Book Reviews

European Pensions and Global Finance

Gordon Clark

(Oxford University Press, 2003; ISBN 0-19-925363-3; 252pp; hardback; £50)

Gordon Clark is now the authority on the comparative analysis of the various European pension systems, themselves now undergoing a period of flux. Everyone knows (except the French) that pay-as-you-go systems are unstable at a time of demographic change which will see the number of workers to pensioners either halve or even quarter, depending on which statistics are misused.

Yet the Europeans, unlike the more commercially minded Anglo-Saxons, persist in the belief that intergenerational contracts are something worth having, even for future generations. Of course, what is not certain is whether future generations will be happy to pay the bill, and there are already indications, mentioned in this book, that future generations are not comfortable in meeting the bills that their forefathers have bequeathed them. While the system worked well after the Second World War, especially at a time when the currencies were vulnerable and the stock markets in shreds, it may have a difficult future when European women are not performing their social obligations to produce more babies.

This dysfunctionism is explored in some detail by Gordon Clark, who has considerable sympathy for the European model, although even he thinks it has a less than glittering future. The European

in reply could say with justification that the Anglo-Saxon model of pension provision with its emphasis on pre-funding, and preference for the equity backing, is also looking pretty sore at present.

This study develops thinking first expressed in Professor Clark's earlier book 'Pension Fund Capitalism', but looks more at the structural form of pensions in several member states. The basic statistics look grim. The elderly dependency ratio in France in 1960 was 181.8; by 2030 (not that far away even in political terms) it will be 39.1. The elderly dependency ratio is the number of people over 65 as a percentage of the working age population. It is foolish to project further than that, but if birth rates continue as at present they will peak at 100. Even the UK, whose pension system is more modest, and where panic is not the order of the day, shows similar changes, from 17.9 in 1960 to 27.6 in 2030. The scariest is Germany, moving from 16.0 to 49.2. Yet these highly successful economic states find it all but impossible politically to shift to a more stable pensions model.

Professor Clark explores these and other issues in a clear manner and also devotes space to the public pension expenditures. These also seem unsustainable in the longer term.

Between 2000 and 2040 as a percentage of GDP the UK spend is stable at 5 per cent. But Germany again moves from 11.8 per cent to 161.6 per cent — and Greece from 12.6 per cent to 23.8 per cent. Whether Greek workers are prepared to devote a quarter of their GDP to pensioners seems unlikely, especially if it means the spending of almost the entire tax take.

Of course, it is unlikely to end up like that. As Jan Mantel's study for Goldman Sachs some years ago indicated, if proposals are unsupportable, governments change things gradually. Retirement ages will be delayed, pensions will be reduced (as in Japan, albeit for other reasons, earlier this year), contributions will be raised — and even birth rates are slightly susceptible to government manipulation.

A solution will be found eventually; Italy has already begun the raising of state retirement ages, the UK is raising the age for women from 60 to 65 — and in the Green paper in December 2002 preparing the voters for an expectation of a state pension age of 70 in due course. There is no doubt that even the French repartition system, with its points value system, has room for flexibility in its arrangements in the short term at least. European pension systems will change to meet the need for reform; state retirement ages will rise, benefit accrual rates will fall, flexible retirement encouraging older people to work on, and improved disability benefits will mean that old age benefits by themselves will reduce slightly in importance.

Gordon Clark's book explores all these and more. It spends time in particular in examining the French and German systems, and then looks at the impact of pension on the capital markets, a familiar theme. Some of the conclusions are

contentious: he concludes that the French system will survive as it stands — and he thinks that eventually the Anglo-Saxon capitalist model will infect the German system, which it might. He is neutral on the growth of early retirement (unlikely in the long term) and bases more of his hope on the solution to the problem on the spectre of increased economic growth. It might happen — but economic growth in the past has not proved the solution to these problems, and is unlikely to do so in future.

It is a hopeful and positive book, expecting that eventually the solutions will emerge through human ingenuity. But there are no promises; the risk is that Europe will turn into a retirement village with increasingly poor retirees and fewer opportunities for its children. And if the present draft of the European Pensions Directive finds its way onto the statute books, he may be proved right quicker than he thinks.

This is a thought-provoking, intelligent, nicely-researched study, elegantly printed and bound and a handy reminder that what has so painfully been built up over a century as a solid retirement system for a developed economy is a fragile structure subject to the transient buffetings of short term political imperatives. Britain has been in the fortunate position of a well-funded and professionally managed system since the war; unless we heed the warnings in this study, we might find ourselves with the dregs of a retirement system which satisfy no-one, least of all the increasing number of grey panthers.

Robin Ellison
Editor