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PENSIONS AND THE ELDERLY

Richard Burkhauser and Dallas Salisbury (Eds.), *Pensions in a Changing Economy*, Employee Benefit Research Institute, Washington, D.C., 1993.
John Williamson and Fred Pampel, *Old Age in Comparative Perspective*, Oxford University Press, New York, 1993.

The stunning expansion of "the welfare state"—social expenditures for health, education and income transfers—was a defining feature of the postwar capitalist democracies. Between 1960 and 1975, the growth rate of (deflated) social expenditures in the OECD countries was 8.4 percent per year, or roughly twice the annual growth rate of real GDP. By 1981, the average OECD country was spending about a quarter of GDP on social expenditures compared to 13 percent two decades earlier. Public pension expenditures accounted for a third of this amount.

Despite the common trend line, countries differed widely in the timing and rate of expenditure growth, in the design of their national transfer packages, in their "generosity" and redistributive impact. Untangling the reasons for this diversity has been a minor growth industry in sociology and political science for over two decades. Pension spending has been the subject of particular scrutiny because of its weight in the social budget.

Welfare state studies have tended to divide into two methodological camps. On one side, there is an impressive body of fine-grained historical case studies of a few selected nations and, on the other, an equally significant research literature that relies on statistical modeling of social expenditures in the 18 or so OECD countries for which data are readily available.

There has been a fruitful and ongoing exchange between the two camps but rarely an effort to combine both in a single study. In this respect, John Williamson and Fred Pampel's *Old Age Security in Comparative Perspective* is a singular accomplishment. A careful presentation of the theoretical claims that divide the field is followed by seven national case studies and a pooled time series regression analysis designed to assess the claims. Even more, they take us beyond the small world of the "rich capitalist democracies" and include the developing nations of Asia, Africa and Latin America.

Debates about welfare states have revolved around the relative importance of economic growth, political parties, state structures, interest groups (including the elderly), the power of organized labor and a variety of other factors thought to account for variations in spending levels and the quality of public entitlements. During the 1980s, so-called "power resource" models of welfare state development emerged as the dominant organizing framework for many of these studies. Briefly, the claim was that variations in postwar social benefits could be accounted for by cross-national differences in the political bargaining power of labor. Large, cohesive labor movements that were able to elect labor (social democratic) parties to office were simply more effective at winning generous pension, unemployment and other welfare state entitlements. In previous studies, Williamson and Pampel took issue with this view, reasserting an earlier, "neo-pluralist," understanding of the political process in democratic polities: political outcomes are the result of interest group negotiation and representation at the ballot box. In the case of old age pensions, the main source of cross-national differences is simply the electoral power of the aged, represented by their share of the population. Their conclusions were based on generalized least squares analyses of pooled time series data on 18 OECD countries. Subsequent debates about these results have sustained a small econometric war over various estimation and measurement procedures.

In this volume Williamson and Pampel aim to settle the debate with a synthetic model that incorporates the insights of several schools of thought. Using models with interaction terms, they show that institutional context matters. In the "first world" of the rich capitalist democracies, the process of welfare state formation is mediated by the relative development (or underdevelopment) of democratic "corporatist" decision-making institutions. Democratic corporatism—exemplified by Sweden and Austria—refers to the representation of labor and business in state-sponsored, societal-level negotiation and bargaining over state policy. Both the case studies and statistical models demonstrate that where corporatist or quasi-corporatist institutions develop, pension development is driven by a "class logic" and elsewhere by a "pluralist" logic of interest group representation unmediated by class-based parties and labor market institutions. Put crudely, in Sweden, labor unions and employer associations shape pension policy while in the U.S., politicians respond to the old age lobbies and their perception of the electoral power of the elderly.

A similar interactive specification is used to account for pension development in the developing nations. For example, the effect of economic growth on pension spending is conditioned by the level of development of democratic forms of political representation.

The historical case studies add considerable plausibility to the statistical analyses. They will not end the debate, however.

First, Williamson and Pampel specify a dependent variable (average pension benefit as a ratio of per capita GDP) that is different from that used in the main pension studies that support the "power resource" view of the world. The results of these studies (Esping-Andersen, 1990; Huber and Stephens, 1993; Myles, 1984; Palme, 1990 and 1993) show fairly consistent results. Left parties and strong labor unions have a modest or negligible impact on average benefits but are critical in determining the distribution and accessibility (qualifying conditions) of pension entitlements. As a result, where labor has played a guiding role, poverty and inequality among the elderly is lower (Palme, 1993).

Secondly, the case studies are designed more to tell us about the process of pension development within nations than to account for differences between them. No one claims that organized labor or left parties played a defining role in shaping the New Deal legislation that gave birth to the U.S. Social Security Act. Rather, the claim is that U.S. pension legislation would have been different with direct involvement by labor. Such a claim is probabilistic, not historical-causal.

Having said all this, I am persuaded that the main thrust of the Williamson-Pampel thesis is correct: similar outcomes can be achieved through different processes under different institutional conditions. The value of their core insight is illustrated in a truly elegant study by Pampel (1994) on a topic that is central to contemporary debates on social spending: Has the growing political power of the aged skewed social spending in favor of the elderly and against the young? In general, the answer is no: Countries that spend a lot on old people also spend a lot on children. Nevertheless, where systems of corporatist representation and strong labor parties are absent (as in the U.S.), the trade-off between old and young does appear. At average levels of corporatist rule and left party strength, however, the trade-off disappears.

The analysis of "welfare states" in developing countries is still in its infancy. As a result, the statistical analysis of third world pensions systems is rudimentary and the historical case studies shine. The chapters on Brazil, India and Nigeria are rich in both descriptive detail and analytical insight. In each case, the analysis of the core country is complemented with comparisons to other Latin American, Asian and African nations. The analysis of the role of "authoritarian corporatism" in the development of a quasi-universal pension system in Brazil is particularly interesting.

In the 1990s, many countries are taking steps to reduce the retirement benefits of future cohorts. This raises the question of whether today's workers will offset a decline in public entitlements with a corresponding increase in private pensions. The collection of papers in the second volume under review, *Pensions in a Changing Economy* edited by Richard Burkhauser and Dallas Salisbury do not offer much hope for optimism, at least in the U.S.

Trends in pension coverage are one source of concern. As Virginia Reno shows, the rate of growth in private coverage began to slow in the 1970s and turned negative in the 1980s. Women's coverage rose slightly, narrowing the gender gap, but coverage declined dramatically among younger men and the less educated, a trend that has accelerated in the 1990s. Declining coverage has been offset by a higher rate of vesting which means more workers will collect their benefits in the future. Due to this, simulation projections suggest that more elderly will receive private pensions in the future and real incomes will rise as a result. For a variety of reasons, some of which are discussed below, few of the authors place much confidence in these projections.

More disturbing is the dramatic shift in corporate pensions from defined benefit to defined contribution plans. Between 1975 and 1987, defined contribution plans increased from 13 to 32 percent of covered workers. Virtually all new plans created during this period were defined contribution. In effect, employers were getting out of the insurance business and offloading risk to individual workers. Like Social Security, defined benefit plans are based on an insurance model: the corporation takes on responsibility for providing retirees with a pre-defined level of benefits. Defined contribution plans are based on a personal savings model: pensions are paid out based on accumulated contributions and the return they receive from the market. Defined contribution plans may provide equivalent or higher average benefit levels to future retirees but the result will surely be greater heterogeneity and inequality. The shift to defined contribution plans also changes