"La Globalización y los Sistemas de Pensiones: El Caso del Reino Unido"

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Resumen

El objetivo de este artículo es analizar, de manera muy general, el impacto que la globalización ha tenido en el contexto nacional de los países de Europa Occidental y tomar el caso particular de Inglaterra, en los últimos 25 años, para profundizar en dicho análisis.

La transformación que han experimentado los países desarrollados desde mediados de los años 70´s, ha sido, entre otras cosas, como consecuencia de las 2 crisis del petróleo, del desarrollo de nueva tecnología y de la presión internacional por ser mas competitivos. Cada país ha enfrentado estos problemas de diferente manera dependiendo de su contexto nacional. Los sistemas de pensiones, como parte de un gran sistema económico, político y social, no han sido ajenos a dicha transformación por lo que han sufrido cambios importantes los cuales han influenciado en la naturaleza del empleo, así como en el modo de vida de la sociedad.

Inglaterra, por ejemplo, experimentó una grave crisis a finales de los 70´s y principio de los 80´s debido a la dificultad por adaptarse a las nuevas demandas globales, lo cual influenció en la transformación llevada a cabo en su sistema de pensiones. El caso de Inglaterra difiere al del resto de Europa Occidental ya que su orden social ha sido distinto. El sistema de pensiones Ingles se basa en un Bienestar Público Liberal (Liberal Welfare State), el cual se ha caracterizado por promover entre la población la búsqueda de pensiones privadas, esto se ha logrado dado que el Estado provee pensiones mínimas con las que difícilmente se puede vivir.

Antes de los años 80´s, el gobierno Británico fomentó los Planes Privados de Pensiones de beneficio definido (DB) otorgados por las empresas con el fin de complementar las pensiones públicas, mientras que durante la década de los 80´s, bajo la administración de Margareth Thatcher, el objetivo era minimizar tanto los planes de beneficio definido como las pensiones públicas con el fin de apoyar las pensiones privadas individuales y los planes de contribución definida (DC). El resultado para la sociedad ha sido que la gente de bajos recursos, la cual necesita de mas ayuda, no puede adquirir pensiones privadas dado las características de su empleo. Estas personas están normalmente en trabajos de medio tiempo o como eventuales con un salario bajo que no les permite comprar un plan individual de pensiones y el esquema de pensiones otorgados por las compañías generalmente los excluye.

La globalización, desde esta perspectiva, se podría decir que ha creado una sociedad polarizada donde aquellos con un trabajo estable y de tiempo completo, pueden pagar por servicios privados, mientras que aquellos con condiciones de trabajo menos favorables tienen que vivir con lo poco que proporciona el Estado.
Aunque el análisis está enfocado en el sistema Ingles, esta situación la podemos observar de igual manera en otros países, siempre tomando en cuenta el contexto nacional de cada uno, los cuales han sufrido cambios importantes en su sistema de pensiones. Tal es el caso de México, el cual vivió la transformación de su sistema de pensiones para adaptarse a un concepto global, el cual requiere de mayor flexibilidad.

"Globalization and the Pension Systems: The Case of UK"

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Summary

The objective of this paper is to analyse, in a general way, the impact that globalization has had over the national context of the western European countries and to focus on the UK case in the last 25 years.

The transformation that advance capitalist societies have experienced since mid-1970 have been caused, among others, by international pressure for being more competitive, by the two oil crises, and by the development of new technology. Every country has faced these problems differently depending on its specific national context. The pension regimes, as a component of a broader economic, political and social system, have not been indifferent to such transformation since they have suffered important changes, which have influenced in the nature of employment, in how labour is organised, and in the way of life of the whole society.

UK, for example, experienced a crisis at the end of the 70´s and beginning of the 80´s due to the difficulties to adapt to new global demands, which in turn influenced in the transformation of its pension system. The case of the UK has been distinct to western European nations since its social order has widely differed from those countries. The Liberal British Welfare State, that has supported the pension system, has established a system where individuals are encouraged to look for private provision since the public pensions are not enough for living.

Before the 1980s, the government used to encourage defined benefit (DB) Occupational Pensions in addition to the State scheme, whereas during 1980s under the Thatcher administration the aim was to undermine the role of both the DB Occupational Pension and the State schemes in order to support private personal pensions and defined contribution (DC) Occupational Pensions. The result for the society has been that those disadvantaged groups that need more help, are those that do not have private support due to the characteristics of their employment. They are normally in part-time or temporary bases with a low salary that does not allow them to have personal plans, and occupational schemes generally exclude them.

With this perspective, it could be said that globalization, has created a polarised society where those with a stable job have enjoyed the advantages of either personal or occupational pension schemes since they can afford to make payments to an individual account or to make additional voluntary contributions in an occupational plan in order to have a bigger pension at retirement, while those with less favourable labour conditions have to live with a minimum pension provided by the State.

Even though the analysis is focussed on British Pension System, this situation, taking into account the national context, could be seen in other countries which have suffered important changes in their pension systems. This is Mexico’s case, that has experienced the transformation of its pension system to adapt to a global concept which requires more flexibility.

"Globalization and the Pension Systems, Who Benefits?: The Case of UK"

Claudia Feria Cuevas

Introduction

The evolution of the pension system in the United Kingdom after the Second World War has corresponded to the economic, political and social transformation of the national structures, which in turn have been subject to global changes. There has been a whole debate about the British pensions system in terms of its scope, organisation and objectives. The aim of this paper is to select among different sources of information the most relevant positions of such debate, in order to generate an analytical framework that I will use to determine who have been the beneficiaries of the reforms that the UK pension system has undergone in the last 25 years.

I will see how the adaptation that UK carried out in response to international uncertainties and globalisation, has influenced in the development of the pension system and in the social transformation that British society has experienced as a result of the changes in the pension system. This will reflect how individuals and groups have been affected and how those changes have shaped their way of life.

During 1950s and early 1960s western European countries were free to manage their economies through Keynesian techniques and to set agreements between labour and capital. It was commonly accepted that governments bore the responsibility for ensuring a good standard of living for the society. The economic expansion was controlled at a macro and microeconomic levels in order to distribute it among the members of the society, to maintain full employment and constant rates of growth. However as capitalist societies became more open and the degree of trading started to grow, the intensification of international competition forced governments and companies to look for alternative ways of legislation which included flexible organisation of labour, wages and employment. It was considered that welfare regimes weakened competitiveness since unemployment insurance, pensions, income support, and other social benefits reduce the incentive for supplying labour. High taxation also undermines competitiveness since workers are less willing to work since they can not satisfy their consumption. This is because companies charge high prices as a result of high taxes and in this way they are passing the cost to the consumers, i.e. to the workers. Consequently, a reform of the welfare system was seen as necessary in order to get a productive system based on labour mobility and to improve the cost structure of products especially against countries such as Japan and other Eastern economies which had fundamentally different approaches to welfare.

The paper is divided in 3 parts, in part I, within a regulation theory framework, I analyse the actions taken due to international opening under the Thatcher administration in which welfare regime was based on neo-liberal policies in order to achieve flexibility in economic, political and social areas. Under this regime, the pension system, as one of the components of the social security system, has undergone important transformations. The UK pension system is a combination of public and private schemes, where the state provides a pension sufficiently low to encourage employees to look for self-provision in private institutions. Different from most European countries, where the private provision of pensions has a supplementary nature, the occupational pension schemes in the UK have been considered as indispensable to compensate for the little public basic pension. This system has contributed to polarise the rich and poor people.

In part II, I will analyse how occupational plans have contributed to the formation of the dual labour market constituted by core and peripheral workforce.

Part III is an empirical part divided in two sections. In the first section I will explain how the UK pension system looks now in relation to the available possibilities that both, individuals and groups have in the public, occupational and personal schemes. I will also present statistical data of the number of people belonging to each of the schemes and the proportion with respect to total employment; the number of pensioners and their income, as well as other relevant information. In the second section, I will analyse the mismatch of the Conservative government, after mid-1970s, who could not succeed in the implementation of their projects. They stressed the idea of individual ownership in different areas and, in the case of pensions, they did it through encouraging personal pensions and undermining both public and occupational schemes.

The importance of this work is reflected at different levels. From individual perspective, pensions represent the income that a person will receive in the future and, consequently, the style of life after retirement. From organisational point of view, both public and occupational schemes could represent an important labour cost for firms and the government. From the government position, occupational and personal schemes embody a good instrument that reduces its responsibility for pension provision at retirement, while public pensions could be used for electoral purposes.

Part I

Regulation theory

Regulation Theory shows 'how the regulation of capitalism must be interpreted as a social creation' (Aglietta, 1979:19). This social creation is the economic, political and social context which fits together based in an historical context, and the system of regulation of capitalism is a dynamic process by which the production and social demand adapt (Boyer, 1988). Consequently, there are diverse modes of regulation depending on the country since the economic and political legislation is related to a combination of national structural forms.

Welfare state

The welfare state has not manifested a common ideology across the world because a range of national political forces contributes to its development. Nevertheless, in each country welfare state has been used as a national compromise for providing benefits to the population in highly conflicted areas such as health services, housing, State education, unemployment and pension benefit.

Welfare regimes in most of the western European countries were organised and supported by the State in the first half of the twentieth century. After the Second World War Keynesian welfare state was the regime that characterised western capitalist societies where the State took the responsibility for securing a minimum standard of living through establishing social welfare programs, full employment, labour market policies, managing supply and demand of goods and services, and encouraging mass consumption (Hay, 1996: Jessop, 1994). However, and according to Regulation Theory assumptions, each country adopted different types of Keynesian welfare state which served for restructuring the post-war social and economic order of each economy (Morgan, 1997). Esping-Andersen (1990) proposes three types of welfare regimes:

a) *Conservative and strongly corporatist welfare state*.- The main objective of this regime is to compensate for lost earnings and to provide the maintenance of previous status. Austria, France, Germany and Italy are under this regime.

b) *Social democratic welfare state*.- This system is associated with the redistribution of income, the promotion of the highest standards of living, and where everybody has benefits irrespective of their attachment to the labour market. This system is financed with taxes. This regime is found in Nordic countries.

c) *Liberal welfare state*.- In this regime the role of the State is limited in the provision of welfare but it is significant in encouraging the private provision through offering a minimum level of benefits and subsidising private welfare schemes. The UK is a clear example of this regime where working-class population has had to look for alternative sources of provision away from the State. This system hardly creates a welfare regime, instead, it reproduces a divided society characterised on the one side, by the poorer class and unemployed people who have minimum State benefits, and on the other side, those with a secure employment that allows them to save and to receive private provision (Morgan, 1997).

International Opening

After 2nd Word War from 1950s to 1960s, during full employment period in UK, the regime of accumulation was based upon techniques of mass-production, supported by Keynesian welfare state, which provides the basis for sustaining the macro-economic growth as a virtuous cycle, it encourages mass consumption through diverse particular policies in the demand side, and it regulates wage relations and labour market policies according to a particular social order. (Jessop, 1994).

By early 1960s the UK economy experienced a tendency towards inflation. This tendency was mainly derived from its limited policy options occasioned by the fixed exchange rate system used before 1971, and designed at an international conference held in 1944 in Bretton Woods. Bretton Woods System had two main features; fixed exchanges rates and not only gold but also dollars could be used as reserves. This was not convenient for the UK since the payments of imports were made in gold or dollars causing a significant reduction in the UK reserves, which in turn resulted in a devaluation of the British pound in 1967 (Gordon, 1993).

From the early 1960s to early 1970s the capitalist societies became more open and the international competition was evident. The introduction of new technology followed by the boom in microelectronics, the pressure of international competition which came basically from Japan, where the products were better in quality and lower in price, and the two oil crises are normally the causes associated with a necessary transition from a rigid structure to a flexible ones. Considering the assumptions of Regulation Theory, it can be argued that these international events did not have the same impact in all countries and that each government implemented different strategies to face them. During this time, the UK government attempted to manage the economy around the inflationary tendencies through implementing different types of income policies to moderate wage inflation. However, different from other European countries where income policies were successfully implemented through negotiations between employers, unions and the government, in the UK all of them failed. In most of those European countries wages were increased considering the expected productivity growth, in contrast in the UK wage increases were not justified by productivity growth, and the cost of any agreement was transferred to the consumers resulting in a price rise and consequently in the rise of inflation. In addition to this, the welfare system was financed by taxes, with high wages and high unemployment benefits. This kind of benefits induced to higher labour cost, reductions in labour supply and consequently, lower productivity.

UK struggle developing a dynamic form to fit in the new global environment because domestic industries could not sell goods at home and overseas due to their low quality and high prices, its economic performance was inferior compared with other European nations, British goods became more expensive than imported goods, productivity gains were very small, and the productivity growth was much lower than in countries such as Spain, Italy and France (Ward, 1988). As a consequence, the British industry became less competitive in home and abroad, and therefore the UK neither increased its exports nor achieved a positive trade balance.

The economic impact can be seen from Figure 1.1. British economy has faced two recessions since late 1970s. The first one can be perceived in the early 1980s when the GDP had a negative growth of 2.2%, while the unemployment started rising reaching a peak of 11.1% in 1986. The other recession took place in the early 1990s when the GDP again experienced a negative growth but this time was 1.49% whereas the unemployment rose from 5.8% in 1990 to 10.3% in 1993.

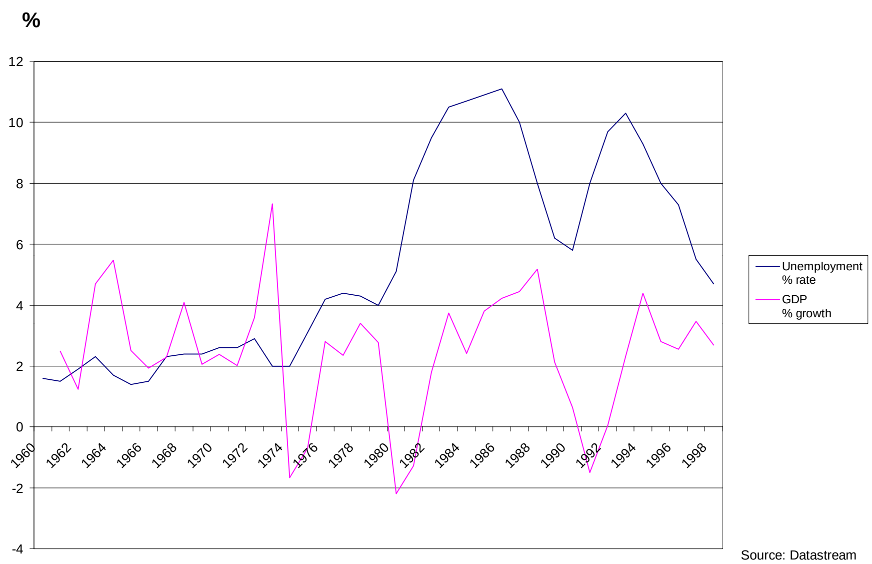

Figure 1.1 the UK economic performance (1960 - 1998)
The statistical data are in appendices

The Thatcherite welfare state and neo-liberal policies
In 1979 there was a political shift to the right and Margaret Thatcher took the power. The main concern of this government was to limit the boundaries of the State through ‘deregulation’ that means ‘the removal of legislative controls over the operation of markets, and in particular labour markets’ (Hyman, 1991:262). This strategy, together with privatisation, is known as neo-liberalism which was implemented as an attempt to deal with the international uncertainties and the economic crisis. ‘The neo-liberals suggest that the road to growth and prosperity is paved with flexibility and deregulation’ (Esping-Andersen, 1996:2).

Flexibility in labour process is a ‘flexible production process based on flexible machines or systems and appropriately workforce’ who must be highly skilled (Jessop, 1994:257). Under these assumptions labour market can not be the same since there is a necessity for a clear division of labour between skilled and unskilled workers in relation to their wage.

A flexible accumulation regime is market oriented based on a flexible production process and non-standardised consumption, easily adaptable to satisfy global competition as well as global demand. To achieve this end a wide range of new goods and services will be created, which will be characterised by their quality, diversity and constant innovation.

Flexibility in economic regulation will be characterised by the reduction of government intervention at a national and local levels, by the transfer of responsibility for welfare provision from the state to individuals, by new forms of social wage, by flexibility in internal and external labour market, and also by new forms of organisation away from hierarchical structures (Jessop, 1994).

Under Thatcherite state regime welfare policies were subordinated to market forces and international competition. In order to do this, as Jessop (1992) asserts, the State intervened in the supply side through promoting production and market innovation especially in services and new high-tech sectors, because they were more flexible and able to create jobs. The components of the social security system (health, housing, education, income support and pensions) were restructured in order to reduce the social benefits provided to individuals and to make it more agreeable with the needs of **labour market flexibility**. During this period a key role was given to financial controls stressing the value for money and good management practices.

In addition to these transformations in the structures of the State, during the Thatcherite state regime, internal markets within the welfare state were introduced, trade unions power were reduced, private sector was favoured with mass privatisations, taxes were reduced, and real wages were depressed by austerity measures rather than income policies as in the past.

The UK social bases also experienced transformations, that created a dual society. While part-time and temporary employees, unemployed people, low-income pensioners and single-parent families were dramatically harmed under this regime, a reduced group of rich people, who supported the Thatcher’s hegemonic project, was the beneficiary.

Flexibility in the UK labour market

During Thatcher administration, the most important thing was to promote social and economic flexibility. As a result, different areas such as labour process, accumulation regime and economic regulation experienced important changes towards a flexible specialisation.

In a very influential analysis developed by Atkinson (1984) about flexibility in the UK labour market, he presented the organisational structure of a ‘flexible firm’. This organisational structure is based on a flexible workforce that has been associated with the development of a dual labour market that, in general terms, consists of Primary or Core Labour and Secondary or Peripheral Labour.

The core sector consist of workers with good labour conditions including high wages, career opportunities, skill development, training programs, stability, internal labour market and fringe benefits. The labour market flexibility associated with this group could be described as autonomy in decision-making, innovation, and job rotation.

As far as the peripheral sector is concerned, employees in this group have low wages, and they do not enjoy stability, good labour conditions, and training programs. Moreover they are under close supervision, without fringe benefits and without any possibility for promotion. Immigrants, women, youth and unqualified people generally belong to this group. The flexibility associated to this sector is based on part-time and temporary contracts which will enable management to hire and fire the workforce depending on the behaviour of the labour market.

Part-time work has grown continually since the Second World War but this increase has been faster since early 1970s, there has been a decline in manufacturing industries and the increase in service industries since early 1970s. Therefore, and as can be appreciated from Table 1.1, there was a reduction in the number of full-time jobs, while part-time jobs increased (Hyman, 1991; Gallie *et al*, 1998; Beechey and Perkins, 1987; Ward, 1988). In the same way fringe benefits have also decreased due to the fact that those large manufacturing industries normally provided fringe benefits, while the new jobs created in small firms generally do not have such advantage.

Table 1.1 Population of working age: by employment status and gender, 1986 and 1998 (Millions)

	1986			1998		
	Males	Females	All	Males	Females	All
In employmment						
Full-time	11.3	5.3	16.6	11.4	6.2	17.6
Part-time	0.3	3.9	4.2	0.9	4.8	5.7
Self-employed	2	0.6	2.6	2.4	0.8	3.2
Others in employment	0.3	0.1	0.4	0.1	0.1	0.2
Total	13.9	9.9	23.8	14.8	11.9	26.7

Source: Office for National Statistics

The historical context of the development of part-time work in the UK has been 'highly exploitative and heavily gender-specific' (Beechey and Perkins, 1987:1). According to Table 1.3, since 1986 around 90% of part-time workers have been women. Theses employees are characterised as having low pay, low promotion opportunities, downward mobility, for being highly segregated from full time jobs and generally, defined as unskilled workers. Moreover, since there is not legislation which deals specifically with part-time workforce interests, they are generally excluded from benefits such as sick, maternity and occupational pension schemes.

According to Gallie *et al* (1998) the low-wage condition among unskilled, young workers, immigrants and women has resulted in a poor proletarian class which locks individuals into a particular group with little mobility between sectors. This marginalisation is strengthened by the long-term unemployment that characterises this group. As a result, there has been a sharp polarisation within the composition of the workforce.

Part II

Historical overview of the UK pension system before mid-1970s

The public basic pension was a flat-rate benefit financed by flat-rate contributions until 1959 when National Insurance Act introduced earnings-related contributions in return to a basic flat-rate pension. Since then, the system has been based on pay-as-you-go basis.

Regarding occupational pension schemes (private pension plans), the first scheme dated as early as 1834 with the Superannuation Act that gave statutory definition to a non-contributory pension for male civil servants. One crucial factor in the rapid development of occupational schemes, was the system of tax relief on savings for retirement introduced in the Income Tax Act of 1952, which also offered an expansion of tax subsidies to occupational pensions. The State introduced this and other advantageous fiscal policies between 1930s and 1960s in order to reduce its welfare cost as well as its responsibility over the level of retirement pensions, which in UK have been characterised as being extremely low compare with other European countries (Ploug and Kvist, 1997). The result was the one desired, an increase in the coverage among the labour force and in the benefits offered.

It can be seen from Table 2.1 how the coverage of occupational pension schemes in private sector increased more than in the public sector after the First World War. The main excluded groups throughout the history of occupational plans have been women and part-time workers.

Table 2.1 Occupational pension scheme coverage in the UK from 1936 to 1979 (Thousands)

	Private			Public			Overall
	Women	Men	Total	Women	Men	Total	Total
1936	300	1,300	1,600	200	800	1,000	2,600
1953	600	2,500	3,100	700	2,400	3,100	6,200
1956	800	3,500	4,300	800	2,900	3,700	8,000
1963	800	6,400	7,200	900	3,000	3,900	11,100
1967	1,300	6,800	8,100	1,000	3,100	4,100	12,200
1971	1,300	5,500	6,800	1,100	3,200	4,300	11,100
1975	1,100	4,900	6,000	1,700	3,700	5,400	11,400
1979	1,500	4,600	6,100	1,800	3,700	5,500	11,600

Source: Datastream and Government Actuary

Occupational pension schemes as inflexible schemes

As described earlier, after the Second World War the economic environment in the UK was characterised by full-employment and a mass-production process. As a result, companies increased the demand for employees and pursued a stable labour force trying to avoid turnover (Blackburn and Mann, 1979). One strategy for reaching this goal has normally been through salary, good work conditions, career promotion and also through linking fringe benefits such as pension plans, housing, disability pension, funeral expenses among others, with the length of service. Occupational pension schemes, were introduced as a compulsory part of the employment contract in order to create loyalty among employees and to achieve low turnover

Clearly, occupational pension schemes were rigid and inflexible schemes that restricted the mobility of labour, since penalised actions such as early retirement, quitting or dismissal. The rigidities associated with these schemes caused a detriment to employees because they were worst off abandoning the organisation mainly for three reasons. Firstly, because pension funds, which were constituted with employer and employees' contributions or only with employer's contributions, were not transferable and sometimes even the employee's contributions were lost. Secondly, even if the benefit would be given in the future, it was not clear the index linking of this benefit. Thirdly, if we consider that pension benefit could be seen as a deferrable wage for being a trade off between the salary today and the pension in the future then, any individual who left the company would not be entitled to that part of his/her wage that he/she gave up in the past.

Making Occupational Pensions more flexible: Social Security Act 1973 and 1975

During mid-1970s two important Social Security legislation concern to regulation of occupational pension schemes were issued; one in 1973 and the other in 1975.

The Social Security Act 1973 set up the Occupational Pension Board that is the supervisory body for occupational schemes. This Law ended the disadvantage for early leavers since it established the preservation of pension benefits for those who left the company with, at least, five years of contributions.

The government had planned to implement an earnings-related public pension scheme in addition to the basic state pension since the early1960s, but it was not until 1975 under the Social Security Pensions Act 1975 that an agreement was reached with the private pension industry. This agreement, which came into effect in 1978, allowed those industries belonging to approved occupational schemes to contract out of State Earnings-Related Pensions Scheme (SERPS) in addition to the basic pension, as long as the occupational schemes provided a guaranteed minimum pension (GMP) as well as other benefits for those employees belonging to contracted-out schemes. It was established that the GMP must be revalued annually according to average earnings up to the pension age.

The Social Security Pensions Act 1975 was highly significant for women who had been receiving unfair treatment compare to men. Hence, since 1978 there have been statutory requirements for employers to provide equal access for men and women to their schemes.

Setting the bases for a private pension provision under Thatcherite welfare state

The international economic uncertainties mentioned earlier, forced changes in the nature of the social benefits. Additionally, it was contemplated that in a near future the elderly population could become larger than the number of active workers and hence, the ratio of active workers to retired workers could decrease causing that the former pay more contributions to finance social security programs of the latter. This funding system is known as pay-as-you-go, and it has been pointed out as a system that weakens competitiveness. This is because it is a pension system financed by pay roll taxes, which displaces large part of private savings (Gough, 1996). If there is no private savings, there is not investment and consequently there is not increase in the productivity rate. This could be the reason why the Thatcher administration strongly supported personal pension schemes.

Under the Thatcher government one of the goals was to make welfare services more flexible. In order to achieve this goal, neo-liberal policies such as reducing the social welfare budget, abandoning the long-established policy of extending and improving social benefits, and encouraging more participation of both private sector and individuals in providing social benefits, were implemented. The objective was to subordinate the welfare regime, and consequently the pension system, to the needs of the labour market and international competition (Jessop, 1994). According to Papadakis and Taylor-Gooby (1987), the actions taken were the withdrawal of State policies regarding social security for the poor groups, real cuts in many welfare benefits, the reduction in mass provision on a social-need basis, and an expansion of support for personal and occupational provision in the areas of pension, sick pay, education, housing and medical practice.

The first step of the Conservative government in 1979 was to index the basic pension according to inflation instead of to average earnings. This reform made pensioners poorer since, as we can see from Figure 2.1, the average earnings have generally grown more than inflation.

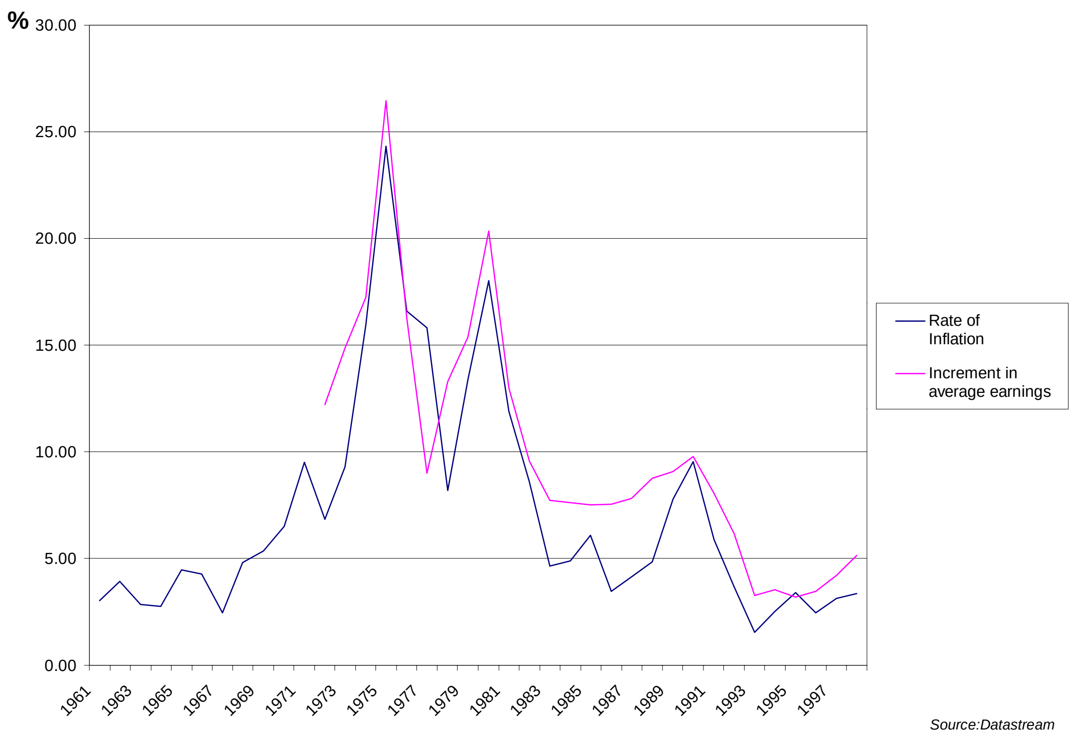

Figure 2.1 Rate of inflation and rate of increment in average earnings in the UK (1961 - 1998)
The statistical data are in appendices

The second big step was to issue the 1986 Social Security Act that is one of the most significant legislation in the last 20 years in the British pension system. This Act was basically focused on the reductions of the benefits offered by SERPS and consequently their costs; the right to transfer the value of the future pension benefit to another scheme either occupational or personal, and the possibility of contracting-out defined contribution and personal pension schemes.

The modifications under 1986 Social Security Act (implemented in 1988) were important government strategies in an attempt to reduce the participation of the State in pensions policy, to limit the role of occupational pensions, and to finish with the paternalistic nature of final salary schemes. The following points are some of the most important topics of this legislation:

- The SERPS pension will be estimated on 20% of the average revalued earnings instead on 25%, and for estimating these average earnings the whole working life will be used instead of the best 20 years.
- Everyone who leaves the company, and consequently the occupational pension scheme, would have the right for transferring the value of his/her pension benefit to either a personal or another occupational pension scheme.
- Defined contribution and personal pensions schemes could be included in contracted-out occupational schemes and the minimum contribution would be the contracted-out rebate.
- An additional National Insurance Contributions (NICs) rebate of 2% will be given for 5 years to those employers and individuals who shift to defined contribution and personal pension schemes respectively.
- Banks, unit trusts, building societies and insurance companies will be able to provide personal pension schemes.
- All members belonging to occupational pension schemes will have the opportunity to pay additional voluntary contributions to increase their pension funds.

Occupational Pension Schemes as a result of global market forces

The reforms mentioned above were clearly addressed towards a flexible pension system that allows high mobility of capital and labour, and that promotes private savings. These reforms were a particular strategy of the UK Conservative government in order to adapt its economic structures to the global market forces, as well as to achieve international competition. Therefore, the aims of the changes are easily identifiable; less state intervention in the provision of benefits, deregulation for giving economic agents greater freedom from state control, and the promotion of competition among those financial institutions which will need to offer more individualised services in order to gain market.

The Social Security Act of 1986 allowed employees to leave the company without sacrificing their pension rights since they can transfer their benefits into another occupational or personal scheme.

The inclusion of defined contribution and personal pensions for contracting-out is one of the most important and significant reforms in the search for flexibility. On the one hand and depending on the specific characteristics of the scheme, defined contribution schemes remove employers’ responsibility for keeping a certain level of retirement pension reducing in this way the cost of the plan and also making easier the transference of benefits between different employers. On the other hand, with personal pension plans individuals enjoy total freedom for changing jobs without any punishment since it is an individual account of their property. In both cases the benefits are not defined in advance but will depend on the behaviour of the fund.

Another important reform during mid-1980s was the reduction of NICs. While on April 1985 employers contributed with 10.45% and employees with 9% for those who earn between £35.5 and £265 per week, on October same year the contributions drop for both parts to 5%, 7% and 9% depending on earnings. The reductions have continued over time reaching 3%, 5%, 7% and 10% since 1995 for employers. This relief in the labour cost was another strategy for the Conservative government in its attempt of pursing competitiveness among home-based industries, taking into account the challenge imposed by the cheaper labour force came from third world countries. Moreover unemployment could also be abated since employers could be less reluctant to hire individuals due to the reduction in the labour cost.

The reforms could be defined as a transformation of the pension provision from a responsibility of the state to an individual's concern with the State acting only as a regulatory body.

Occupational pension schemes reinforcing dualism in labour market

The reforms reflected one of the characteristics of the Thatcherism; the tendency for favouring high classes (Ploug and Kvist, 1997; Page and Silburn, 1999). The changes did not show any sign of wealth distribution, instead the policies affected the poorest members of the society and increased the income of the richest reinforcing the dual labour force (mentioned earlier) i.e., the core and peripheral groups.

The disadvantaged social groups not only did not receive any benefit from those reforms but also they were worst off with some of them. One of the reforms was the reduction of SERPS pensions, which instead of being estimated taking into account the best 20 years, would be based on the average earnings during the whole working life, hence low-paid, part-time and temporary workforce will receive a smaller pension.

In order to achieve flexibility in part-time and temporary workforce, employers pursue not having any legal constraints governing the contract of employment. This could be seen as measures that reduce workers' ties with a particular establishment or company in order for managers to vary the quantity of workforce, as well as the working hours according to market fluctuations. This is why peripheral group normally does not qualify for being part of occupational schemes. Additionally, the individuals belonging to this sector do not have the resources and/or the knowledge for acquiring and maintaining a personal pension scheme.

As far as core employees are concerned, not surprisingly they were better off with the reforms due to they continued covered by occupational schemes with more freedom and more mobility. After the reforms, if employers would want to keep these employees, who normally are skilled workers, qualified professionals and managers, they would need to improve the structure of the occupational pension plans at two levels: better pension benefits and more flexibility of their schemes.

Part III

Section1.- The pension system in the UK

The UK pension system comprises three elements: public pension, occupational pension and personal pension schemes.

Public pension scheme

The public pension scheme consists of two tiers: Basic state retirement pension and State Earnings Related Pension Scheme (SERPS). This scheme is funded through employees and employers' National Insurance Contributions (NICs) on pay-as-you-go bases. SERPS is only for those who are employed and the amount of the SERPS pension will depend on the earnings during working life. In order to get the full basic pension women need 39 qualifying years, whereas men need 44.

Contracting out SERPS

Contracting out SERPS means belonging to another pension plan either occupational or personal pension instead of SERPS. Both, employer and employee will receive a rebate (see Table 3.1) in order to channel it to the new scheme. Currently the rebate is 4.6% in which 3% is less for the employer and the other 1.6% for the employee.

Table 3.1 Contracted-out Rebate as a percentage of earnings

	Employees	Employers
April 1980 to March 1983	2.50%	4.50%
April 1983 to March 1988	2.15%	4.10%
April 1989 to March 1993	2.00%	3.80%
April 1993 to March 1997	1.80%	3.00%
From April 1997	1.60%	3.00%

Source: Department of Social Security

Table 3.2 shows the number of employees with SERPS and the percentage that they represent as a proportion of the total employment. As can be seen from this table in 1988 the number of people with SERPS as a proportion of total employment started to decrease. The reason could be that many employees changed to personal pensions during late 1980s and early 1990s, however there was negligence by part of the providers of these plans and not all the individuals were better off with personal schemes. This was a national mis-selling scandal which caused that the population became sceptic about personal pensions and maybe that could be the reason why after 1992 the number of people with SERPS as a proportion of total employment increased again. Clearly, as will be analysed latter, this was a failure of one of objectives of the Social Security Act 1986, since the public provision of pensions instead of decreasing has increased.

Table 3.2 Estimated number of SERPS members (Thousands

Year	Men	Women	Total	As a proportion of employment
1987	4,498	3,303	7,801	30.90%
1988	4,347	3,474	7,821	29.80%
1989	4,021	3,499	7,520	27.89%
1990	3,877	3,588	7,465	27.58%
1991	3,471	3,287	6,757	25.74%
1992	3,333	3,267	6,600	25.68%
1993	3,434	3,384	6,818	26.64%
1994	3,702	3,609	7,311	28.28%

Source: Department of Social Security

Occupational pension scheme

Occupational pension scheme, also called superannuation, is an agreement made by an employer or group of employers in order to provide retirement pensions for their employees. Nowadays there exist three types of contracted-out occupational pension schemes:

a) Contracted-Out Salary Related Scheme (COSRS)
b) Contracted-Out Money Purchase Scheme (COMPS)
c) Contracted-Out Mixed Benefit Scheme (COMBS)

a) Contracted-Out Salary Related Scheme (COSRS)

This plan is also known as defined benefit or final salary scheme. The retirement pension in this plan is estimated taking into account years of contributions and the average of salary earned some previous years. The benefits could vary among different schemes, but normally, the salary to estimate the pension is the average over the last 3 years before retirement, 40 years of service, and the pension is two-thirds of their final salary. Most of the contributions are made by the employer who is the responsible for ensuring that the pension fund can afford to pay the pension liabilities.

b) Contracted-Out Money Purchase Scheme (COMPS)

This is also known as defined contribution or money purchase scheme. In this plan a fund will be built up with the contributions of employer, government and employee. The employer and employee's contributions will be at least the rebate percentage and they also will get income tax relief. The government contribution is an age-related top-up based on a percentage of employees' earnings.

The retirement pension in this case will be an annuity based on the total amount of the fund at the age of retirement. The amount of money accrued in the fund will depend basically on the level of contributions, the rate of return of the fund, the commissions or charges made by the institution in charge of the fund, and the annuity rates used for estimating the pension.

c) Contracted-Out Mixed Benefit Scheme (COMBS)

In this scheme, the employer holds COSRS and COMPS under one scheme divided in two sections. The benefits will depend on which section of the scheme the employee belongs.

Personal Pension scheme

Personal pensions are basically for those who are self-employed, whose work is not regular (part-time or temporary job), whose employer does not have any scheme and for those who are changing jobs frequently. This plan is similar to the money purchase scheme regarding the level of the pension. The rebate (if it is the case) will be deposited once a year by the government directly in the individual's account, and individual's contributions are tax-free up to a certain level. An employee can not belong to an occupational pension scheme and have a personal plan at the same time.

Stakeholder Pension

Stakeholder pensions are a new type of personal pension that is available since 6 April 2001 and which can be bought from a commercial financial services company, such as a bank, insurance company or building society. These private firms, will offer this service within a framework designed and supervised by the government, in order to ensure that they offer value for money and flexibility.

Employers will be obligated to offer the new pension plan to their employees, whereas employees will decide whether or not belong to it. The pension will be fully portable between jobs without penalty, and there will be tax reliefs and NICs rebates.

Table 3.3 shows an overview of those who have contracted-out of SERPS and the proportion that they represent of the total employment. From this table, it could be seen how COSR or defined benefit schemes still represent the majority of the occupational pension coverage, whereas the shift to COMPS or defined contribution plans has been slower. Personal pensions on the other side have progressively increased their coverage. It is also important to notice the difference between the coverage in the public and the private sector. The coverage in the private sector has been higher than in the public sector taking into account all employees. However if only women are considered, it could be seen that most of the coverage has been in the public sector, whereas for men has been in the private sector.

This table clearly shows the importance of the private pension provision in the UK because around 50 and 60 percent of the working population have contracted-out of SERPS since 1987.

Table 3.3 Estimated number of contracted-out pension schemes (Thousands)

	1987	1988	1989	1990	1991	1992	1993	1994
MEN								
OPS membes	6,722	7,171	7,032	6,742	6,363	5,963	5,688	5,511
COSR private sector	4,246	4,478	4,387	4,179	3,898	3,603	3,396	3,293
COSR public sector	2,476	2,443	2,354	2,284	2,210	2,133	2,076	2,026
COMP		250	291	279	255	227	216	192
Personal pensions	2,154	2,273	2,729	3,090	3,382	3,560	3,608	3,570
Total	8,876	9,444	9,761	9,832	9,745	9,523	9,296	9,081
WOMEN								
OPS membes	3,268	3,613	3,685	3,657	3,704	3,659	3,662	3,748
COSR private sector	1,371	1,567	1,613	1,593	1,565	1,501	1,484	1,505
COSR public sector	1,897	1,943	1,948	1,949	2,031	2,056	2,088	2,168
COMP		103	124	115	108	102	90	75
Personal pensions	1,054	1,131	1,450	1,728	1,968	2,119	2,128	2,076
Total	4,322	4,744	5,135	5,385	5,672	5,778	5,790	5,824
All								
OPS membes	9,990	10,784	10,717	10,399	10,067	9,622	9,350	9,258
COSR private sector	5,617	6,045	6,000	5,771	5,463	5,105	4,881	4,798
COSR public sector	4,373	4,386	4,302	4,233	4,241	4,189	4,164	4,194
COMP		353	415	394	363	329	306	266
Personal pensions	3,208	3,404	4,179	4,818	5,351	5,679	5,736	5,646
Total contracting-out	**13,198**	**14,188**	**14,896**	**15,217**	**15,418**	**15,301**	**15,086**	**14,904**
Total as a proportion of employment	**52.28%**	**54.06%**	**55.24%**	**56.23%**	**58.73%**	**59.53%**	**58.93%**	**57.65%**

Source: Department of Social Security

Pensioners' income

The number of pensioners and the ratio with respect to total employment has been around 40% since 1983, as can be seen in Table 3.4.

Table 3.4 People with a retirement State pension in the UK (Thousands)

Year	Men	Women	All	As a % of total employment
1966	2,192	4,348	6,540	
1971	2,591	4,923	7,514	
1976	2,952	5,385	8,337	
1980	3,175	5,743	8,918	35.47%
1981	3,212	5,885	9,097	37.47%
1982	3,212	5,975	9,187	38.57%
1983	3,210	6,075	9,285	39.06%
1984	3,199	6,123	9,322	38.38%
1985	3,281	6,239	9,520	38.78%
1986	3,338	6,313	9,651	39.19%
1987	3,381	6,345	9,726	38.53%
1988	3,406	6,375	9,781	37.27%
1989	3,409	6,372	9,781	36.27%
1990	3,481	6,475	9,956	36.79%
1991	3,512	6,504	10,016	38.16%
1992	3,552	6,733	10,284	40.01%
1993	3,561	6,721	10,283	40.17%
1994	3,588	6,724	10,312	39.89%
1995	3,660	6,767	10,427	39.85%
1996	3,761	6,803	10,564	39.93%

Source: Department of Social Security

Includes Widows on husband's insurance, women on own insurance and wives on husband insurance

But the most important aspect is the level of pension that these pensioners have received. From Table 3.5 it can be perceived the low level of the basic pension and how it has been changed since 1969. This pension has risen in line with prices since 1979, while average earnings have risen more than that.

Table 3.5 the amount of the State basic pension in the UK

Year	£ per week	Year	£ per week
1969	4.5	1984	35.8
1970	5.0	1985	38.3
1971	6.0	1986	38.7
1972	6.8	1987	39.5
1973	7.8	1988	41.2
1974	10.0	1989	43.6
1975	11.6	1990	46.9
1976	15.3	1991	52.0
1977	17.5	1992	54.2
1978	19.5	1993	56.1
1979	23.3	1994	57.6
1980	27.2	1995	58.9
1981	29.6	1996	61.2
1982	32.9	1997	62.5
1983	34.1	1998	64.7

Source: Department of Social Security

As I have argued during this work the occupational pension schemes have been very important since the basic pension and SERPS have not been enough for a good standard of living and individuals have been encouraged to look for private provision. This could be noticed from Table 3.6 where the information shows that around 60% of retirees have received occupational pensions since late 1980s. The amount of the pension under these schemes has been much higher than the State pension as can be compared from Table 3.5 and Table 3.6. By 1994 the occupational pensions was 40% higher than the basic pension. With these figures it can seen how important is for individuals the private provision of pensions, and how big is the inequality between those pensioners who have private provision and those who do not.

Table 3.6 Proportion of pensioners who are members of occupational pension schemes and the average level of the occupational pension

Year	Proportion of pensioners who are members of occupational pension schemes	Average of occupational pension income £ per week at july prices 1994
1979	43%	46.2
1981	44%	46.9
1989	54%	65.2
1991	61%	68.3
1992	60%	74.6
1993	62%	75.3
1994	63%	80.8

Source: Department of Social Security

The 1995 Pensions Act

The main purpose of the 1995 Pensions Act was to provide equal treatment for men and women under occupational pensions and additional safeguards after the experience of Maxwell scandal (mentioned below). Some of the reforms of this Act are the following:

- Defined benefit schemes will have to meet a new minimum funding requirement.
- A new regulatory body, the Occupational Pensions Regulatory Authority (OPRA), was set up.
- All occupational pension plans must ensure equal treatment for men and women regarding access, contributions and benefits.
- The retirement age for women in State pension will increase from 60 to 65. This increase will be phased in 10-year period from 2010 to 2020.
- To reduce more the future cost of SERPS changing the method of calculating the pension.
- The abolition of the Guarantied Minimum Pension (GMP) as a requirement for contracting-out. This abolition annuls the link between SERPS and contracted out pensions.
- The introduction of an age-related rebate for contracted-out defined contribution and personal pension schemes.

Section 2.- Theory and reality

The central idea of the Conservative government of the period from 1950s to 1970s regarding pensions provision was the restriction of the role of the State in this area and the support of occupational pension schemes in order to secure an adequate level of pensions. In contrast, the main objective of the Conservative government of the 1980s was to undermine both occupational and State schemes, and to support personal pensions. Whereas the ‘new right’ supported the minimal State intervention in order to give to the individual more freedom, the ‘old right’ supported a strong interventionist State in order to secure a collective morality without individual liberty (Hay, 1996).

The Thatcher administration continually promoted the idea of individual property ownership ensuring that every citizen would have a financial stake in the economy However this administration did not necessarily get the desired results.

As I have mentioned, the Thatcher administration tried to reduce the State intervention in social welfare and it did not agree with any type of subsidy either in public or private occupational schemes. However, the subsidy regarding pension contributions and fund returns, which have had a tax-free nature, was supported as an incentive to look for private provision. Occupational schemes, and in particular final salary schemes, were considered as inappropriate and paternalistic, since in these plans the employer bears the responsibility of a certain level of pension instead of individual who is the one that will receive the benefit. In those plans, the employers should cover any actuarial deficit in the pension fund in order to fulfil their obligations with their employees. In the case of the public sector the deficit is compensated with tax revenue, whereas in the private sector it is covered by employers’ own funds. This situation was presented during mid-1970s when the high inflation caused an increase in the pension liabilities.

During 1980s the Conservative government implemented a number of strategies to reform pension legislation including the Social Security Act 1986, mentioned earlier. This government emphasised not only on financial and demographic pressures, but also on the importance of freedom of choice in order to give to individuals more control over the way in which their pension funds would be invested and also to achieve greater occupational mobility.

Since personal pensions are defined contribution plans where the risk is borne by individuals and where, supposedly these individuals have control over their investments, the conservative government saw in these schemes the solution to the paternalistic nature of defined benefit and the best model to put into practice the idea of individual ownership.

Margaret Thatcher stressed the flexibility and the labour mobility provided by personal pension schemes and their importance under high unemployment scenario. It was argued that the individual freedom for changing from occupational to personal schemes promoted flexibility within the labour market due to the portable nature of the latter. It was conceive that, occupational pensions were rigid schemes that undermined labour force mobility since individuals used to lose their benefits when they changed from one job to another one. Personal plans do not have such rigidity and were seen as the ideal type for part-time and temporary jobs, as well as for self-employed people.

Implementation gap: personal pensions

Non-desired outcomes

Personal pensions were not a solution as Conservative government of 1980s thought. The government's persuasion to buy personal pensions, the lack of information for the population about these schemes, the heavy pressure to sell them, the inadequate knowledge and skills of the salesperson, and the limited supervision of pension funds management, allowed the massive pensions misselling scandal between 1988 and 1994. During that period around 1.5 million people were sold personal pension schemes which may not have provided as good income at retirement as the schemes they left. Currently, the Financial Services Authority (FSA) is carrying out a program called 'the review of pensions mis-selling' in which the financial institutions that sold the personal scheme should contact their clients and ask them if they want their case been reviewed. For those who are already retired, the institution has to compensate the pension payments that the pensioner has received.

Another complex scandal was presented under Maxwell Affair by early 1990s. Robert Maxwell made use of more than 400 million pounds taken from his public companies' pension funds, Mirror Group Newspapers (MGN) and Maxwell Communication Corporation (MCC), for loaning to his main private companies, Headington Investments and Robert Maxwell Group. However, pensioners of MCC and MGN were not the only pensioners who suffered as a result of Maxwell's fraud. Other pension funds such as the Post Office, British Airways, Roll-Royce, Ford, Rover, National Westminster Bank, and

Barclays Bank had invested in MCC shares. It has been estimated that the total lost of these pension funds was 200 million pounds (Blake, 1995). These two episodes highlighted the necessity for tighter regulation and accounting standards for pension funds.

The behaviour of the personal pension schemes is shown in Table 3.7. It can be seen how the coverage of personal pensions increased in number of people and as a proportion of total employment since the beginning of the scheme in 1988, but it also can be seen that in 1990 the rate of increment of the coverage in these plans started to decrease to the point that in 1994 was negative maybe as a result of the two scandals described above. Even when the coverage increased during late 1980s, the government's goal for the shift from occupational to personal schemes was not achieved since most of those employees who opted out personal pensions did not belong to occupational plans but SERPS. This phenomenon could be explained considering the amount of contributions that employers are obliged to pay in personal schemes. The employer should pay at least the minimum rebate but normally, the contribution in occupational schemes are higher. Consequently the employees would prefer to stay with the occupational plan. Unfortunately, as mentioned above, employees were not well informed of all these complexities, and financial institutions took advantage of this situation selling pension contracts and made their clients worst off. Therefore, the government's desire for the expansion of personal schemes has not been possible since many people have become resistant to buy them and, instead of looking after their own financial affairs, they have been more likely to look at the State for provision.

Table 3.7 Personal pensions coverage in UK

Year	Men		Women		Total		Rate of increment in personal pensions
	Thousands	As a proportion of total employment	Thousands	As a proportion of total employment	Thousands	As a proportion of total employment	
1987	2,154	8.53%	1,054	4.18%	3,208	12.71%	
1988	2,273	8.66%	1,131	4.31%	3,404	12.97%	6.11%
1989	2,729	10.12%	1,450	5.38%	4,179	15.50%	22.77%
1990	3,090	11.42%	1,728	6.39%	4,818	17.80%	15.29%
1991	3,383	12.89%	1,968	7.50%	5,351	20.38%	11.06%
1992	3,560	13.85%	2,119	8.24%	5,679	22.10%	6.13%
1993	3,608	14.10%	2,128	8.31%	5,736	22.41%	1.00%
1994	3,570	13.81%	2,076	8.03%	5,646	21.84%	-1.57%

Source: Department of Social Security

Desired outcomes

As explained earlier, one of the aims of Thatcher government was to reduce the coverage of occupational pension schemes in order to encourage personal pension market. As we can see from Table 3.8 the coverage over full-time employees have decreased both in number and as a proportion of the total workforce since 1989. This could be explained by different causes such as the increase of part-time and temporary jobs characterised by not having pension benefits, the rise in unemployment, and also the rise in the cost of provision and administration of occupational pensions. However, defined benefit schemes still dominate the market of occupational pensions, whereas money purchase represent only a small part.

Table 3.8 Occupational pensions coverage as a proportion of total employment in UK

Year	Employees in occupational pension schemes	Total Employment	Proportion of total employment
1963	11,100	25,207	44.04%
1967	12,200	24,961	48.88%
1971	11,100	24,434	45.43%
1975	11,400	25,016	45.57%
1979	11,600	25,397	45.67%
1983	11,100	23,817	46.61%
1987	9,990	25,245	39.57%
1988	10,784	26,246	41.09%
1989	10,717	26,966	39.74%
1990	10,399	27,062	38.43%
1991	10,067	26,251	38.35%
1992	9,622	25,701	37.44%
1993	9,350	25,598	36.53%
1994	9,258	25,853	35.81%

Source: Datastream, Department of Social Security, and Government Actuary

The costs of the occupational pension schemes have increased since the Social Security Act 1986. In this law, it was established that employers should submit an annual report additional to the triennial reviews prepared by actuaries; the revaluation of pensions should be in the line with retail price index (RPI), and the ending of compulsory membership.

Considering the scandals mentioned above, new requirements have been imposed for the administration of pension funds. This administration has become so complex that many firms have found it difficult to maintain their schemes. The use of surpluses has came under control and the companies now have less freedom using pension funds.

Another cause for reduction in occupational pension coverage is the size of the organisations. Large organisations normally have offered these plans, whereas in small ones the provision has remained either minimal or highly informal, and subject to manager’s discretion. Therefore, considering that small companies had become the major employers of labour in the UK, and the continuous expansion of part-time and temporary jobs in the effort of achieving flexibility, the proportion of the workforce eligible for occupational benefits has become limited (Page and Silburn, 1999).

Conclusions

Different from other European countries where the transition to new forms of welfare regimes was difficult to accept, in the UK the transition to Thatcherite state regime was less complex due to the basis that liberal welfare state had set before mid-1970. The individualised and fragmented forms of the British capitalism established the grounds to the acceptance of policies such as neo-liberalism. Nevertheless, the transition has been highly damaging considering the difficulties to adapt to the new global demands. Not only was the weak State capacity for organising the economy the reason of this transition crisis, but also the absence of agreement of interests concentrated on improve productivity along with an inflexible economic system. Consequently the ability to face the international competition in the UK was highly limited.

The higher labour costs that prevailed in the UK labour market during 1960s and 1970s, derived from social benefits and high wages, and a welfare system that discouraged worker participation, brought about that British products became more expensive and lower in quality than in other capitalist countries. Insurance unemployment affected the supply of labour because with this benefit, the cost of being without a job was reduced, and individuals were less willing to return to work. Additionally high taxation, especially in direct personal taxation, had distorting effects on work incentives causing that British industries were not international competitive.

By the late 1970s, the Conservative Party took the power and neo-liberal policies were implemented. Regarding the pension system, the idea was to suppress the role of both occupational and State schemes in order to give way to a new form of individual ownership embodied in personal pensions. This new scheme was introduced in the Social Security Act 1986 which has been the most important legislation in the last 25 years regarding retirement pensions. Such Act marked the beginning of a new era in the UK labour market.

The reforms during Conservative administration, were designed to allow more mobility to the labour force making occupational pension schemes more flexible and introducing portable pensions. The aim was to be more competitive at international levels in order to survive in a free-market mechanism. One of the most important transformations suffered by the nature of employment in the UK has been the growth in part-time jobs. This new structure has given way to a divided society where those with a stable employment could afford private provision of welfare services, whereas those without good labour conditions, who normally are women, immigrants or young people, must rely on a limited public support.

Currently, the UK pension system operates under that framework, which perpetuates and develops a dual labour market, and occupational pension schemes have strengthened this inequality since they normally are designed to exclude part-time and temporary workers. Consequently at retirement age, this sector of the population will receive only the little income provided by the Sate and year by year they will become poorer since the basic pension is indexed in line with prices rather than earnings. In contrast, rich people with high earnings are the beneficiaries of the private provision since, even when their employers do not provide occupational schemes, they can afford to have a good personal scheme with a good pension at retirement.

The radical policies implemented in the mid-1980s, in the search for flexibility, created a society based on enterprise rather than welfare benefiting in this way those financial institutions that manage the pension funds and that charge high commissions for this service. Moreover, these companies took advantage of having pension customers offering them another financial products in order to provide an integral individualised financial services.

As far as organisations are concerned, occupational pension schemes have been part of employment practices and employers have used them for different purposes over time and depending on the specific socio-economic situation. Under economic structures characterised by full-employment and mass-production process, the objectives for having occupational pension schemes were the retention and control of employees through punishing early leavers. With the Social Security Act 1986, private pension provision became more flexible not only with the introduction of obligatory transferable pensions and the elimination of the compulsory membership, but also with the introduction of personal pension schemes. However, occupational schemes have been less attractive to employers due to the increasing cost imposed in recent Social Security Acts.

Has the government benefited from the changes in the pension system? Certainly not. The desired reduction in pension provision has not been achieved, in fact it has increased. This is not good for the government since, as long as the individuals do not have a good level of income at retirement, it will be reflected in social problems, which the State will end paying for. However, compare with other European countries such as France, where an attempt in the reduction of a welfare spending were rejected with massive demonstrations in the streets of Paris, in the UK the changes towards private provision have been successfully and gradually implemented. This implementation has been facilitated by the liberal welfare system that has characterised the UK. Additionally, British governments throughout history have tried to transmit to their citizens the fact that their social needs would not be covered totally by public provision. As a result it is now claimed that the greater flexibility of the British labour market has become evident in the slow growth of labour costs and in the sustained improvement in the competitiveness. Since the last recession there has been a growth in the productivity, a low growth in earnings and a sharp fall in unemployment.

The controversial debate about whether individuals should exercise control over the pension funds continues. On the one hand the right wing supports the individual control over the fund's assets, and on the other hand the left wing supports the argument that the State is the one who should administrate the resources in order to the correct distribution for social purposes. Even though I did not make a deep analysis of this discussion in this paper, it could be a good topic for further research considering the new stakeholder pension scheme introduced in April 2001. If we could know how personal pension funds have been managed since their creation in 1986 Social Security Act, and how this way of management has impacted in the society as a whole and pensioners in particular, then we could contribute with a new approach for the management of funds under the Stakeholder scheme.

In conclusion, I could say that the transformation that the UK pension system has experienced in the last 25 years, have been a response to the international challenges which have exercised pressure over national economies in order to adapt to the new global environment. Thatcher government tried this adaptation through personal pensions, which encourage labour mobility due to their portable nature, reduce labour cost for employers, and they are consistent with the idea of the individual ownership control. However, when a country through its history has presented a fragmented and divided organisation of society with specific patterns of identity construction rather than larger collective aggregates, the ability to adapt is reduced and the aims are not totally achieved. This was the case of the British personal pension schemes. On the one hand, the transition to labour market flexibility has been implemented more easily and successfully than other European countries but on the other hand, the idea of individual control over the fund was not a reality, and the mis-selling and Maxwell scandals caused that most of the people who had contracted-out personal pensions returned to the State provision. As a result there was a reduction in the coverage of personal pension schemes. The reduction was not only in personal pensions but also in occupational plans. However if this trend of reduction of the coverage in both schemes continue, then the State will bear an important social problem since the private provision represents almost the 50% of the total income of the pensioners. Therefore the challenge now, with Stakeholder pensions, is to learn from the mistakes made in the past by the Conservatives and to design a clear, well structure and consistent legislation that defend the property rights of the individuals who opt out for this new pension scheme, to verify the skills and ethic of the sellers, and to establish minimum commission charges for the administration of these personal funds. In this way the beneficiaries from the reforms of the UK pension system will be, not only those who already have the resources for a good standard of leaving, but also those who whatever the nature of employment they have, the sex, and the race they belong to, work and contribute to an scheme that provides a good level of pension at the age of retirement.

APPENDICES

Data of Figure 1.1

The UK Economic performance

Year	Unemployment % rate	GDP % growth
1960	1.6	
1961	1.5	2.49
1962	1.9	1.24
1963	2.3	4.71
1964	1.7	5.47
1965	1.4	2.51
1966	1.5	1.93
1967	2.3	2.29
1968	2.4	4.09
1969	2.4	2.07
1970	2.6	2.38
1971	2.6	2.02
1972	2.9	3.58
1973	2	7.32
1974	2	-1.66
1975	3.1	-0.70
1976	4.2	2.80
1977	4.4	2.35
1978	4.3	3.40
1979	4	2.76
1980	5.1	-2.20
1981	8.1	-1.28
1982	9.5	1.80
1983	10.5	3.74
1984	10.7	2.42
1985	10.9	3.81
1986	11.1	4.22
1987	10	4.44
1988	8	5.18
1989	6.2	2.14
1990	5.8	0.64
1991	8	-1.49
1992	9.7	0.05
1993	10.3	2.32
1994	9.3	4.39
1995	8	2.79
1996	7.3	2.56
1997	5.5	3.47
1998	4.7	2.70

Source: Datastream

Data of Figure 2.1

Rate of inflation and rate of increment in the average earnings in the UK

Year	Rate of Inflation (%)	Increment in average earnings (%)
1961	3.03	
1962	3.92	
1963	2.83	
1964	2.75	
1965	4.46	
1966	4.27	
1967	2.46	
1968	4.80	
1969	5.34	
1970	6.52	
1971	9.52	
1972	6.83	12.2
1973	9.30	14.9
1974	15.96	17.2
1975	24.31	26.5
1976	16.61	16.3
1977	15.82	9.0
1978	8.20	13.3
1979	13.38	15.4
1980	18.04	20.4
1981	11.89	13.0
1982	8.60	9.6
1983	4.66	7.7
1984	4.90	7.6
1985	6.08	7.5
1986	3.47	7.5
1987	4.12	7.8
1988	4.83	8.8
1989	7.79	9.1
1990	9.53	9.8
1991	5.90	8.1
1992	3.68	6.2
1993	1.55	3.3
1994	2.51	3.6
1995	3.41	3.2
1996	2.45	3.5
1997	3.14	4.2
1998	3.36	5.1

Source: Datastream

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