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RETIREMENT, PENSIONS AND JUSTICE

A Philosophical
Analysis

**Mark Hyde and
Rory Shand**



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PREFACE

Though they are vitally important, retirement and pensions are rarely appraised through the lens of political philosophy. In seeking to square the circle of increasingly adverse demographics, and serious pressures on the public finances, policy makers have been pre-occupied with the “practicalities” of pension design and financing. Embracing a utilitarian set of priorities, many scholars of pensions have been concerned with the question, “what works?”—where “works” signifies capacity to improve living standards in old age. Rarely does the literature pause to consider the fundamentals of pension design, which are to be found in its underlying normative principles. Still less has the field addressed retirement as a matter of justice, as understood by political philosophers. To what extent is “society” obligated to support people in their retirement? Is the right to financial assistance in old age unconditional, or must such entitlements always be contingent on obligations, including work or savings? Should welfare states be used to pursue wider moral agendas, such as those represented by individualism, or social solidarity? These are the fundamental questions that need to be answered.

To the limited extent that it has engaged with the concerns of political philosophy, the field of pension analysis has been characterised by two salient biases. One is represented by the tradition of neoliberal social security analysis, as expounded by the *Institute of Economic Affairs* (Booth and Niemietz 2014), the *World Bank* (1994) and—in the United States—the *Cato Institute* (Shapiro 2007). Taking direct inspiration from the ethical and economic doctrines of the Enlightenment, neoliberal exponents of *laissez faire* regard the universal welfare state as

one of the single most important threats to individual freedom. Public pensions curtail liberty directly by forcing the economically active to support the poor—invariably, those who fail to take sufficient responsibility for their own retirement—as well as undermining individual capacities for self-provisioning. Social security creates significant opportunity costs. Much like any other public monopoly, state pensions are insulated against market competition, and are prone to problems of inefficient management. In spite of their emphasis on the creation of retirement income security, public pensions tend to deliver sub-optimal benefit entitlements (Shapiro 2007; Booth and Niemi 2014).

The tradition of social policy analysis has characteristically responded to these arguments by re-asserting a distinctive set of values and priorities (Titmuss 1974; Esping-Andersen 1990; Trampusch 2007). Taking direct inspiration from the normative repertoire of Northern European social democracy, scholars of social policy regard the universal welfare state as the single most important instrument of social justice, an end that is defined in terms of social solidarity and economic security. People are happier when their associations are cohesive, giving expression to the norms and values that members share in common. Reflecting this foundational premise, scholars of social policy are characteristically hostile to any suggestion that we should privatise pensions. The market, they say, creates harmful social divisions by intensifying income inequalities. Competition fractures the affective bonds that unite people by fostering individualism and selfishness. Solidarity requires a universal welfare state, acting in the interests of society as a whole, and giving financial benefits to all retirees, irrespective of differences in social class or gender (Rothstein and Uslaner 2005; Trampusch 2007).

Reflecting the influence of these very different narratives, the “philosophical” debate on ageing and pensions has become increasingly polarised, and this has served to frustrate the emergence of a comprehensive model of justice in retirement. Influential though it may be, neoliberalism has not taken sufficient account of “market failure”, and cannot ensure that everyone is able to enjoy a comfortable and secure retirement (Rothstein and Uslaner 2005). Social policy analysis has addressed market failure at some length, but is arguably wedded to a model of retirement provision that is insensitive to legitimate concerns around liberty and choice (Hyde and Borzutzky 2016). Against this background of ideological polarisation, Hyde and Shand’s analysis of retirement and justice delivers three substantive benefits.

First, the monograph endorses the “primacy of liberty”, a principle that has arguably been given insufficient attention by the literature of social security and pensions. It would be fair to say that the debate around freedom and retirement has been colonised by neoliberals, who emphasise the importance of protection against coercion. In the real world of pension reform, neoliberalism has informed the creation of privately managed, fully funded retirement schemes that have intensified the risk of poverty in old age (Borzutzky 2002, 2005). Hyde and Shand embrace a wider conception of liberty that emphasises the importance of economic security, and accept a prominent role for the state in ensuring that all retirees can enjoy a satisfactory standard of living.

Second, the monograph insists that the efficacy of retirement systems should be regarded as a matter of justice, not economic or political expedience. Are people due any particular resources or opportunities by virtue of their capacities for sovereign decision making, or their status as members of the political community? How should economic and political institutions distribute the burdens and benefits of citizenship? Neoliberals are clear that justice is served only by the “minimal state”, which can do no more than protect people against force, theft and fraudulent activity (Hayek 1960; Nozick 1974). This means of course that the vast majority of statutory measures that have shaped existing retirement systems should be regarded as morally unacceptable. Hyde and Shand’s analysis is clear that the legitimate scope of governmental action is wider, allowing for a range of measures to shape the distribution of retirement income.

Third, the monograph articulates a comprehensive account of justice that acknowledges a range of important issues. To the limited extent that they engage with the concerns of political philosophy, scholars of social security tend to emphasise the importance of a single principle of justice, such as equality or liberty (Hayek 1960; Rothstein and Uslander 2005). In contrast, Hyde and Shand highlight the importance of a range of principles, each giving expression to the distinctive networks or associations that shape people’s lives. *Need* designates the resources and opportunities that are required to perform social roles and obligations in a minimally satisfactory way, and requires a robust first pillar retirement income safety-net. *Desert* refers to the legitimacy of “earnings”—the financial rewards that track each workers’ contribution to the production of goods and services—and requires people to save for their own retirement, as acknowledged by the vast majority of second pillar pensions

arrangements. And *citizenship* denotes the shared status of societal membership, conferring universal entitlements to security in retirement. While their conception of justice is ultimately premised on the “primacy of liberty”, Hyde and Shand acknowledge the very different contexts in which its demands become relevant.

Ageing and retirement have become increasingly prominent issues, reflecting growing pressures on existing pension arrangements. Its reliance on fiscal transfers to finance retirement benefits means that statutory social security has become increasingly vulnerable to the pressures of demographic ageing. While they confer a degree of financial security, public pensions have been designed in accordance with the priorities and preferences of political elites, and give workers few opportunities to exercise meaningful choice around work and retirement. But while it seems to address these issues, the privatisation of pensions has intensified disparities of income and opportunity. The question is, how as a society should we order and pursue our preferences for retirement? Which mode of decision making is appropriate to this task? In spite of claims to the contrary, governments typically respond to such issues as a matter of expedience, reflecting the vicissitudes of the electoral process, and the shifting fortunes of economic development (Hyde and Borzutzky 2016). This monograph represents a plea for pension design in accordance with a rationally determined set of moral priorities. As well as articulating a coherent account of justice, Hyde and Shand convert its demands to a detailed set of reform proposals. Echoing other work in the field (Borzutzky 2002, 2005), the authors demonstrate that retirement policy must address two imperatives that are central to justice. A retirement system that promotes financial security without liberty should be regarded as unacceptable, for people will be unable to realise their own preferences for work and retirement. But liberty without security is also unacceptable because, although given protection against coercive intrusion, people may not have sufficient means to pursue their preferences.

As always, what is required, but what cannot be sustained by any monograph on justice, is the political will to make its demands a reality.

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LIST OF ABBREVIATIONS

CRA	Contractual retirement age
DB	Defined benefit
DC	Defined contribution
GDP	Gross domestic product
MPG	Minimum pension guarantee
NCR	Notional contribution rate
NRA	Normal retirement age
PAYG	Pay-as-you-go
TSA	Targeted social assistance
UCP	Universal citizens' pension
USI	Universal social insurance

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