrificed rather than abandon a battle on which its long-term survival depends.

## **1. Objective of the reforms in progress (around 2040)**

### A long-lived society

In France life expectancy at age 60 is increasing by about 1 1/2 months per year: for an unchanged retirement age (average of 60), the duration of retirement will therefore rise by between 5 and 6 years by 2040, going up from 20 to 26 years for men and from 26 to 31 years for women. This is not a new trend, and the approach until now has been to significantly increase spending on pensions as a proportion of the national product: from 5% in 1960 to 12% today.

It is also estimated by the Pensions Policy Council, taking into account assumptions concerning birth rates, immigration, activity rates, unemployment and productivity which are, it is true, open to question, that in order to maintain the current replacement rate of final earnings by the first pension over the next 40 years without postponing retirement age, it would be necessary to allocate at least 18% of GDP to pensions in 2040, the assumption being that the present figure will have doubled by then: or say 20%, if the intention is also to improve the conditions of reversion and allow private-sector pensions to catch up - women suffer a real "double whammy" in this area. This would entail increasing spending from 180 billion euros out of a GDP of 1500 billion to about 600 billion out of a GDP of 3000 billion at that time. In terms of social security contributions, this would involve raising retirement contributions from 25% of the gross wage today (compared with 8% in 1960) to at least 40% of the gross wage 40 years from now.

### Halting the uptrend in social security contributions

It was the White Paper published in 1991 by the Rocard government which launched a campaign to stabilise the level of social security contributions reserved for funding pensions. Failing a reversal in the trend in employment rates between age 60 and 65, the ratio of non-working persons over 60 compared to those in employment is set to double by 2040, rising from about 4 in 10 to 8 in 10. So refusing to raise the level of contributions earmarked for the elderly would entail an erosion in the replacement rate and putting back retirement age, which is the path chosen by the Balladur and Raffarin reforms. While the replacement rate is likely to fall back from 80% on average (full contributions record) before the reforms to just 66% in 2040, the pensionable age will be put back, hence the 42-year contributions record foreseen in 2020 as a stage followed by others. The Pensions Policy Council has in fact calculated that without an increase in the level of contributions, the replacement rate will be 66% in 2040, provided that working time has risen by over six years in the intervening period, thus more than absorbing the gains in life expectancy: retirement would be shorter on average than at present, which is improbable. The replacement rate of 66% announced is therefore not tenable.

It is for this reason that this central approach is flanked by two types of measure to offset the unacceptable reduction in the replacement rate:

- the replacement rate for low incomes would be guaranteed as to 85% of the national minimum wage (SMIC) by the State for a full contributions record (the figure was 100% before the Balladur reform, see Table 2);
- tax incentives will encourage savings by working persons on average and high incomes, in particular via employee saving schemes.

The aim here is therefore to produce a double shift: the financing of pensions achieved hitherto via the wage would increasingly be achieved via the taxation system or from the interest on financial investments.

## **2. Sharply increasing spending on pensions is not the equivalent of robbing Peter to pay Paul, and it is vital!**

People are living longer - something to be welcomed, not feared

The phrase an “ageing society” should be rejected as it characterises societies unduly as individuals moving towards death, giving a negative connotation to what is a very positive phenomenon: the fact that people are staying younger longer in the developed world and living independently into an ever-more advanced age.

A significant increase in expenditure on pensions does not pose any financing problems

As shown in the table below, based on rounded figures so that the data must not be taken as absolute values, the necessary growth in spending on pensions as a proportion of GDP over the next 40 years will be slower than the growth recorded in previous decades. There is therefore no reason why this shift in resources cannot be achieved.

Table 1: Trend in GDP and spending on pensions (1960-2040)

	1960	2000	2040
GDP (in euros 2003)	750 bn	1500 bn	3000 bn
Spending on pensions	40 bn (5%)	180 bn (12%)	600 bn (20%)
Balance (in euros 2003)	710 bn	1320 bn	2400 bn

NB: this table is based on rounded figures and shows orders of scale rather than absolute figures.

Whenever the future of pensions is being considered, it is always “forgotten” that GDP is expanding by about 1.6% a year in volume terms, and that it will therefore double in real terms over 40 years. This is why we have been able to multiply spending on pensions by 4.5 since 1960 while at the same time virtually doubling the income available to working people or for investment. Clearly, we could more than triple pension expenditure by 2040 without this preventing the balance of GDP from going up 1.8 times.

In the long term and in a society with such a high level of employment skills, there is scope for paying Peter and paying Paul.

*Another simple piece of arithmetic helps to make this clear:*

- at present, there are 10 working people for 4 retired people. They produce 100. So that is 7 per person (100 : 14)

*- in 40 years time there will be 10 working people for 8 retired people. They will produce 200, i.e. 11 per person (200 : 18).*

Not only is this possible, but it is necessary

Continuing to contain the growth in spending on pensions, as the reforms undertaken over the past ten years have done (pensions have lost 1% purchasing power during the last decade) means that productivity gains are not passed back to workers in the form of paid time off. And yet these gains exist, and the additional value created contributes to the accumulation of financial resources. There is a close link between the stagnation in wages (direct and indirect) and financial inflation during the 1990s, source of so many ills of, initially, France's peripheral countries and today of France itself. The 10 GDP points gained by profits on wages since the mid-1980s (the share of wages in value added has dropped from 70% to 60%) fuelled the financial bubble of the 1990s, which when it burst triggered redundancies on a massive scale.

Faced with this downward drift it is therefore essential that the more productive work becomes, the more value produced is passed back to the workers whose work is reduced as a result, whether it be in the form of shorter weekly working hours, retirement or education.

**3. Why opt for an increase in employers' contributions to finance the growth in pension spending?**

Not only have the reforms introduced over the past ten years ignored the need to increase the share of pensions in GDP, but they are attacking the social security contribution and attempting to replace it with the solidarity tax or interest income to finance pensions.

However, contributions are preferable to the other two options.

National solidarity: the rights of the poor instead of the rights of wage earners

Placing people or social groups under the stewardship of the State as victims or people defined by what they lack, prevents their rights as wage earners from being recognised. We know how fragile rights

are when financed in this way. For wage earners paid at the rate of the national minimum wage, replacing a general rule based on the job title or status which, before the reforms, guaranteed a 100% replacement rate for those with a full contributions' record, by a specific rule whereby the State is responsible for guaranteeing them an 85% replacement rate, based on their low income, illustrates just how much more fragile income rights are when rights conferred by work are replaced by national solidarity. The table below shows how the rules for calculating the pension as a job title/status-based right prior to the Balladur reform created genuine solidarity between equals, whereas the reform called for by the CFDT of a State guarantee for retired workers who previously earned the national minimum wage is coupled with a reduction in the replacement rate for the latter, whom this reform turns into poor workers subject to the national solidarity arrangements.

Table 2: Replacement rate of net final wage by the net first pension for wage earners born in 1930 and having a full contributions' record

Amount of the net final monthly full-time wage (including premiums)	Public civil service	Private sector (ARRCO and AGIRC basic and supplementary schemes)
< 7500 FF (1143€)	-(1)	100%
7500 - 10000 FF (1143-1524€)	-(1)	91%
10000 - 12500 FF (1524-1905€)	80%	84%
12500 - 15000 FF (1905-2286€)	77%	76%
15000 - 20000 FF (2286-3048€)	79%	72%
> 20000 FF (3048€)	69%	59%
<i>Total</i>	<i>77%</i>	<i>84%</i>

Source: DREES, sample taken across different retirement schemes in 1997.

(1) The number of civil servants ending a complete career with a full-time wage of less than 10,000 FF is very small and, given the sampling rate, not significant

This table shows the replacement rate for the generation of 1930 who retired between 1990 and 1995, before the impact of the Balladur reforms. It is worth noting, incidentally, the reduction which an average replacement rate of 66%, announced as the objective of the Balladur-Raffarin reforms, would represent, with its considerable impact on women who average only 140 valid paid-up quarters at age 60, and the huge scandal of the CFDT's signature, which rubber stamped the Balladur reform and its partial extension to civil servants.

## Retirement savings schemes and the new legitimacy of profit-making property rights

For those workers on higher incomes, the current parity between the active and the retired, called into question by the anticipated fall in the replacement rate, could still be maintained or at least come close to by means of tax incentives for savings schemes.

But, contrary to the preconception, people who save are not financing their own retirement. Value, like the money in which it is expressed, cannot be preserved. Only durable goods which are used for production (and which are depreciated over a number of years) can pass on the value from one year to another; but the bulk of the goods and services that we produce lose their value over the course of the year. So when people save in the form of securities, they are not accumulating value that will be put back in circulation when the savings are cashed in, but rights to the value created at the time that these savings are disposed of. The 600 billion euros needed to finance pensions in 2040 will of necessity be produced in 2040 by those working in 2040. If they are financed by contributions, this means that the retired will draw on the value created by the active based on work-related rights, which determine the rules for calculating pensions. If they have saved in pension funds, they will also draw on the value created by the active of course, but this time on the basis of profit-making property rights.

This restoration of profit-making property rights is especially open to criticism. This right must be clearly distinguished from the usable property right, such as that enjoyed by the owner of a car, house or work tools. By contrast, profitable ownership concerns an asset which is not consumed in order to derive income from it: the traditional form is the real estate property asset, or “investment property”, but the main form today comprises holding a portfolio. Profit-making property rights form the basis for the shareholders drawing on the value produced by wage earners. Anything which leads to the replacement of contributions by interest income in financing pensions makes the wage earners concerned auxiliaries, when retired, in a right which denies their work as actives; and just the same can be said, obviously, about employee saving schemes.

### Social security contributions and the invention of a new basis for the right to resources: work-related rights

Faced with the two traditional resources available to those not gainfully employed, assistance and unearned income, the social security contribution finances pensions in a form particularly subversive of capitalism, for two reasons:

- it clearly makes work the foundation of the circulation of resources, while decoupling the right to resources from direct involvement in work subordinate to the law of value. Wage earners only make their subordinate labour available to employers under the terms of an employment contract on condition that the employers pay them, via the social security contributions, for the free use of their retirement time. Self-employed workers include the financing of their retirement in their prices (and it is when they pay too low a level of contributions that they are insufficiently combative in setting their prices). On this basis, and this is incidentally the vital condition for the united mobilisation on the pensions question, it is legitimate to demand maintenance of their wage for the unemployed (including those who have resigned) and a wage for young people, paid by an increase in employers' social security contributions. If they were regained, the 150 bn euros lost each year to wages owing to the 10-point fall in their share of GDP could be used from today to finance the net minimum national wage for all young people between 18 years old and their first employment, a significant increase in low wages such that none would be less than 120% of the minimum national wage and the maintenance of their direct wage for the unemployed. The financing of wages for all is therefore entirely affordable, and it is not hard to imagine just what freedom and scope this would create for everyone!
- contributions highlight the parasitic nature of profit-making property rights: all that an “investor” does is provide the right to draw on the value created by someone else by selling or investing his securities (which, it should be remembered, are not value reserves but rights to value), a parasitic activity which the pay-as-you-go schemes have shown for 50 years now could perfectly well be done without in order to finance such huge and long-term

commitments as pensions. A fortiori, following the model of the social security contributions, paying a portion of companies' gross operating surplus into investment funds would allow the value required to finance the funds to be allocated each year without having recourse to savings. This payment would take the form of an "economic" contribution linked to each job as is the case for the social security contribution and would constitute, alongside the latter and the direct wage, the third component of the socialised wage. In this way, the drawing of interest would be eliminated (as the interest rate would be irrelevant, in the same way as social security benefits are allocated without interest) and those in work would have restored to them the right to decide what is produced, a right which today has been appropriated by the shareholders.

#### **4. The urgent need to change our representation of the wage**

Evidently, such a prospect, which is within our means, presumes a shift or even a reversal in our representation of the wage. We identify it with the price for our labour power, with the subordination to the labour law of value, and finally, while aspiring for higher wages, we do not believe that the wage can also be the road to freedom. It is true to say that the wage is money, and that this money corresponds to the valorisation of capital by means of paid employment: This is what is called subordination of work to the law of value. This subordination is based on exploitation (only 60% of the value created by our work is currently received by us, the proportion of wages in GDP) and alienation: it is the shareholders who decide what goods and services are to be produced. But precisely because the wage is the expression of this subordination, for two centuries now it has been the key issue in the class struggle which in continental Europe has turned workers into wage earners, a change involving considerable potential consequences.

##### The wage for everyone

A wage earner is not simply labour power, since the employer must also pay for the non-subordinated time of his retirement ... and the

question here is to get them to pay for the non-subordinated time of the unemployed and young people. This is only possible if we view the pension not as being paid in exchange for my work done in the past, not as a deferred wage, but as a socialised wage, the portion falling due to us under the rules of the work-related rights constantly being debated in the political arena, of the value created by collective subordinated work, ... which is also the definition of the direct wage paid on the basis of the job titles/status.

Emphasis must indeed be placed on one poorly-understood fact: a wage earner is not paid for his work, but for his qualification (if he is a civil servant) or for the status of his post (if he is in the private sector). The qualification is not a measure of the work accomplished from day to day, nor of the involvement in the corporate culture: since it bases the wage on more general criteria it puts a distance between my work and my resources which is a condition of freedom and which, if this assumption is accepted instead of relying on the false precept that “my wage is paid in exchange for my labour”, puts me on a footing of solidarity with the unemployed and young people in demanding a wage for all.

### The wage for everything

That being said, the increase in paid non-working time does not liberate the worker from subordination to work: as we have often seen with the 35-hour week, time off is increased at the expense of an inhuman intensification of the subordinated working time; and in particular, it is always those who have accumulated finance who have control over investment: the profit is reduced but not eliminated. It is in this respect that it is possible to give concrete shape to what the wage offers as a springboard for doing away with profit-earning property rights. The success of the pay-as-you-go retirement schemes (the only ones which have been capable of overcoming mass poverty among the elderly) opens the way for applying to the financing of investment what has been done for retirement, namely converting the profit-making assets of households into wages via the social security contributions. The major centres of financial accumulation must now be abolished by imposing the economic contribution to fund investment through the wage. Table 3

(like Table 1 based on rounded figures, which must not be taken as absolute values) explores three scenarios for the year 2040 to show how the wage revolution initiated during the struggles of the past century can be continued.

Table 3: The changing wage (1960-2040)

	1960	2000	2040 (A)	2040 (B)	2040 (C)
Share of wage in GDP	60%	60%	60%	70%	85%
<u>Increase in real wage and its components (base index 100 in 2000)</u>					
Total wage	50	100	200	230	280
<i>Of which direct wages</i>	60	100	167	176	176
<i>Social security contrib.</i>	35	100	250	310	310
<u>Structure of wage (in %)</u>					
Direct wage	72	60	50	45	37
Social security contrib.	28	40	50	55	45
<b>Economic contribution</b>					18
<i>Total</i>	100	100	100	100	100

Explanatory notes: in scenario A, direct wages rise 67% between 2000 and 2040, and social security contributions by 150%, such that the breakdown (between direct wage and social security contributions) of the total wage, which will double during this period as it is increasing at the same pace as GDP, changes from 60/40 to 50/50. In scenario B, the total wage grows more rapidly than GDP, regaining the ratio of 70% obtained in the early 1980s, with the result that it is multiplied by 2.3 between 2000 and 2040. In scenario C, direct wages will move up 76% over the next 40 years (as in scenario B), but they make up only 37% of the total wage, which also includes the financing of investment.

NB! This table has been calculated using rounded figures, and the values obtained must not be considered to be absolute. The main objective is to illustrate the argument.

Scenario A (column 2040 A): the old-age contributions go up from 25 to 40% of the gross wage by increasing the employers' contributions in order to maintain parity between those in work and the retired from the time before the Balladur reforms (abolished) and to maintain the current average age of retirement (60 years).

Scenario B (column 2040 B): added to the measures taken in the previous scenario is the fact that the wages attain the level of 70% of GDP recorded in the early 1980s by two means: direct wages have risen such that none fall below 120% of the national minimum wage, and above all an extra increase in employers' contributions makes it possible to pay the net national minimum wage to all young people between age 18 and their first job and to maintain their direct wage

for the unemployed.

Scenario C (column 2040 C): added to the measures in scenario B is the incorporation in the wage of productive investment. The 15 points of GDP that it represents are allocated to the socialised wage (which therefore corresponds to 85% of GDP) in the social security contributions model: the employers pay part of the gross operating surplus in the form of an economic contribution to the investment funds which allocate their funds without interest.

It can be understood just how essential it is for the ruling class to avoid Scenario A as it brings with it the other two, which are prejudicial to capitalist domination. But it can also be gauged just how much our spontaneous and scholarly representations of the salary form an obstacle to conquering a wage of which only a little over one third would be paid to the employed while the rest would finance non-subordinated work and investment.

## **Conclusions**

Finally, confronted with the reforms under way over the past decade, we are facing the same challenge as that addressed by the pioneers of social security: wagering that work-based rights constitute a better foundation for the right to resources than profit-earning property rights or the right to national solidarity, and boosting income from work in order to increase the employers' share of social security contributions. It is true that, for the reasons outlined in the introduction, successive governments are now firmly opposed to this approach which they may have supported 50 years ago, but we have a major trump card: proof of the success of pay-as-you-go schemes. We will win the pensions battle provided that it is conducted as part of the fight for the wage for everyone and for everything. The wage for everyone: the right to a wage as an inalienable right. The wage for everything: the financing of investment by the socialised wage and therefore control by workers over the definition of their work.

If one had to summarise in a single sentence the political stakes of the pensions battle, it would be a confrontation between the wage-based right and profit-making property rights. In tandem with

national solidarity (unearned income and assistance have always been part of the same system), profit-making property forms the basis of capitalism. It is profit-making property rights which allow the holder of a portfolio to draw on the value created by the labour of another. With the wage-based right we have an important lever for calling into question rights based on profit-making ownership. The wage-based right should be understood to mean the invention, in the 20th century, of the job title/status-based wage and social security contributions. By relying on this right and further developing it, it will be possible to achieve the universal wage for all and for everyone, in other words to abolish capital and therefore the wage earning class.

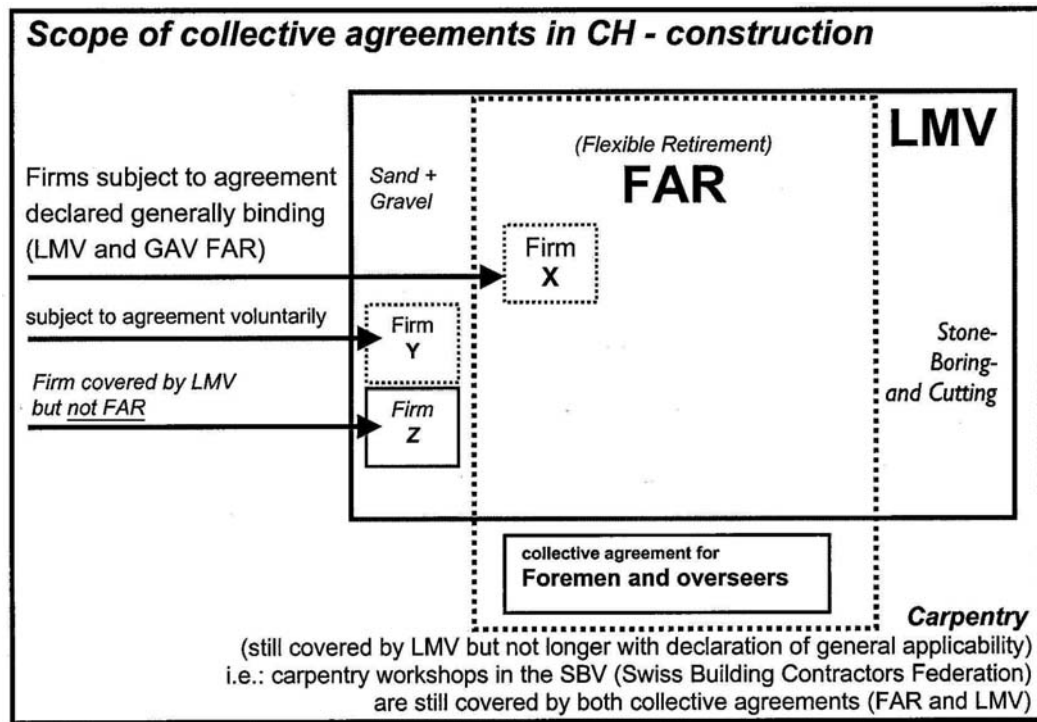
## **The Early Retirement Model in the Swiss Construction Industry**

*David Zenth, GBI, Zürich*

On 25 March 2002, the bargaining parties in the Swiss construction industry concluded an agreement on the basic principles of Flexible Retirement (*FAR*) at age 60 in the sector. During the summer, a number of hardliners on the employers' side wanted to declare this agreement null and void and generally called the idea of early retirement into question again. Only after some regional strikes had taken place as well as a national strike day with 20,000 construction workers taking part in the autumn, it was possible to secure implementation of the agreement and the "Collective Agreement on Flexible Retirement in the Construction Industry" (GAV FAR) was finally brought into general application across the industry on 1 July 2003.

The early retirement model in the Swiss construction industry is an early ("bridging") pension paid to the employees on reaching age 60 up to the statutory retirement age of 65. This pension is organised according to the pay-as-you-go system, in other words current pension benefits are paid out of current contributions. The pension body is the joint-industry foundation FAR, based in Zurich.

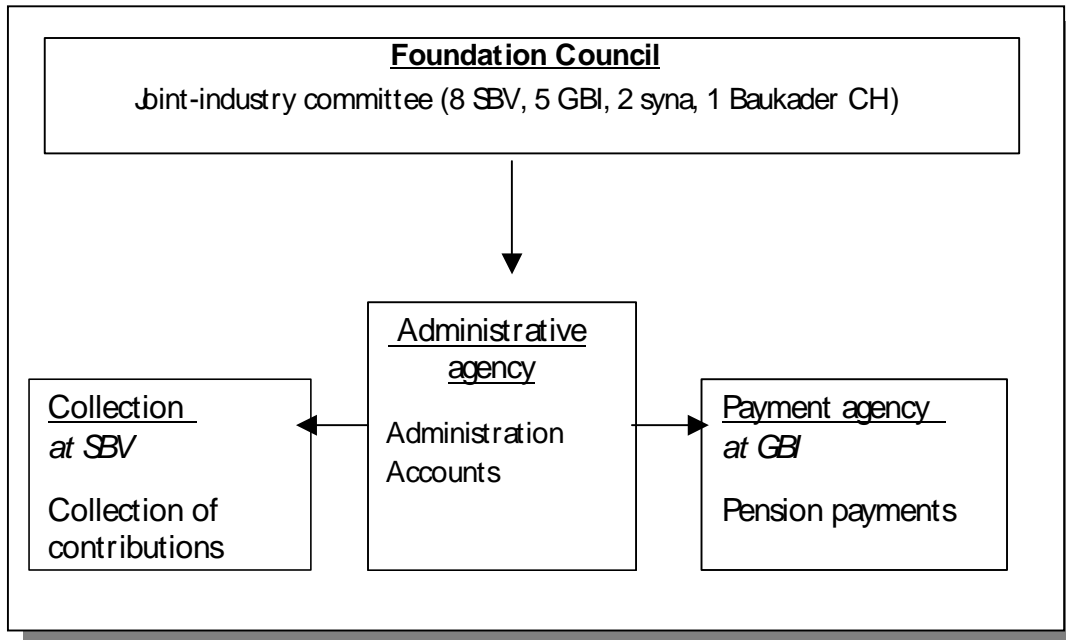
Apart from minor exceptions such as Sand & Gravel or Stone Boring and Cutting enterprises, the **scope** of the agreement is identical to that of the collective agreement for the Swiss Construction Industry, the framework agreement (LMV). A voluntary inclusion of enterprises under the scope of the framework agreement is possible, and the bargaining parties of the FAR decide on this inclusion. As regards individual groups covered, additionally site foremen and overseers may also benefit from early retirement. Senior non-manual staff such as general foremen or commercial personnel are not covered by the FAR.



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The legal basis for early retirement is a separate collective agreement between the bargaining parties in the construction industry on flexible retirement (GAV FAR). This collective agreement has been declared generally applicable across the industry by the Swiss government. Implementation of the agreement is guaranteed by the joint-industry occupational committees in the construction industry, in the same way as the framework agreement (LMV).

The administrative body is a joint-industry foundation established by the unions on one side and the employers' organisation SBV on the other side. The FAR Foundation ("Stiftung FAR" ([www.far-suisse.ch](http://www.far-suisse.ch))) covers nearly the whole of Switzerland, collects contributions and pays pension benefits.



Organisation chart of FAR Foundation

## Financing

Financing of the payments is based on contributions by employers and employees covered by the GAV FAR. This contribution amounts to 1% for employees and 4% for employers of the respective wage. During the introductory phase, as compensation for the later than originally-agreed start of the scheme, the employers contribute at the rate of 4.66%. As from 1 July 2003, companies also have a one-off entry contribution of 680 Swiss francs to pay for every employee covered. Companies which volunteer to join the scheme subsequently will have to make catch-up payments.

The model has been carefully calculated by the bargaining parties and is based on two different expert reports, thus ensuring security in the medium term. Concerning the longer term anchoring of flexible retirement, the bargaining parties will need to agree on any corresponding adjustments necessary.

## Preconditions for drawing the pension

Employees covered by the GAV-FAR are entitled to benefit when they reach age 60, but have not yet reached the statutory retirement

age of 65. During the introductory phase the entry age is staggered as follows:

From 1.7.2003 upon completion of the 63rd year (birth years 1938, 1939, 1940)

From 1.1.2004 upon completion of the 62nd year (birth years 1941 und 1942)

From 1.1.2005 upon completion of the 61st year (birth years 1943 und 1944)

From 1.1.2006 upon completion of the 60th year (birth years 1945 und 1946)

In order to have entitlement to a full bridging pension, the following additional conditions must be met:

- those recruited during the past 20 years as site personnel in a company covered by the GAV FAR for at least 15 years, of which the last seven years prior to drawing pension benefits were uninterrupted and
- giving up paid employment subject to the lower level of employment referred to in article 15 of the GAV

Employees who do not fully meet the criteria of length of employment can claim a **lower bridging pension**, if they only worked ten years during the past 20 years in a company covered by the GAV FAR, but of which the last seven years prior to drawing pension benefits were uninterrupted and/or during the last seven years prior to retirement they were unemployed for a maximum of two years, but meet the other conditions.

One problem arising here concerns temporary employment (temporary/agency employment). Where someone is working in the construction industry but for a temporary employment agency, this time is not recognised as this form of employment has been explicitly excluded from the declaration of general application across the industry by the government.

The registration documents and information for those with potential rights to the pension are available at the sections of the GBI

(Gewerkschaft Bau & Industrie). They check on entitlement, help with filling out forms and forward the documents to the FAR payment agency in Zurich.

### **Benefits by the FAR Foundation**

From the time of retirement to the time of reaching statutory retirement age, an early ("bridging") pension amounting to 70% of the average gross wage during the last year of employment (in special cases during the last three years of activity), plus an annual basic amount of 6000 Swiss francs is paid.

This early pension may not exceed 80% of the wage for the last year of employment which forms the basis for calculating the pension, and is currently limited to a maximum annual pension of 64,080 Swiss francs per annum.

#### Pension benefits by the FAR Foundation

- Early retirement pension: basic amount SFr. 6000 per annum, + 70% of last gross wage
- Contributions to State old age provision (1st pillar)
- Premium for the compulsory pension fund (2nd pillar)
- Hardship replacement payments
- Supplements to the widows and orphans' pension

In order to exclude a reduction in the full pension payments on reaching statutory retirement age, for the duration of the pension-drawing period a supplement amounting to the contribution to be paid for non-working persons into the State Old-Age Retirement Pension and Survivors' Insurance (AHV) is paid by the FAR Foundation. In addition, there is the payment to the compulsory pension fund by the person entitled.

From 2006 the Foundation will pay employees in hardship cases before reaching the age of 60 compensation in the form of a one-off deposit with the corresponding compulsory pension fund of the second pillar. Qualifying as hardship is defined as being where the

employee definitively and involuntarily leaves the construction industry (bankruptcy by the company, dismissal, invalidity declaration by the Swiss accident insurance body, etc.). A precondition for this is that the employees must have worked for 20 years in the construction industry, of which the last seven years for an uninterrupted period and that they must be over 50 years old. The collective agreement (GAV-FAR), as well as the regulations, can be downloaded from the FAR Foundation in German, French and Italian.

### **Spin-off effect of the GAV-FAR**

The conclusion of this collective agreement during 2002 represented a social policy breakthrough. In spite of the world-wide free-market debate about raising retirement age, in this case a genuine reduction in working life has been achieved.

In other sectors too, this agreement had a spin-off effect. In French-speaking Switzerland, an agreement was signed on early retirement in the finishing industry from age 62, which entered into force in the summer 2004. In German-speaking Switzerland and Ticino, industrial action broke out in the spring 2004 on achieving equal treatment to their colleagues in Western Switzerland in the painting and plastering trades. On 26 April 2004 for the first time since the 1960s in this sector another major strike took place in which over 2000 workers participated.

In general, GBI has been at the forefront of the Swiss trade union movement in this battle for early retirement and in the discussions on safeguarding the statutory retirement pension (old-age and survivors' insurance -- AHV and pension funds).

### **Additional links**

FAR Foundation: [www.far-suisse.ch](http://www.far-suisse.ch)

GBI - Gewerkschaft Bau & Industrie: [www.gbi.ch](http://www.gbi.ch)

## **The pension system in Italy**

*Paola Naddeo, Istituto di Ricerche Economiche e Sociali, Roma*

In Italy, for the construction sector there are no special regulations governing pensions, with the exception of those provided for persons who are engaged in "unhealthy work". The only real peculiarity of the construction sector is the arrangement for the calculation of income taken as the reference for the setting of contributions. Law 341 of 1995 in fact provides that contributions must be set according to a minimum taxable income, which is measured according to a number of hours per week not less than the normal working hours stipulated in collective, national and company-based contracts, and not including absences for sickness, accidents, strikes, suspension or reduction in work (including the *Cassa Integrazione Guadagni*, the Italian wage compensation fund) and other events for which compensation is received from the construction workers' funds.

In general, in Italy for the construction sector the regulations are applied which are valid for the employees' pension fund (*Fondo Pensione Lavoratori Dipendenti* - FPLD). These regulations are currently being revised, not only in terms of their basic principles, but also as regards the arrangements for reducing the duration and effects of the transitional regime between a pay-as-you-go scheme and a contributory system.

In Italy, until 1992 the system was based on the pay-as-you-go scheme. The benefits paid to pensioners were financed by the pension contributions paid by currently active workers (and by companies). This system generates a surplus of resources in the initial phase (when the number of pensioners is not high) and when the demographic trends are such that the population is growing or whenever the number of active workers far exceeds the number of pensioners.

The Italian pension system began to show clear signs of weakness in the 1970s as a consequence of a widespread economic crisis that led to intense processes of production restructuring accompanied by the

expulsion of workers from the production circuits, which was also achieved through massive recourse to early retirement. The significant drop in the ratio between active and retired workers also depends on the recognition of a series of social assistance-type benefits paid by the FPLD which, perhaps, it would have been better to guarantee through general taxation.

These difficulties subsequently took a more serious turn as a result of changed economic and demographic dynamics. What we are in fact seeing is a gradual increase in life expectancy as we will within 20 years be approaching the point in time when cohorts born during the baby boom will be reaching retirement age, bearing in mind that in future their pensions must be financed through the contributions of cohorts who were born during a period of shrinking birthrates.

As a consequence of these dynamics, in the 1980s the ratio between pension payments and GDP began to rise significantly, at least this is what comes out of official statistics. Following an intense debate, the first important step in the process of pension reform was taken with the action of the first Amato government over two years (1992-1993), a process that then continued in the years that followed with the Dini reform in 1995 (L. 335/95), the interventions of the Prodi government (L. 449/97) and other marginal actions set out in the financial laws.

Until 1992 the amount of pensions for employees in the private sector was based exclusively on a contribution-type system that hinged on "pensionable income", which was calculated on the basis of the average income over the five years immediately preceding the date of payment of the pension and the rate of return. This rate was equal to 2% on the first level of annual pensionable income or pensionable ceiling and then progressively decreased in the successive levels to 1% in the income bracket with over 110 million lire per annum. In addition, this rate was applied to all the years during which the employee contributed to the system up to a maximum of 40 years. Therefore, based on this mechanism, the maximum possible return on pensions was 80% of the pensionable

income, provided, obviously, the first level of pensionable income was not exceeded.

The action taken by the Amato government was aimed at containing pension expenditure through the following instruments:

- limiting the flow into early retirement schemes;
- limiting recourse to old age pensions;
- gradually raising the maximum retirement age (D.Lgs 503/92);
- arrangement for different forms of supplementary pensions (D.Lgs 124/93).

The subsequent Dini reform (L. 335/95) redefined the Italian pension system based on the following key principles:

1. calculation of pension benefits by matching income to contributions;
2. more flexible conditions of access to pensions, with incentives to delay the definitive labour market exit age;
3. definitive abolition of old age pensions following the transitional phase;
4. harmonisation of pension regulations;
5. facilitation of supplementary schemes.

In addition, with the Dini reform the overall contributions to be paid by companies and workers was increased from 27% to 32.7%, resulting in a sizeable reduction in current salaries.

The main innovation of the regulations on pensions introduced by the Dini reform is therefore the abolition of the pay-as-you-go scheme and the consolidation of a contributory system on the basis of which the pension is calculated according to the amount of contributions actually paid during the worker's entire career. Under the new system, the amount of the pension at the time of leaving the labour market is equal to the annuity equivalent to the current value of the total contributions paid. In essence, the amount accrued during the working life is paid to pensioners in the form of an annuity based on a conversion coefficient that takes into account the worker's life expectancy at retirement age. This system results overall in a

reduction in the replacement rate (ratio between the level of the pension and the last income received) in relation to the pay-as-you-go scheme, a reduction that could be even greater if, with the increase in life expectancy, the conversion coefficients are once again revised.

However, it must be pointed out that the new arrangements for the calculation of pensions will be up and running only from 2035. The legislator has in fact foreseen a transitional period during which pensions will be determined based partly on the old rules and partly on the new rules. To make the transition to the new system more smooth, the legislator has therefore provided for a reference point equivalent to the 18th year of pension contributions as of 1 January 1996, a date that acts as a watershed between the old system and the new system. Workers are therefore divided into three groups according to the length of their insurance career up to that date:

1. insurance career over 18 years;
2. insurance career up to 18 years;
3. no insurance career.

Workers in the first group retain the right to the old age pension, which is paid in full under the pay-as-you-go system according to conditions different from the preceding regulations. In fact, whereas before it was sufficient to stipulate the requirement of 35 years of insurance records, from 1 January 1996 the conditions for receiving an old age pension will become more stringent for individuals, with the stipulation, alongside the old age requirement, that the worker must be at least 57 years old or by providing for an increase in the duration of the insurance career.

For workers in the second group, the system for the calculation of pensions which is based on the pro rata is used, or for the entire period up to 31 December 1995 during which contributions were paid the old system is used, and from 1 January 1996 the insurance career is calculated using the new system.

The pension benefits of workers recruited from 1 January 1996 are calculated entirely using the contributory method.

As regards the conditions for access to pensions, the Dini reform sets a flexible retirement age of between 57 and 65 years, setting higher penalties for individuals who decide to retire closer to 57 than 65. In this case, among other things, a delay in the exit from the labour market has two important effects on the pension received: firstly, an increase in the amount accrued as a result of the greater number of payments and, secondly, an increase in the conversion coefficient due to the lower number of years during which the person will receive the pension.

As regards old age pensions, the Dini reform has continued the process started by the Amato government by effectively providing for the definitive abolition of these pensions after the transitional phase through a gradual increase in the insurance career requirement until 2008, when a period of 40 years will be required.

Another important element of the Dini reform is the introduction of a system of facilitations for unhealthy work which are different from those that apply to the construction sector. Persons who have been employed in unhealthy work can receive their pension earlier than other workers for a period of 2 months for each year of employment in such activities, up to a maximum of 60 months. The types of work considered as unhealthy work are those for which a particularly intense and continuous psychological-physical effort is required, because of factors that cannot be avoided by appropriate measures. The list of types of unhealthy work is periodically updated by Ministerial Decree. This decree is currently pending.

The subsequent Prodi reform made the conditions for access to old age pensions even more stringent and provided for harmonisation between the pension regimes of public and private workers.

The pay-as-you-go system that applied up to 1992 is particularly unfair, because it greatly favours workers who receive particularly

high payments in the latter years of their life and heavily penalises workers who alternate between periods of regular employment and periods of no contributions, such as women and/or often construction workers, who are employed in a sector in which there is a high risk of undeclared work or is characterised, in any case, by strong elements of discontinuity.

The new system gives strong incentive to workers to delay the definitive labour market exit age, while in the old system, once the maximum number of years of contribution was reached, the incentives to remain in the labour market are linked only to the possibility of salary advancement.

On the other hand, the new system also penalises employment discontinuity, but in a way that is to some extent different from the payment system. In essence, certain elements become important such as the point in time when employment was interrupted, the duration of the interruption and the effects on wage dynamics.

On July 2004 the Parliament passed a delegated law, introducing new important amendments. The law was approved with the strong opposition of the trade unions. We need to await the Regulations that implement the delegated law to take cognizance of the exact contents of the reform.

Besides the final termination of the old age pensions with effect from January 2008, the new legislation *de facto* removes the option for the employees to choose the age and the level of the pension. According to the new system the age of retirement is fixed at 60 years for women and 65 years old for men. Previously the Dini reform provided a flexible retirement age of between 57 and 65 years old. The new reform introduces also several challenged interim measures that provide incentives for postponing the age of retirement and several controversial measures regarding the supplementary schemes.

## **Current Pensions Debate in Germany and Reform Proposals by IG Bauen-Agrar-Umwelt**

*Ernst-Ludwig Laux/IG BAU*

In virtually all States with social security provision in old age, during the 1990s a pensions reform debate started up. This debate is now in full swing in many European countries. The debate has been accompanied by action, strikes and expert discussions in the different political parties, trade unions and employers' organisations.

In the Federal Republic of Germany retirement insurance under what is known as the “Generations Contract”<sup>7</sup> (pay-as-you-go system) and the additional introduction of individual pension components under the capital cover system has also been a subject of social and political debate for some ten years. In particular since the “Agenda 2010” signed by the federal government of March 2003, the debate has reached a new level in Germany. In this programme for the future and further reform measures by the Red-Green government pension benefits are reduced. Depend Funding pensions whereby current benefits are paid out of current contributions by the employers and employees. ent workers have to pay more, a higher contribution to health costs will be introduced and the basic conditions for unemployment insurance will deteriorate significantly in the medium term. Almost all social security benefits are being put under the magnifying glass, and almost always at the expense of the worker.

In this short paper, I would like to take a look at current issues of the pensions debate in Germany, reflect briefly on the reasons and outline the reform measures formulated by the government committee. I will then briefly consider the alternative proposals of IG BAU to the pay-as-you-go system and the capital-cover retirement pension.

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<sup>7</sup> Funding pensions whereby current benefits are paid out of current contributions by the employers and employees.

## **Current issues and debate over the last ten years**

Until the mid-1990s all the governments and parties in Germany had held fast to the post-World War II slogan “Pensions are safe”. A critical debate on the German pensions system was only just starting. Particularly in the CDU/CSU, the discussion of a new pension system or changes to the old system due to threatening demographic factors was taboo. Only as a consequence of:

- the marked rise in unemployment,
- the shift away from regulated to unregulated employment relationships:
- the significant increase in life expectancy,
- the huge decline in the birth rate, as well as
- the overloading of the pensions system by German reunification since 1989

has a lively discussion being sparked off on pensions insurance in Germany.

A hectic legislative process in the different governments since that time has always made the claim that pensions were being made safe for the next 30 years. However, the legislative procedures were taking place at ever-shorter intervals, and it can almost be said that changes were made to the pensions system every two years.

In parallel with the debate on pensions under the pay-as-you-go system in Germany, other pensions systems, in particular the capital-cover pensions in the Anglo-Saxon and some other European countries were coming under fire. The stock market crash at the end of the 1990s and the collapse of the new markets resulted in pension funds and shares losing value and pension payments stagnating. At the same time it became evident that the debate was not limited to considering whether the alternatives of capital-cover or pay-as-you-go system should operate on their own, but that probably there could only be a mix of different pensions systems so that the financing of pensions can be well-balanced even when one pension pillar is in crisis.

In any case, in my opinion, it is striking that in many pensions debates the ideologically-coloured opposition between poor and rich, capital-cover and pay-as-you-go system, distorts any clear vision of alternatives. I would like to point out that IG BAU (perhaps even as the only trade union in Germany) on the basis of its tradition does not have any ideological blinkers, for over the past 50 years we have enriched the debate on pensions by actively coming forward with bargaining policy decisions, collective agreements and alternative models.

### **Pay-as-you-go system as a basis for the retirement pension**

After capital values in Germany plummeted due to World War II between 1939 in 1945, confidence in capital-cover pensions insurance was destroyed, and this phenomenon is still perceptible in the current pensions debate. All the social forces, in particular the CDU and SPD, but also the unions and employers' organisations, developed new philosophies during the reconstruction of Germany. Owing to the broad consensus in society, on 22 January 1957 the pay-as-you-go system under the heading of the "Rentenneuregelungsgesetz" (New Pension Provision Law) was adopted. At that time over 90% of the members of Parliament voted for the law, probably without exactly knowing that they had built a number of defects into the system which are today dominating the political debate in Germany.

The number one mistake was that only income from standard employment would be taken into account as principal source of financing in the form of the so-called additional wage costs. Employers and workers were to pay equal contributions. Since that time, the fairy story has persisted in the debate and in the minds of people in Germany that one half of the pension is paid by employers and the other half by workers. But what people do not remember is that the entire value is produced by the worker, and that the employer calculates his contributions into the prices, whereas the other half is deducted from the workers' gross wage and significantly decreases

the net wage. With hindsight it is interesting to note that the Federal Chancellor at the time, Konrad Adenauer, wanted all gainfully employed people, that is to say encompassing the self-employed, liberal professions such as architects, lawyers, company auditors, tax consultants and pharmacists, and executive managers to pay. Also the income thresholds up to which contributions were to be paid were to be significantly higher. It was this defect included from the outset of the pension insurance system of that time which the IG BAU has today taken up again as the key point in its pensions reform debate, finding that the self-employed and higher earners fiercely oppose this, just as before.

During the era of the economic miracle the debate on additional wage costs did not work to the expense of workers, the unions or the level of pension, as there was always enough money to pay pensions. Also, the second vulnerable flank of the pay-as-you-go principle, which we must address today -- the danger that more pensioners and fewer contributors could one day create funding problems -- was dismissed by Adenauer with the historic words “There will always be children”. Whether or not this can be described as the mistake of the century, as presented nowadays in many books and publications, is questionable, but after the Second World War a capital-cover pensions system as an alternative was not really available.

### **Development of the State pension up to the present day**

Underpinned by the words “Pensions are safe”, the system endured for over 40 years with just some minor tinkering. As late as in the 1980s, the age at which pension rights applied (“retirement age”) was voluntarily lowered with certain reductions. Early retirement, part-time working for older workers and flexible old-age pensions were regulated by law. Financial problems were only visible in the far distance, but the electorate was amply served by the respective governments. It was only as a result of:

- the ever-more rapidly rising unemployment, resulting in fewer contributors,

- followed by the systematic destruction of standard employment relationships and the associated reduction in pension contributions,
  - the lower birth rate in Germany, particularly among native Germans,
  - increasing life expectancy through improved working and living conditions as well as improvements in medical care
- that the widening gap emerged.

The fall of the Berlin Wall in 1989 and reunification of Germany placed an extra burden on the pension insurance system, which it is true could initially be accommodated by sound economic growth and the boom associated with reunification, but then in the mid-1990s became a major issue. The Conservative government under Kohl/Blüm put forward pension proposals in 1996 which were fiercely contested by the SPD, the Greens and also the trade unions. Besides the weariness with Chancellor Kohl and his labour minister Blüm, this pensions debate so changed political perceptions in Germany that in 1998 an SPD-led government came to power.

Today we still find that, with minor differences, the SPD-led government wants to rescue the pay-as-you-go system in Germany in the same way as the Conservative government, in that

- workers employed under standard employment contracts are expected to pay higher contributions,
- pension benefits shall level off or go down,
- early retirement schemes and part-time working for older workers shall be withdrawn,
- retirement age is to be raised and
- workers shall supplement their pensions by making voluntary contributions or contributions supplemented by the State to capital-cover schemes.

Altogether, these changes which have or are being introduced by the Social-Democratic/Green government are sparking off a major debate on justice in Germany. In a similar way to the policy on unemployment and health insurance, the pension insurance proposal

has come up against hefty opposition from workers, unions and particularly also from older people.

The demonstrations against the dismantlement of the welfare state in recent weeks and months in Germany, as well as incidentally in many other European countries, have in particular highlighted the justice gap, so that in my opinion alternative solutions need to be considered immediately. A prejudice-free, ideology-free, open process of debate about the future of our social security system, and in particular the pension system must be launched.

Through its decisions the current government has in fact ensured that the deterioration in the statutory pension insurance system will persist in the coming years, and even for decades, holding out the prospect of a poverty-stricken old age for many people who have not been constantly employed.

People are recommended to offset the erosion in the pay-as-you-go system by supplementary pensions based on capital market proceeds, or to prepare for the risk of a pension shortfall by means of individual savings, life insurance schemes or pension funds. Furthermore, pension adjustments, e.g. for 2004 or the postponement of pension payments have already been decided, and increases in contributions to nursing and sickness insurance schemes are currently taking effect. The introduction of a so-called demographic factor is also very much a focus of the debate and in all likelihood will shortly be decided. This means that the net level of pension by the year 2030 will be reduced from the current approx. 69.5% to 57.8%. However, these are maximum figures. For example, for building workers or those workers not constantly employed throughout the year, the net pension level according to our own calculations could fall below 50%. At the same time, under the current legal provisions, early-retirement arrangements are being withdrawn, opportunities for older workers to work part-time and other flexible pension arrangements being closed off, while a fierce debate has flared up about the extension of working life from age 65 to 67.

Summing up, it can be said that the current legal situation for pensions is disadvantageous for pensioners and workers with standard employment contracts. A justice gap is emerging and this is causing considerable uncertainty among people in Germany.

### **Answers and proposals concerning pensions by IG BAU**

Since the establishment of the pay-as-you-go system in Germany, as a parallel process to the discussions in Parliament, improvements in pension level for construction workers have repeatedly been demanded in the construction industry bargaining process, in particular by IG BAU. Already since 1957 there has been the supplementary welfare fund in the construction industry, now the Construction Industry Social Fund (SOKA-BAU) based in Wiesbaden, which collects contributions under the capital-cover system only from employers, calculated on the basis of the gross wage bill, and then pays out pension benefits. At that time, as today, the motivation for such collective agreements was to secure the specific risks of our members, who are frequently unemployed and are regularly unemployed in the winter in some regions of Germany. Whereas in other sectors, company supplementary pension schemes have been set up which operate across the company, this was not possible in the construction industry with its large number of small and medium-sized firms. For this reason, since 1957 sectoral arrangements have developed in the industry, and subsequently for the painting and decorating trade, roofing trade, scaffolding and stonemason trade.

In the meantime, it has become apparent that at the same time sectoral solutions to improvements to construction industry pensions have been achieved through bargaining in other European countries, such as France, Belgium, the Netherlands, Austria, Italy and also are beginning to be achieved in Scandinavia.

Over what is now 50 years, construction employers have been paying about 2% of the gross wage bill into the social fund for supplementary social benefits in the industry and currently some 440,000 pensioners are receiving pension payments from these funds.

The supplementary pension in the construction industry has also come under pressure from the changing demographic situation (large number of pensioners, small number of workers employed on standard employment contracts), so that in every bargaining round there is a debate on securing pension contributions and payments.

Besides these supplementary benefits in the construction industry achieved on a collective basis, over the past five years the IG BAU has concluded many collective agreements on individual supplementary pensions. These agreements are concluded at national level, but the federal confederation of employers' organisations has until now refused to declare the agreement to be generally applicable. By individual decision of the workers, the companies finance the negotiated supplementary pension via the construction industry social fund, e.g. 80% of the contributions are paid by the employer and 20% by the workers, and from the individual pension contributions the pension payments are then paid from the beginning of retirement.

After the IG BAU took over the pioneering role in bargaining on this subject in 2000, it can now be said that other trade unions in the DGB with its respective sectors is also introducing similar negotiated supplementary pensions, partly through their own welfare bodies, or in close cooperation with life insurance providers.

Summing up, it can be said that over the last 50 years the IG BAU has built up ideology-free, capital-cover pension insurance arrangements through collective agreements and with the declaration of general applicability, so that today we can count on social provision amounting to approx EUR 6 billion of capital stock, from which the collectively organised, cross-industry supplementary

insurance scheme is paid for, as well as an individually-based negotiated supplementary pension. Funding of these arrangements is almost exclusively provided by the construction employer.

## **IG BAU reform proposals for the State pension**

Besides all these negotiated supplementary benefits on top of the State pension, IG BAU has formulated alternatives to the current statutory pension as well as to the proposals by the so-called "Rürup Committee".

Under the chairmanship of Professor Rürup, the government has drafted some proposals and apart from the DGB, IG BAU was represented in the committee by its Chairman, Klaus WieseHügel, as the only industrial union. At this point, a number of key considerations of the IG BAU proposal as well as the minority vote in the Rürup Committee by the trade union representatives need to be explained.

The basic tenets of the IG BAU considerations can be traced back to the original conception of the founders of the pay-as-you-go principle of pension insurance, for as described earlier Konrad Adenauer and the then CDU wanted all those drawing an income to participate in the pension insurance scheme. Only as a result of fierce criticism by the employers' representatives of the time this did not become law, and only workers' incomes from direct employment contracts had to finance the system. The reverberations of this mistake of the century are being felt today. For this reason, the basis of the demand by IG BAU is that all income, whether from dependent employment, self-employed work or from liberal professions, income from interest, profits and rentals should be taken into account for the purposes of calculating contributions. Only then will the debate on additional wage costs quieten down and only then will it be possible to halt the rapid shift away from regulated employment contracts to undeclared work, illegal employment, and unregulated self-employed activities not subject to social security

obligations. It must be understood that this is no utopian proposal as the pension systems in other countries, e.g. Switzerland, are organised in this way. In many other countries, such as Scandinavia, a significantly higher tax burden, which is paid by all citizens, helps to finance workers' pensions.

A further fine-tuning adjustment in the IG BAU proposal is the threshold for making contributions, which as we see it should be completely dropped or could be phased out. In this way, deductions from individual incomes in the higher brackets would be significantly greater and the solidarity effect of this insurance would be clearly visible. A political decision could then be taken to ensure that the ratio of contributions to pension payments is in each case such that, e.g. higher incomes contribute a higher proportion to pension insurance than lower incomes.

This in particular would be justified by the objective of a social market economy, as it is always being pointed out that strong shoulders can also bear greater loads than weak shoulders and this is particularly true of the risks concerning pension payments, but also -- in my opinion -- in the case of sickness insurance. The IG BAU proposals also provide that the pension would not be linked to age, for example pensionable age at 65 for 67, but to the number of years insurance record. Pension payments linked to the number of years insurance record are fairer in terms of the number of years worked to build up the pension, so that those people who, for example, attend school and pursue studies for longer and enter working life later need to pay higher additional contributions during a shorter working career. From our point of view, an insurance record of 44 years is sufficient, whereby the insurance years have to be defined, if appropriate as part of a European consensus, saying that in other countries such as France, Italy and Spain, an insurance record of 35, 37 or 40 years is considered sufficient, but these are in some cases defined differently to the insurance years in the IG BAU proposal.

In our view, reaching the standard retirement age after 44 years of work could be differentiated in that some occupational groups, such

as construction workers, could be treated differently. It is evident that the arduous and difficult physical labour in all weathers with its high incidence of accidents puts different strains on people than office work, etc.

For this reason, a debate must be launched in society about the conditions governing retirement pensions. This could possibly be shaped in collective bargaining or in sectoral social policy. In principle, with these proposals the IG BAU wants to see a reform of the State pension system, to make it fairer and with a stronger social dimension for people in standard employment, to provide differential treatment for particularly-affected individual occupational groups identified in a social-policy consensus, and to make changes to pensionable age based on number of years of contributions rather than age. In this way, this would secure the first pillar of the State pension, which could then be flanked by the negotiated capital-cover supplementary pensions, as seen above.

The IG BAU in Germany has shown that by means of active bargaining policy it is possible to contribute to taking the pensions debate forward, so that workers in individual branches can cushion themselves against sector-specific risks. At all events, we are extremely disappointed at the anti-social and unfair proposals, also made by the present SPD-led government, and will continue to press our proposals in the political debate until the fundamental key points have been anchored in the law.

# **Pensions for Swedish Construction Workers**

*Sven Ljung, Research Officer Swedish Building Workers' Union*

## **Introduction**

This paper makes a brief introduction of the pensions that apply for Swedish construction workers, based on law and collective agreements. Although the union coverage rate has decreased in recent years, around 85% of employed construction workers are organised. However, more than 95% of the employees are covered by collective agreements and the occupational pension is part of that agreement. Self-employed in the construction sector are not included in these figures.

The National Pension system is mandatory for all employees and self-employed.

The Occupational Pension system applies for basically all employed construction workers. On average, the combined pension can be expected to offer a pension level of around 60% of the previous income. Net after tax, the pension level could be around 65% of the income as employed and it's a matter of discussion whether that is enough or if the individual needs to make further contributions in a private pension. In the old pension system, working for 30 years would offer a "full" pension with the levels expressed above. In the new system, people are expected to work at least 35 years for a similar pension.

Pensions for construction workers are based on the same principles as for other professional groups. The National Pension System applies for all employees and self-employed up to a certain level although few blue-collar workers reach that ceiling. The Occupational Pension System is based on a collective agreement between LO, the Swedish Trade Union Confederation, and the Employers' Confederation. The Swedish Building Workers' Union is member of LO. Thus, a construction worker and a metal worker, with the same wage, can expect to receive a similar pension.

## **Background**

In 1998, the Swedish parliament approved a new system for retirement pensions. The main reason for the change was that the cost for the previous national pension system had increased while growth in the economy was low. The previous system, the National Supplementary System, ATP, had been working for almost 40 years. The new national pension system was approved by the social democrats and several liberal/conservative parties and was the result of years of debate and research.

The background for the change was that the previous pension system was not expected to survive pressures from changes in the age structure and the low level of GDP growth. Sweden had experienced both during more than a decade and the low birth rate proved that the age problem is structural. As benefits were index-linked and paid by the working part of the population, pension charges (percent of annual income) were expected to increase if no change was made.

A key principle in the new pension system is the link to total income during the working life. The salary or wages for each year has a direct impact on future pensions. If someone works an extra year, that will increase future pensions and vice versa.

However, as benefits in the new system are not index-linked, there are a couple of factors that will influence the actual level of the pension when it is taken in the future. The actual level of benefits can be adjusted upwards or downwards depending on a number of factors that will be explained later in this paper.

When the new system was introduced, a transitional period was declared. Those born before 1938 will still receive pensions according to the old system. People born between 1939 and 1953 will receive pensions according to a mix of the old and the new system. People born 1954 and later will only receive pensions according to the new system.

The old pension system was based on the principle that 30 working years would qualify for full pension and the 15 best years, in terms of income, determined the level of pension. The pensions were then index-linked to the Retail Price Index, RPI. Thus, people could often, with some degree of accuracy, calculate the level of pension to receive.

## **National Pension System**

The lifetime earnings principle is fundamental to the new pension system. This means that the value of all paid pensions contributions is equivalent to what we receive as pensioners as pensions. Pension benefits are calculated up to a ceiling of an annual income of approximately 35,000 €. The National Pension could offer around 50% of previous annual income but the level could be higher or lower depending on i.e.:

- GDP growth
- The proportion between working people vs. retired and
- The life expectancy for the population.

Generally, the level of pension charges (to be paid by employers and employees) is set at 18.5%. Employers pay a contribution of a little more than 10% and employees the balance. Some of the employee contribution is deductible so the actual net charge is somewhat lower depending on what margin tax the person pays.

The pension system is largely a pay-as-you-go system, which means that it is an insurance system in which the contributions paid in a year cover that year's disbursements. The system redistributes income from the working population to the retired generation. The pension contribution is 18.5%. 16% of the pension contribution are used to pay this year's pensions. The remaining 2.5% is used in a premium based individual system where each person decides from a range of pension funds to invest in.

The balance on the pay-as-you-go system account does not correspond to any money saved but is registered for the individual. When the pension is drawn, it is the working population that finances payment with their contributions.

In some circumstances, employees may have a lower income than but still be compensated by the National Pension System. Examples here are:

- Persons caring for small children.
- Persons who studying and are receiving study grants.
- Persons doing their national service or equivalent.
- Persons whose income is in the form of earnings-related sickness or activity compensation.

Except for the last option, all other qualifying periods, like caring for small children, are limited in terms of earning benefits.

The retirement age is flexible and benefits can be taken from the age of 61. However, the pension is supposed to be taken from the age of 65 and if benefits are taken earlier, the pension level will be lower.

The pension system is developed not to make long-term deficits. If long-term growth gets lower than expected and the level of working people contributing to the system declines, the pension levels could be adjusted downwards. Thus, there is no certainty that the worker will receive a specific level of his pension.

Each year, all employees and self-employed receive an annual statement showing last year's contribution, the balance of the value of all contributions and a forecast for future benefits.

## **Occupational Pension System**

A large proportion of employees is covered by collective agreements. An occupational pension is an ingredient in the collective agreements

and all blue-collar workers in the private sector have the same system.

By tradition, it has previously been a pension based on the final wage and that still applies for most white-collar workers. However, blue-collar workers, including construction workers, now belong to a contribution based pension system. Those workers who are not covered by a collective agreement do not receive any additional pension unless the company voluntarily pays any contribution. In the construction sector, it would be highly unlikely that a company would offer an occupational pension if it was not covered by a collective agreement.

The occupational pension is portable and not linked to employment in a single company. As the pension system applies as well as in the construction sector as in other sectors, you can basically change employment every year but still belong to the same occupational pension system.

The occupational pension system for construction workers (and other blue-collar workers) has previously been a final-wage system, where the pension level was supposed to be 10% of the final income after 30 years. This has now been changed so that the pension contribution from the employer is 3.5% to a pension fund and the employee can choose from a range of investment opportunities from unit-linked funds to with-profit funds. Thus, the actual outcome for the individual may vary and the responsibility lies solely on the person himself. The objective is still that the new occupational pension system shall offer around 10% of final income, but there is no guarantee for that. However, in contrast to the National Pension system, the Occupational Pension system is based on actual fund-based savings.

## **Pensions in the UK Construction Industry**

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At a time when pensions provision in the United Kingdom is facing massive problems the construction industry stands out as having achieved a rare success in expanding the coverage of worthwhile pensions among workers on low and middle incomes. The reasons for that success suggest that there are some important lessons that need to be learnt by policymakers to avoid what many regard as the looming crisis that faces pensioners in general.

Until recently the story being told about pensions in the UK was one of success. This was based mainly on the sheer size of the occupational pension sector, i.e. employer-funded schemes, with total assets well in excess of any other country in Europe. This was coupled with more favourable demographic conditions and the belief that the UK faced much less of a problem in meeting the future cost of State pensions. Unfortunately, there is now a wide understanding that neither factor is really as favourable as many supposed.

First, occupational schemes now face considerable problems. It has always been the case that while they have on the most part provided worthwhile benefits, they always suffered from the serious drawback that they covered less than half the working population, leaving the rest to depend on the benefits provided by the State. Now they are in decline, with many employers claiming that the defined benefit schemes upon which the development of the sector was based are both too expensive and too risky. The result is that there is now a significant shift taking place to defined contribution or money purchase schemes, which are almost always inferior in terms of potential benefits when compared to the schemes they replace. In addition, the risks associated with occupational schemes have become much more apparent, with some highly publicised scheme failures, which have resulted in members facing the prospect of little or no benefits.

In response the Government has been forced to introduce a Pension Protection Fund, which is a form of employer funded insurance for defined benefit schemes to provide cover when they are forced to wind-up with a deficiency which cannot be met by the employer. It has also established an assistance scheme to deal with the 60,000 plus members of such schemes who have already lost out through scheme failures.

The inevitable effect of all these problems with occupational schemes is a considerable loss of confidence in such provision on the part of employers and also, to some extent, employees. As a result occupational provision is actually in decline, both in terms of quality and quantity, rather than the expansion that the Government have said they want.

The second problem with the UK pension system is that the inevitable corollary of lower State expenditure on pensions is less adequate State benefits. On current trends, with the State basic pension linked to prices and the earnings related State pension facing severe cuts in future, the inevitable result is that the total pension anticipated by a growing proportion of workers is below the poverty level.

The Government's response to this problem has been first, the development of private pension provision, to take up the slack caused by inadequate State benefits, and secondly, an extension of means-tested benefits for pensioners who have not had the opportunity to provide for themselves. Unfortunately, private provision, both through occupational schemes and personal pensions, is not expanding in the way the Government envisaged. At the same time means-testing is being criticised on two grounds. First, there is the problem of low take-up, leaving too many old people in poverty. Secondly, there is the disincentive effect, whereby people are discouraged from making their own provision because it simply disqualifies them from receiving the State benefits to which they would be entitled when they retire.

The problem this poses for the Government is that up to now they have sought to widen pension provision by a reliance on a voluntary approach, mainly by the establishment in 2001 of so-called Stakeholder Pensions. A stakeholder pension is a flexible low cost pension policy designed to make saving for retirement as simple and as attractive as possible for those on lower and middle incomes who are not lucky enough to be a member of an employer sponsored occupational pension scheme. They are effectively the same as personal pensions, except that there is a limit on the expenses that can be charged and the fact that they have to be offered to all employees by any employer that does not provide them with an occupational scheme that meets minimum standards.

Unfortunately they have generally had little success in terms of expanding provision among the target groups, mainly because there is no requirement on the employer to contribute to the scheme that they have to offer to members. The end result has been the absurdity of lots of such schemes with a zero membership. They have also suffered by association with the experience of the mis-selling of personal pensions and the failure of one of the leading suppliers of such policies, the Equitable Life.

In recognition of the difficulties being encountered by this approach the Government has now established a Pensions Commission which is to look, in particular, at whether there is a need for greater compulsion in private pension provision. It is not due to report for a couple of years, but in the meantime it is leading a wide-ranging debate, pulling together the facts and figures. This is bound to include consideration of what the State will provide, even though it was not originally part of the Commission's terms of reference.

It is against this background that what has happened in terms of pension provision within the construction industry is so important. Put simply, the industry can fairly claim that it provides the only example of a stakeholder scheme which is successful in terms of the Government's original objective. The construction industry is relatively unusual in the UK in that it offers an industry-wide pension

arrangement run on a collective basis. While some of the larger firms in the construction industry do sponsor their own occupational schemes, this is not really a practical option for the large number of small and medium sized employers, particularly given the transitory nature of much of its workforce. So they have organised the B&CE Benefit Schemes, as a not-for-profit provider of employee benefits to the construction industry.

The B&CE was originally established in 1942 to administer a centralised holiday pay scheme for people working in the construction industry. From its outset it has been run jointly by the employers and the trade unions which represent scheme members on a 50/50 basis. In 1975 it launched its death benefit scheme, now known as Life Cover, followed in 1982 by a Retirement Benefit Scheme and in 1987 an Accident Benefit Scheme. As a result of these and other initiatives, B&CE has become the largest supplier of financial services and employee benefits to the UK's construction industry, operating on a not-for-profit basis and offering a range of products tailored solely for the benefit of its customers. Almost 8,000 employers use it to provide employee benefits for over 300,000 individuals.

In 2001 B&CE replaced its Retirement Benefit Scheme with EasyBuild, in the form of an industry wide stakeholder pension scheme. This is actually only one element in a 'four benefits in one' scheme that provides holiday pay, accident and life cover and membership of EasyBuild. And unlike almost all other stakeholder scheme, that offered by B&CE has been a clear success. What this means in practical terms is that the B&CE has celebrated the opening of its 300,000th EasyBuild pension policy, which is the name under which it promotes its own Stakeholder scheme. Unlike other Stakeholder providers, who have many cash-empty stakeholder schemes, all B&CE schemes have money in them, paid in by employers and in many cases by individuals too. Since its launch in April 2001, EasyBuild schemes have received more than £100 million in contributions.

This achievement by the construction industry comes at a time when some leading pensions commentators are questioning how effective the government initiated stakeholder schemes have been at reaching their target market. But as Brian Griffiths, B&CE chief executive has been able to point out, “B&CE has given those in the construction industry, on lower to middle incomes, the opportunity to take responsibility for their own future financial security – something which until EasyBuild was started was not really possible”.

The question that needs to be answered, therefore, is why has the B&CE succeeded where all others have failed?

The EasyBuild scheme’s unique attraction as a Stakeholder scheme is based on a number of advantages:

- The B&CE is independent and does not pay commission to independent financial advisors. Instead it is promoted within the industry itself and is widely recognised by employers and employees within the construction industry as being the best form of pension provision, where the employer does not sponsor its own occupational scheme;
- Charges are exceptionally low. Thus, for members who are self-employed or work for an employer who is not one of our customers, the fund charge is just 0.65 per cent of the accumulated fund per annum. For those who work for a qualifying employer who is a B&CE customer there is actually no annual management charge until April 2006, after which it is guaranteed to be no more than 0.65 per cent.
- It is extremely flexible. Members are able to start an EasyBuild pension with as little as £1 and can subsequently pay in what they like, when they like. So if they need a break in payments because their circumstances change, an occurrence which happens all too often in the construction industry, they can stop or reduce their contributions without penalty. Equally they can increase they can increase payments and add one-off payments at anytime. This degree of flexibility is unusual in stakeholder schemes but crucially important in an industry like construction.

- It offers the opportunity for individuals with a pension fund to secure an annuity when they retire on some of the best rates available and does not impose a minimum purchase price.
- It is attractive to employers within the industry because care has been taken to keep paperwork to a minimum, meaning that it is very simple for their office staff to administer and easy for employees to understand

A key element in all this is the level of charges on stakeholder schemes, which were initially limited by the Government to no more than 1 per cent of the member's accumulated fund per annum. In practice most stakeholder schemes have been provided by insurance companies and many, if not all, of these have claimed that the limit set at this level means that it was simply uneconomic for them to promote their use. The clear suggestion was that higher charges would mean a higher take up. This contrasts starkly with the experience of the B&CE, which has spoken out against the need for any increase. Thus, John Jory, the deputy chief executive of B&CE, said they had already proved that it could run stakeholders efficiently at well below 1 per cent. He said in evidence to the Government "We urge you not to cave in to self-interested pressure from the financial services industry" and went on to add "Raising the price cap is a diversion, and one that may only serve to widen the savings gap as more pension savings are diverted to the pockets of the shareholders of the financial services industry."

Despite these and other warnings from the trade union movement and consumers' organisations, the Government has nevertheless recently decided to increase the charging cap for stakeholder pension product to 1.5% of the accumulated fund for the first ten years that the product is held, from the current level of 1%. In response to this decision John Jory commented "Stakeholder pensions were intended to encourage lower to moderate income earners to save for their retirement and we are sceptical as to whether this move will meet this objective. We are able to operate well within the current cap of 1% and will continue to do so. In fact, it is our opinion that, in the

longer term, even 1% is too high to have an impact on the savings habits of the group of people we are trying to reach.

As an example of the sort of initiative which is required B&CE have just launched a nationwide employee presentation programme which is designed to inform employees about pensions and the arrangements already made for them by their employers. The service, which offers personalised, on-site pensions presentations, is free of charge to contractors across the country. B&CE regional executives based around the UK will visit companies and work sites to explain how the industry's stakeholder pension plan, EasyBuild, works. This approach is based on lessons learnt from recent research by B&CE which has shown that people are confused about pensions and therefore do not understand the work-based scheme made available to them by their employer. It also indicated a major preference for face to face meetings, as a way of motivating them to save for a pension. The objective is to work with employers, unions, employees, and the Government to persuade people to think about saving for their retirement sooner rather than later. Pilot studies have shown that where B&CE has gone into firms and made presentations, there was, on average, an increase of 30% in the number of employees making their own contributions to EasyBuild.

The conclusion which ought to be drawn from the insurance industry's self-interested arguments is that its continued attachment to high selling costs means it is simply unable to deliver stakeholder pensions at a price that is appropriate for those on lower to middle incomes. So if the Government does wish to expand the coverage of such schemes it would do better to follow the successful model established by the B&CE, i.e. industry-wide schemes established and run by the industry itself. In particular, it must accept the crucially important role of collective bargaining between employers and trade unions as well as joint management of the schemes when established. So the main lesson to be drawn from the success of the B&CE is that collective provision can in practice deliver much wider coverage in the Government's own target groups at a significantly lower cost than that demanded by the insurance industry.

## **Spain – unions put early retirement on the agenda**

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In January 2004 the two main Spanish construction unions - FECOMA-CCOO and MCA-UGT - launched a joint campaign to lower the age of retirement of site operatives. Early retirement is just one of the two pillars of a campaign entitled *Es tu vida, son tus derechos* (“It’s your life, they’re your rights”), which also calls for the regulation of sub-contracting in the sector, a long-standing demand of the unions.<sup>8</sup> The common issues linking the two demands are health and safety, and more particularly the alarmingly high accident rate in the Spanish construction industry.<sup>9</sup>

### **The unions’ demands – a generic proposal**

At present there is no special pension provision or regime for construction workers in Spain. Whether self-employed or wage-earners, the retirement age for construction workers, as for the working population of both sexes as a whole, currently stands at age 65. Given the absence of sectoral social pension funds of the type found in some European countries, the extremely limited coverage of company pension schemes, the predominance of temporary and self-employment, and the limited development of individual private pensions in Spain, on retirement the vast majority of construction workers depend on state contributory pensions.

This, therefore, is the focus of the unions’ demands. These are, however, still posed in very generic terms. In their declarations and published information on the initiative, they limit themselves to calling for a reduction in the statutory retirement age for construction workers. They also make it clear that their demands refer specifically

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<sup>8</sup> See Byrne, J. “Spain: Boom continues but at what cost for labour?”, *CLR News* 4/2000, 18-24 and “‘Nos va la vida’: La Iniciativa Legislativa Popular para una ley reguladora de la subcontratación en el sector de la construcción”, *Sociología del Trabajo* 45 (Autumn 2000), 93–107.

<sup>9</sup> See Byrne, J. and van der Meer, M, “Spain down the low track” in Bosch, G. and Philips, P. eds.. *Building Chaos. An International comparison of deregulation in the construction industry*. London: Routledge. 2003, 139-160, esp. pp. 154-56.

to site-operatives, and that the lowering of the retirement age should not imply any reduction in the sum of pension payments. However, they do not make any concrete proposals as to the formula to be used to reduce retirement age, beyond indicating that this should be linked to the length of workers' employment in the sector and their social security contributions.

As reflected in internal documents and discussions, one model the unions have in mind is the special pension regime for workers in other particularly arduous and dangerous occupations (notably miners, some transport workers and merchant seaman). Under this system, a coefficient is applied to workers' actual length of employment in the sector which effectively lowers the age at which they earn entitlement to a retirement pension, the size of the coefficient varying in function of the numbers of years worked and occupational category. However, another possibility mentioned is simply an across-the-board cut in the statutory retirement age for on-site workers.

The unions publicly justify their demands in reference to the duress of on-site working conditions (hours, working rhythms, and exposure to harsh and dangerous conditions), as well as to the higher accident rate among older workers. They also point to the precedent set by other European countries with early retirement schemes for construction workers, citing in particular the 2002 victory of the Swiss construction unions (from whom they have sought advice).

The unions also point to other specific characteristics of the industry that justify the need for special pension provisions for construction workers. These include high levels of temporary employment, with contracts for the "duration of the job", which older workers, who are - or are assumed to be - less productive, find it increasingly difficult to compete with; the prevalence of informal, off-the-books payments, which mean that wage slips, and hence workers' and employers' social security contributions, rarely reflect their real earnings; and the impact of unemployment (particularly during the major slump in the

sector between 1975-85) on workers' record of contributions to the system.

### **The campaign – with the elections in mind**

The launch of the two-pronged campaign *Es tu vida, son tus derechos* in January was timed to coincide with the run-up to the Spanish general elections on 14 March 2004. This was considered the appropriate moment to secure commitments from the political parties, as well as to mobilize against the conservative *Partido Popular* (PP) government. January and February saw workplace assemblies to discuss the union's demands, public demonstrations in Madrid and a number of other major cities, as well as meetings with the main statewide political parties. Prior to the elections, the two main leftwing, and then opposition, parties - the *Partido Socialista Obrero Español* (PSOE) and *Izquierda Unida* (IU) - expressed their generic support for the unions' generic proposals on both subcontracting and retirement.

### **The prospects – the Socialists will need convincing**

It is still too early to evaluate the unions' campaign or the prospects for success. As elsewhere in Europe, as well as at the EU-level itself, the sustainability of the existing Spanish state pension system has come increasingly under question since the 1990s. Reforms introduced since 1997, which have counted on an unusually broad consensus among the political parties, unions and employers, have followed two main dynamics. On the one hand, they have extended the coverage of Spain's relatively underdeveloped state pension system to groups which previously struggled to gain entitlement (notably women), as well as guaranteeing that pensions will keep pace with inflation and establishing a reserve fund (nourished from the current social security surplus) to bolster the future viability of the system. On the other, the period used to calculate an individual's pension payment has been raised from 2 to 15 years (with proposals

that this should be increased to 35), early retirement has been penalised by increased reductions in the pension levels, and measures have been introduced to promote flexible – i.e. postponed - retirement, as well as to encourage employees to take out individual private pensions. The underlying logic of these measures has been to increase the cost and lower the levels of pensions for employees, and, thereby, raise –rather than reduce- the retirement age in the economy as a whole. Evidently, therefore, the unions’ demands run contrary to the overall drift of legislation.

Under the terms of the current sectoral-level collective agreement, the employers in the *Confederación Nacional de la Construcción* (CNC) are formally committed to supporting the idea of government review of the retirement age in the industry. Union sources suggest that the CNC is genuinely sympathetic to the idea (older site workers are also assumed to be less productive), although only insofar as that any new formula would help them reduce, rather than increase, their labour and social security costs, the financial burden of any change falling on the State.

The government’s position is obviously crucial. Given the PSOE’s surprise electoral victory on 14 March, and the party’s pre-electoral declaration of support for the unions’ campaign, the political situation has certainly changed in the unions’ favour. However, while the unions have rushed to remind the new government of their previous verbal commitments, it remains to be seen whether this will be translated into legislative action by a government with already extensive public spending commitments.

This would seem unlikely to happen without successful campaigning by the unions. The current unity of action between the two major unions is one encouraging sign in this respect. So too are the reports of understandably strong support among their members and construction workers for the initiative. However, the tone of improvisation that surrounded the launch of the campaign, and the poor turnout at the demonstrations called in the run-up to the elections, are more worrying. In this respect, the unions still need to

define their proposal, even if only as a starting point for negotiations with the government. Just as importantly, they also need to generate stronger theoretical and empirical arguments demonstrating not only the justice of their cause, but also the benefits that a reduction in the retirement age would bring not just for workers in the industry, but also, given the hypothesized impact on productivity and sickness and accident rates, for the State. A more concrete and substantiated proposal would appear essential not only in order to get construction workers actively involved in the campaign, but also to make a convincing economic and political case for early retirement for construction workers.

## REPORTS

### **The Historical Development of Labour and the Employment Relation in Construction.**

*University of Westminster and CLR, London, 27<sup>th</sup> May 2004*

This second in a series of international Seminars organised jointly by the University of Westminster and the CLR-London Office - funded by the Economic and Social Research Council - was to highlight the diversity in the history of the construction labour process in Europe. At the same time the discussion brought to light striking similarities in developments, such as around the turn of the twentieth century the role of the bricklayers in trade union organisation and the formation of socialist parties in Madrid, Hamburg and Berlin.

The first paper by Justin Byrne showed in particular how with the inclusion of unskilled and migrant workers by the bricklayers trade demarcations became obsolete and genuine labour organisation emerged. In the following intervention Ursula Weis exposed how in the early 1930s collective employment conditions were undermined by 'forced unemployment labour schemes' and by the abolition of unemployment benefit beyond six weeks – conditions, which were the breeding ground for the rise of fascism. After lunch break Jörn Janssen pointed to a fundamental change in the nature of wage relations in Europe through the introduction of social security provisions after World War II. He confronted the different concepts of social security in the socialist and capitalist states of Germany during the Cold War period. After these accounts from continental Europe, Janet Druker traced the history of trade unions in the British construction industry. She showed the protracted - failed - attempts to form a single construction union. The final panel discussion with Peter Latham/NATFHE and Lou Lewis/UCATT was centred around conflicts between the 'rank and file' and union leadership since 1963 arguing that this supposed opposition rather covered changes of a different nature. In the case of the London Joint Sites Committee (of which Lou Lewis was the first chair), set up in the mid-sixties, the dispute was about new bonus schemes, a central issue in the

subsequent legendary Barbican strike. This dispute was also the beginning of the extensive use of labour only subcontracting in construction. Understandably these controversial issues prompted a lively debate primarily among the trade union officials attending this seminar.

The seminar was a lesson on how the shape of labour relations is based on specific traditions and experiences. We hope that some of the contributions to this seminar will be published in CLR-News or Studies. The activation of memory and historical analysis are a means to understanding the present experience of changes in labour relations.

*Jörn Janssen/CLR-London Office*

## **Health in Construction Conference**

*European Construction Institute (ECI), London, 23 September 2004*

The ECI's annual SHE (Safety, Health and the Environment) conference was held this year in London. I understand that previous conferences, such as that held in Paris, have concentrated on the host country and the London event was no exception. Contributions focused almost exclusively on the British situation, though some, such as that by Andrew McNaughton of Balfour Beatty Civil Engineering, also made reference to continental European projects. In many ways the conference was a preparation for the Deputy Prime Minister's Summit conference on health and safety in construction planned for next year.

The importance of this event was that it focused on health, rather than the more common focus on safety and particularly accidents. Health problems for construction workers in Britain are particularly severe, affecting 7% or 100,000 workers or double the national average. Most disturbing are the rising number of deaths from mesothelioma caused by asbestos; in Britain there were 600 construction-related deaths in 2001 and the figure is expected to rise

to 2,500 by 2010. For Europe as a whole a staggering 250,000 deaths are anticipated from asbestos-related diseases attributed to construction. But musculoskeletal disease also affects many thousands, 5% of the construction workforce in Britain, again double the national average, as is disease arising from noise. Hand arm vibration gives rise to further health problems, in particular vibration white finger, almost six times the industry average. And finally dermatitis is a big problem, especially for bricklayers, 10% of whom leave the industry each year. A quarter of the thousand strong workforce on the Channel Tunnel were diagnosed with occupational dermatitis.

The Health and Safety Executive (HSE) explained their programme and strategy to help combat some of these health problems, in particular the attempt to engrain a culture of self-regulation, setting targets and priorities, creating standards and complementing wider government initiatives with respect to changing the construction industry. The approach now is different from that in the past in that HSE seeks to engage the workforce on site and to look at how companies manage health problems with a view to encouraging occupational health risk management. The idea is to harness the contribution of all parts of the supply chain in order to reduce days lost from ill health in specific processes, such as moving away from the manual handling of kerbs.

How affective this is remains to be seen, but talk of self-regulation always raises the suspicion that improving and implementing existing legislation is being downplayed. And this suspicion was certainly reinforced by the government spokesperson, Isobel Stephen of the Department of Work and Pensions, who stressed the government's concern about health as a construction client and her own department's concern to get people back to work, but made little reference to regulation, apart from the new EU Directive on working at heights. She said nothing about the widely-recognised non-implementation of the Working Time Regulations, nothing about greater enforcement and nothing about controlling bogus self-employment, and nothing about improved training. When asked by a

Belgian why compulsory occupational health care did not exist in Britain unlike many European countries she weakly replied that this would be “pretty difficult” as there is not “enough capacity” in terms of occupational health.

More interesting and committed was the report from Andrew McNaughton of Balfour Beatty, the only person to address the link between poor health and safety and lack of training, and to refer to the growing issue of stress and to the social and cultural dimension of poor health. He introduced a wider European dimension with the example of his firm’s involvement in the TransAlpine link in Switzerland, where Portuguese workers were less likely to take time off when they were sick because of a lack of sickness benefit. In response to a question on stress, he also pointed to the health problems arising from people working away from home and the importance of communicating with staff at all levels. The HSE representative agreed that stress underlies much of the poor safety record and appeared to be a growing problem in Britain, as evident from the exceptionally high suicide rate for construction workers. HSE is as a result commissioning research in the area.

Bob Blackman, responsible for the building section of the Transport and General Workers’ Union, attributed the poor health and safety record of the industry in Britain to the “employment culture” and in particular to the use of bogus self-employment. Training and a professional approach to the workforce are key to improving the situation, plus measures such as long-awaited legislation on corporate manslaughter.

Victor Ray-Reeves of Halliwell Landau solicitors gave a comprehensive picture of all the potential and real costs arising from construction-related accidents, fatalities and ill health. For Vibration White Finger, for example, the Department of Trade and Industry has paid £233 m for 21,000 claims, with many thousands of claims still pending. In the USA asbestos has cost US insurers \$50 billion and \$200 billion world wide, and given rise to the bankruptcy of 80 corporations. In Europe the costs are estimated at €32-€80 billion.

More and more claims related to stress are also coming in every day in Britain.

The conference ended with a presentation from Sir Michael Latham, President of European Construction Institute, who was the only speaker to bring in the Europe-wide nature of poor health and safety in construction. As with so many speakers, he gave a frightening picture of health and safety problems in the construction industry, but was less convincing about the effectiveness of existing measures being taken to improve the situation. In this respect the whole day, though interesting, was also disappointing, raising awareness but putting forward few proposals for change.

*Linda Clarke/University of Westminster*

## **Construction demands more and better vocational training**

*FVB/FFC colloquium, Houffalize, Belgium, 3 September 2004.*

The Belgian joint social partner ‘paritarian fund’ for vocational training in construction (abbreviated in the two official languages FVB/FFC) is an interesting institution set up by the Belgian social partners in the construction sector. FVB/FFC has a long tradition of cooperation with training institutions and training bodies in the neighbouring countries. The organisation also participated in several European networks and took the lead in a project with CLR-involvement meant to develop a reliable European databank on vocational training (this *dBase*-project failed because the European Commission turned down a proposal for funding).

Over the last 7 years FVB/FFC has been commissioned by the social partners in construction to develop and accelerate training and retraining programmes. This commission was formulated in a sectoral collective agreement dedicated to vocational training in construction. Employers and unions agreed on a substantial budget for this operation. During a one-day conference on 3<sup>rd</sup> September

2004 the executive of FVB/FFC reported on the main results of this ambitious project.

What is first striking is the high degree of consensus between the social partners about the need to act jointly in this field. Secondly, all the participants - a very representative group of some 250 employer's and trade union representatives, regional and national training and education experts - underlined the importance of an industry-wide structure to tackle the serious problems that construction is facing: the ageing of the workforce, difficult recruitment and skill shortages in the light of technological development. Furthermore, the idea that it is necessary for the industry to pay anti-cyclical provision based on solidarity was warmly welcomed and the results of the work done strengthened this philosophy.

The sectoral vocational training strategy formulated in the collective agreement by the social partners in 1997 and implemented by FVB/FFC has three main pillars:

- First, the (initial) vocational training of young people - the key words are cooperation with the education system, cooperation agreements with schools and mentorship for young workers;
- secondly, the retraining of (young) unemployed workers - the key words are alternation and cooperation with other actors in the labour market such as the employment services and intermediary labour agencies;
- thirdly, further training of the actual work force through training on the job and additional education in the evenings or on Saturday.

To give an idea of the impact of these three pillars some facts and figures:

Over the seven-year period 66,000 trainees/workers participated in one of the three pillars.

**Pillar 1** has led to some 228 cooperation agreements in 2003 with schools and (normal) education centres offering training schemes for 12 building trades. For a small country like Belgium this is certainly

a great success. In the seven-year period there was a slight decrease, especially in Flanders during the recent recession period, but overall figures have increased again. At the moment the total amount of young people attending in these schemes is estimated at 26,000 students. The quality of the teachers is permanently assessed. The FVB/FFC organises train-the-trainer activities and the students' handbooks are financed through the fund. The students have to pass a practical stage on site of at least 9 weeks. One of the problems however is that, after leaving the schools successfully, only one third of the young workers really decide for a trade in construction. One of the objectives for the future therefore is to raise the intake in the sector after completion of vocational education.

**Pillar 2** is relevant for the sector as well. Some 20,000 unemployed are trained in this pillar. Training is through different paths: an accelerated vocational education scheme, alternation, an apprentice system, and other mixed training methods. Most participants (75%) are young people under the age of 25. Popular trades are bricklaying, roofing and painting, which together attract more than 55% of the participants. Apprentices stay in the sector (92%) whilst the other training paths have a mixed outcome, varying between 46 and 60%. The main problem in this pillar is the high dropout rate during the course.

**Pillar 3** activities have more than doubled over the years. Annual hours of further training increased from 187,000 hours in 1997 to 420,000 in 2003. The number of construction companies participating rose from 800 to 1,860 undertakings, the number of course-participants from 4,600 to 13,300 persons. There is a substantial shift to more training in the evenings and on Saturdays (9% in 1997, 22% in 2003). More important even is the change of content; for instance items of health and safety are nowadays subjects of training in 16% of the courses, against 5% in the past. Technical further training declined from 87% in 1997 to 69% in 2003. Medium-sized companies have by far the biggest share in further training. The positive outcome for workers is an improvement

of their qualification and higher employability. The benefit for the construction industry is more stability/continuity in the workforce.

The Belgian construction sector consists of 26,000 companies with some 160,000 workers in total. Annually 25% of the workforce leaves the sector. The (majority of) workers leaving construction companies are not coming back elsewhere into the sector. Besides this, the population of construction workers is aging. Therefore there is a permanent need for newcomers in the construction labour market, estimated at 25,000 workers a year.

The approach of the paritarian fund is an industry-wide answer to this problem.

During the colloquium the possibility for a more diversified labour market policy was discussed. The social partners will discuss these findings before drafting a new agreement for the sector.

*Jan Cremers, CLR*

## **Stress in the Construction Sector**

*European Seminar organised by FIEC/EFBWW/CLR, Antwerp, Belgium, 8 October 2004*

The Social Dialogue of the European construction industry will produce a document aiming at combating work-related stress in the sector. This document will complement a framework agreement on the same issue signed at inter-professional level by the social partners UNICE/UEAPME, CEEP and ETUC 27 May 2004. This was the conclusion of the European seminar on Stress in the Construction Sector 8 October 2004 expressed by representatives of the Social Dialogue. The seminar was the final event presenting and discussing the results of a research project managed by Jan Cremers/CLR for FIEC and EFBWW. The European Commission funded the project as part of a respective programme. The research report will be published soon as a book in English, French and German in CLR-Studies.

In the first part of the seminar, introduced by representatives of the organisers (Harrie Bijen/EFBWW, Peter Andrews/FIEC and Jan Cremers/CLR), the researchers presented findings and the need to include work-related stress in the protection of health in the construction industry (Jan Cremers/CLR, Werner Buelen/EFBWW, Paul Schreuers/NL, Wolfgang Richter/D, Damien Cru/F). Contrary to the common picture of construction work, there exist serious risks of ‘negative’ stress in a number of manual occupations known as simply physically demanding. Jan Cremers singled out an imbalance between strain and work autonomy as the prime source of stress related health risks. Most at risk are workers employed in low-skill repetitive jobs and site agents. But more, in particular comparative, research is needed, to identify high-risk occupations. Conversely, it was made clear that research alone is not a means to combat stress, but it needs the cooperation of the social partners at the level of undertakings to improve working conditions.

In the second part examples of ‘best practices’ showed what can be done to prevent and combat negative stress, typically from the Netherlands/Janneke Waage, and Denmark/Lars Vedsmand, notorious for cooperative social partnership. Both speakers put much emphasis on the dialogue between management and staff in work organisation to reduce excessive psychological/emotional strain. Walter Van Wijk/humatix offered a ‘quickscan’ method as an instrument to measure work pressure through its negative effects on the quality of work, fatigue and health/absenteeism.

The seminar concluded with a panel discussion around the representatives of the social dialogue on health and safety, José Gascon y Marin/SEOPAN/E and Bernd Eisenbach/IG BAU/D including Peter Andrews for FIEC and Ernst-Ludwig Laux for EFBWW. After an overloaded agenda neither time nor energy was left for controversy or debate.

The seminar was outstandingly interesting through the amount of information and its width of approaches to the subject – partly reflecting immense differences in the awareness of occupational

health. It remains, however, unclear what the effect will be on practices in the industry. How for instance can a dialogue between management and staff be developed under conditions of precarious and illegal employment relations, with migrant workers speaking foreign languages, with self-employment, and under conditions of immensely tight time schedules, in small and medium sized undertakings. Whilst the working conditions in construction firms seem to give rise to more and more stress, the conditions for combating stress seem to be deteriorating. When, therefore, the social partners may sign well-meaning documents or even agreements, these does not by themselves translate into employment conditions favourable to prevent work-related stress on building sites in Europe. On the contrary, we all know that stable working conditions are on the defence for manual as well as non-manual staff. But this was not on the agenda.

*Jörn Janssen/CLR-London*

## REVIEWS

Robin Blackburn:

**Banking on Death or, Investing in Life: the history and future of pensions**

Verso, London and New York 2002, 550 pp, 20 £, ISBN 1-85984-795-1

What is so depressing and frustrating about much of the current debate about pensions is that it is difficult to get beyond the frightening facts and figures. In the UK the future of the remaining defined benefit schemes is still under threat while vast numbers continued to be bandied around as to the deficits in the schemes run by top companies. That the deficit has recently fallen to £50 billion from an even more incredible £160 billion is supposed to be good news. Meanwhile we are repeatedly reminded that the big state-run schemes across Europe are set to face massive deficits in the next 50 years as the working population declines and the number of the retired climbs inexorably.

Robin Blackburn finds an apposite quote to reflect the way the debate has turned: “There’s an iceberg dead ahead. It’s called global aging and it threatens to bankrupt the great powers. As the populations of the world’s leading economies age and shrink, we will face unprecedented political, economic and moral challenges. But we are woefully unprepared. Now is the time to sound the alarm.” (From *Gray Dawn*, by Peter G Peterson, 1998 (quoted on p.429)

Blackburn provides a lively and interesting alternative to the headline debates while not attempting to reject outright the claims of the doom-mongers. He begins with a canter through the history of pension schemes and suggests that the origins of modern day systems lie either in the “trust, thrift, probity and self-reliance” associated with a puritan ethic or in the “baroque tradition [that] emphasises the pastoral role of the state as an instrument of social harmony.”

The UK and US are prime examples of puritan pensions and, of course, the main proponents of “Anglo-Saxon economics” – the economics of market forces, powerful stock markets, deregulation and liberalisation. But Blackburn reminds us that: “Even when stock markets were booming, and in those countries where private pension fund provision was extensive and long established – Britain and the United States – the state pension still remains by far the most important source of income for the great majority of the elderly.” (p. 26)

Perhaps not a surprising statement but it is this kind of perspective that is often missed in the current climate. The more interesting theme in Blackburn’s argument is to emphasise the key role that state pensions and pension funds invested for the long term can play at crucial points of economic development.

He points out for example that: “The United States adopted Social Security at a time when it had suffered a catastrophic fall in GNP – and the raising of pension levels in 1950 itself contributed to the buoyancy of demand in the 1950s and 1960s. In West Germany and Japan the channelling of pension contributions into investment, whether at enterprise level (West Germany) or in national infrastructure (Japan), helped to finance their rapid economic advance.” (pp. 87-88)

This is the positive role that funds can play and Blackburn outlines a range of measures – primarily changes in who controls and regulates pension funds – which could boost their potential to do this even more in the future. He maintains that currently a key problem with pension fund control is that it is a legal grey area. There has been a long legal debate over who owns a pension fund surplus, with thousands of workers now facing the closure of their defined benefit schemes but who can remember recent years when their employer has happily reaped the full benefit of a surplus in the company pension fund.

Blackburn identifies this as the “world of ‘grey capital’” which “is plagued by an absence of authority of commitment. Because the

policy holders are deprived of a real say in the use of their savings they cannot use them as an economic lever to advance the interests of their families and of the communities where they live.” (p. 163)

He says that a new pensions regime could make all the difference. This would be a collectivist approach involving a restoration of public pension provision, albeit funded rather than pay-as-you-go. These socially audited pension funds could provide funds for social restructuring and even long-term backing for big infrastructure projects like the £60 billion investment needed in the UK rail system. In effect, Blackburn suggests: “Pension funds – themselves subject to social audit – could thus help to re-collectivise public utilities and services.” (p.338)

In contrast to this bright future Blackburn is scathing about the recent past and the short-termism that has meant pension funds, particularly in the US and UK, have collaborated in the restructuring of industries, have been complicit in the explosion of executive pay and whose herd instinct has helped create a destabilising boom and bust backing for technology and telecommunications stocks.

Blackburn is particularly trenchant when it comes to the UK: “Indeed Britain, the premier laboratory of the new ‘grey capitalism’, is a poor advertisement for it. Possessed of extraordinary assets – oil wealth, a world language, innovative scientists and technologists, social cohesion, a highly cost-effective national health system – it has squandered them on reckless privatisation, deregulation, financialisation, de-industrialisation and social retrenchment.”

So the very individuals and institutions that call for greater private pension provision to plug the holes in state schemes, are themselves part of the system that contributed. As Blackburn argues these people “frequently exaggerate or misrepresent – and never investigate the co-reponsibility of Anglo-Saxon pension funds and consumerism for low savings and poor economic performance in 1973-1996, and for the subsequent economics of bubble and bust.”(p.446)

It would be nice to think that Blackburn's ideas may get a reasonable hearing in an open debate about how to deal with the future of pensions. We would all be pleasantly surprised.

However, what this book also makes clear is the astonishing way that the "public=bad/private=good" perspective can hold sway even after Enron, the pensions mis-selling scandal and the collapse of Equitable Life. A view clearly expressed by Financial Times columnist Michael Prowse in another of the many revealing quotes unearthed by Blackburn: "How extraordinary to think that millions of adults, nominally citizens of a single state, must nevertheless make individual provision for retirement...They must pay the transaction costs of personal investment over a 40-year period...They must try to provide security for themselves without knowing how stock markets will perform...In choosing a private pension provider, they must make one of their most significant financial decisions. And yet there will be no rational basis for it. Past performance is no guide to future performance as the Equitable Life saga illustrates...Over a forty year period many private providers will not only perform badly, they will go bust." (pp. 450-451)

*Richard Pond/European Federation of Public Service Unions*

### **Adequate and sustainable pensions – joint report by the Commission and the Council.**

European Commission, DG Employment & social affairs, Luxembourg, Publications Office, 2003, 162 p., ISBN 92-894-5905-0

"This joint report by the Commission and the Council was submitted to the European Council in March 2003. It is largely based on national reports submitted by the Member States on their strategies for securing adequate and sustainable pensions." (p. 2)

This report was endorsed by the European Council on 6<sup>th</sup> March 2003 and represents the policy of the European Union on pensions as a central component of social protection implementing an important aspect of the Charter of the Fundamental Rights of the European

Union. First it establishes what adequacy means (objectives 1-3), namely:

1. preventing social exclusion,
2. enabling people to maintain their living standards, and
3. promoting solidarity.

These objectives are broken down in detail, allowing assessment as to what extent existing pension provisions comply with European Union policy.

Having established the targets, the report then proceeds to look at the obstacles such as low employment rates, short working lives, scarcity of public funds, imbalance between contributions and benefits, and risky private pension systems, with recommendations how these can be overcome (objectives 4-8). Finally it points out strategies to 'respond to changing needs', such as adjustment to flexible labour markets, implementing gender equality, and making pension systems adaptable to changing needs (objectives 9-11).

In an extensive annex we find the Country summaries of 15 Member States demonstrating the variety of pension provision across Europe between compulsory state administered pay-as-you-go schemes and voluntary private pension funds, between funding out of wage related contributions and taxation, etc. It shows, above all, huge differences with regard to the (in)adequacy of pension provision between the member states with Greece and Portugal at the bottom and Sweden and the Netherlands at the top of the scale (p. 28).

The report can be read under different auspices, as a policy document, as a report on the process of examination and discussion in the Union by the 'Social Protection Committee' (set up by the European Council in Laeken in December 2001 and uniting pensions experts delegated from the Member Governments) or as an analysis of the present labour market situation with regard to earnings in employment and retirement. As a policy document, it exhibits a new stage in European Union social policy, a great step forward from the vague commitments of the Maastricht Protocol on Social Policy from

1992: "... the Council shall act unanimously on a proposal from the Commission ... (in the area of) social security and social protection of workers" (Article 2. 3). As a record of the process of deepening understanding and debate across the EU Members states, it permits us to follow this development in the construction of the 'European Model'. As a presentation of the diversity and shortcomings concerning social protection in the European Union, the statistical data and Country reports provide a solid basis of evidence.

One must not, of course, expect a manifesto fuelling demonstrations for better pensions taking place across Europe. This remains a matter for the pensioners themselves and political organisations supporting their case, trade unions in particular. In the last instance, progress in social protection will depend on the mobilisation of wage earners. These however can draw on good information concerning their situation.

The report is clear in its structuring, unambiguous in its presentation of facts, and excellently written for a general audience of interested citizens. It does not require special expertise to be understood and is concise in focussing on relevant facts and considerations. More importantly, this report bears testimony to an initiative in the most important area of social protection, which may consolidate at trans-national level a new stage in the history of wage relations with a likely impact on the harmonisation of wages in the EU. This is why it is most important that trade unions offer their expertise and participation in this process at all levels.

*Jörn Janssen/CLR-London, 09/2004.*

## CALENDAR OF EVENTS

### **CLR Annual General Meeting**

3<sup>rd</sup> February 2005, 14-18<sup>h</sup> (2 p.m.)

Brussels, Rue Royale 45

Presentation of participants and their current projects (please bring abstracts)

Annual Report on Activities and Finances

Reports and Planning:

- Workshops (EU-Enlargement, Migration, Stress, Posting, People in Construction)
- Regional Offices (papers will be circulated in advance):
  - CLR-Denmark
  - Dortmund
  - London
  - Thinknet
- CLR-Studies
- CLR-News and Observatory

A Strategy for CLR, Presentation and Discussion

### **Participation and Codetermination in Construction in the European Union**

ESRC/CLR Seminar Series: People in Construction

4<sup>th</sup> February 2005, 10.30-16.30

Brussels, Rue Royale 45

This Seminar will discuss the future of codetermination in its different forms in construction undertakings under European legislation. It will include sessions on: the implementation of the Information and Consultation Directive at national and European levels, including in particular Britain; experiences with European Works Councils; and the implications of new European Companies.

Speakers and participants will be invited from the European Trade Union Congress, the European Parliament, the European Commission, the Social Partners at European and national levels, practitioners from individual companies and other organisations, academics and researchers.

If you are interested in obtaining further details and attending the CLR AGM please contact: [clr@mjcpro.nl](mailto:clr@mjcpro.nl) or [fleus@efbh.be](mailto:fleus@efbh.be) For the ESRC/CLR seminar contact: Linda Clarke at: [clarkel@wmin.ac.uk](mailto:clarkel@wmin.ac.uk)

### **Minimum Wages in Europe**

14-15<sup>th</sup> April 2005, Basel/Bâle

Conference organised by Thinknet and Wirtschafts und Sozialwissenschaftliches Institut der Hans-Boeckler Stiftung

The background is the German debate about minimum wages in the context of the 'Hartz' reforms and the general interest of both organisations to deepen the debate concerning the increase of the working poor and the question of an adequate and sustainable income. After a fundamental theoretical introduction, the experiences with the French legal basic wage (SMIG) and the minimum wages campaign by the Swiss trade unions will be analysed. Finally the possibilities of a European minimum wage policy will be discussed.

For booking and information:

<http://www.denknetz-online.ch>

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