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The third way for pensions (by way of Thatcherism and avoiding today's pensioners)

Abstract
This article consists of a critique of New Labour's pension policies as set out in the Green Paper *Partnership in Pensions*. It outlines the key developments in pensions policy over the last 20 years and describes the review process that Labour started in Opposition. It ends by showing the extent to which New Labour's policies in this field continue those of the previous Conservative governments.

Older people present a problem to New Labour: obviously they are old, not new, but they are also the largest group of claimants of social security and the largest users of health services. No matter how far-reaching are the 'active' labour market policies and how strenuous the efforts to include those without jobs in employment, education or training, those already over pension ages will not be touched. Pensioners present a political problem too: although their party allegiances, for the most part, are well entrenched, at least in comparison with the Tories, Labour has a reasonable record of achievement on the pensions front (for example with regard to upratings, the earnings link and, especially, the introduction of the State Earnings Related Pension Scheme). This legacy weighs heavily in the political baggage of Old Labour and, particularly, in the minds of the politically active pensioners.

Therefore it was with some trepidation that those seeking social justice for pensioners awaited the publication of the Green Paper on pensions (DSS, 1998). It emerged late last year and confirms that New Labour, like the previous Tory governments, is primarily concerned

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with future pensioners, not current ones, and in reducing the role of the state as direct provider of pensions (though the 1999 Budget has already mitigated some of the worst political effects of the Green Paper's proposals). The Green Paper also represents the first practical example of what the 'third way' means for social policy. Whereas up to now the third way looked like a purely political strategy—a bit of universalism here and a large dollop of selectivity there—the Green Paper opts explicitly to take a route between neoliberalism and social democracy and, equally explicitly, one that is closer to the former than the latter.

This article outlines the main proposals in the Green Paper and subjects them to critical scrutiny. It also describes the pension review process, from the inside. First it summarizes how it was that pension policy in the UK reached a point of crisis.

Getting to the crossroads

When a universal National Insurance (NI) pension was introduced in 1948 following the recommendations of the Beveridge Report, rather than adopting the non-contributory means-tested model of the 1908 Old Age Pension, Beveridge (1942) chose the insurance principle established by the 1911 National Insurance Act. This meant that the basic pension was not seen as a right of citizenship but was, and still is, dependent on the establishment of eligibility through contributions, or 'work-testing' (Shragge, 1994). It is worth remembering that the campaign for old age pensions, which began in the late 19th century, was a campaign for a free universal state pension payable to everyone over the age of 65. It was a reaction against the callous dismissal by employers of workers on grounds of age, the failure of employers and other private agencies to provide pensions and the resulting widespread poverty in old age. (The work of Charles Booth (1889) was particularly influential in the campaign and Booth himself was a leading member of it.) Because the NI pension was introduced much earlier than Beveridge intended—before a fund of contributions had been built up—it has always been a Pay-As-You-Go (PAYG) system.

Over the two and a half decades following the introduction of the NI pension the problem of poverty in old age persisted and various attempts were made to introduce top-up and graduated pensions. The issue became a political football with each side vowing to overturn the changes proposed by the other. The breakthrough came in the mid-1970s when political consensus was reached on the 'new pensions' proposal by the then Secretary of State for Social Services, Barbara Castle. The centrepiece of the proposal was a new second-tier pension, the State Earnings-Related Pension Scheme (SERPS), which was to be introduced over 20 years to provide, in combination with the first-tier NI pension, economic security in old age for the majority of Britain's pensioners. Regardless of one's opinion about SERPS today there is no doubt that the scheme would have put British pensioners in a position similar to that of their continental counterparts and, by the turn of the century, would have gone a long way towards eradicating poverty in old age. The original SERP scheme was particularly helpful for women, because of its 'best 20 years' rule for the calculation of entitlement and the provision of home responsibility credits. That is history now, the world we have lost; today the SERP scheme is sinking fast: only 17 percent of the workforce are currently paying into it and, had the Conservatives been re-elected, it would have been abolished.

It was the election of the Thatcher government in 1979 that transformed both the politics of pensions in Britain and the prospects of the poorest pensioners. The Conservative strategy on pensions unfolded between 1980 and 1986 and had two interrelated strands, both of which were underpinned by the same neoliberal ideology. On the one hand there was the imperative to reduce the scale of public spending and, on the other, there was the belief in individual responsibility (even if this came at great cost to the Exchequer). So, out went the post-war Butskellite consensus on the central role of the state in the collective provision of pensions and in maintaining the generational contract; and in came the idea that individuals should be primarily responsible for saving for their own retirement. As the 1985 Green Paper put it:

> The purpose of these proposals is to achieve a steady transition from the present dependence on state provision to a position in which we as individuals are contributing directly to our own additional pensions and in which we can exercise greater choice in the sort of pension provision we make. (DHSS, 1985: 6)

Equally important, this strategy entailed neglecting the needs of the poorest of *today's* pensioners. Thus, between 1980 and 1997 policy focused almost exclusively on those in the labour market (tomorrow's pensioners), encouraging them to opt out of the state pension sector, while providing a massive *disincentive* for anyone with enough years of working life left to remain in the state sector, at least in those parts over which they have a choice. On current projections, by 2030 the basic NI pension will be worth just 10 percent of average male earnings and 14 percent of average female earnings. What Mr Portillo famously called 'a nugatory amount'. The total state package will be 26 percent of male earnings and 30 percent of female earnings. So, it is not surprising that millions of people have been searching for ways of enhancing their economic prospects in old age—they have seen the depressing writing on the wall.

However, this policy is not simply about the projected incomes of future generations of pensioners—many of whom can take evasive action now. It concerns *current* generations who have no choice but to exist on what the state provides. Despite the promise of Patrick Jenkin, the first Thatcherite Secretary of State for Social Services, that pensioners and other long-term beneficiaries could 'confidently' look forward to sharing rising living standards, the basic pension has fallen further and further behind the rise in earnings: the differences are currently £24 per week for a single pensioner and £37 for a couple. In both cases the NI pension would be more than a third higher if the link with earnings had not been broken. This is what Will Hutton called one of the greatest frauds perpetrated by a democratic government against its people in modern times.

While the first-tier NI pension was being steadily undermined, during the 1980s the cut in the value of SERPS, by the 1986 Social Security Act (implemented in 1988), was dramatic. On the pretext that the projected costs were too great and, specifically, that the scheme was too generous to women, the value of SERPS was halved. At the same time very attractive incentives were introduced to encourage workers to opt out of SERPS and enrol in private pension schemes—2 percent of earnings plus a national insurance rebate of 5.8 percent. As a result some 6 million employees left the SERP scheme—at a cost to the Exchequer of £20 billion up to 1998. This restructuring of pension provision also entailed a change in the opting out rules from SERPS—for the first time money purchase or defined contribution pension schemes were recognized as legitimate alternatives to SERPS. Thus the exodus from SERPS represented a major change from a defined benefit scheme to a defined contribution one. This means that the value of a person's pension cannot be predicted precisely; it relies on the outcome of stock market investments rather than a proportion of earnings. As Atkinson (1998: 164) put it, 'a guarantee is replaced by a lottery'.

The ensuing scandal of the mis-selling of pensions by over-zealous agents is well-known. It is estimated that as many as 3 million people have been sold private pensions when they would have been better off staying in the state scheme. History will record its own verdict on this extraordinary episode in social security history, but I am sure future social policy analysts will write with incredulity that responsibility for pensions was passed from the public to the poorly regulated private sector without proper safeguards. There are hundreds of thousands of people still awaiting compensation. In July 1997 24 companies were named, 22 of which had not dealt with even 10 percent of their compensation claims. Furthermore, the state has sponsored a substantial down-grading of future pension entitlements—the Exchequer (tax payments) and the contributors are subsidizing the worst pension deal on offer. Thus for the same level of contributions, SERPS and occupational schemes provide, on average, between 50 and 60 percent of final salary (depending on the number of job changes) with the original SERPS being superior to the average occupational scheme. However, consulting actuaries Bacon and Woodrow (1993) calculate that personal pensions provide between 20 and 40 percent of final pay.

Alongside these changes the 1980s saw a remarkable rhetorical attack on pensioners—another dramatic break with the past in which this group had been regarded as the most deserving of all social security claimants. Rhetoric about the so-called demographic time-bomb was designed purposely to amplify the issue out of all proportion in order to create the climate conducive to the proposed changes (Walker, 1990). This included a general attack on the 'burden' of pensions and the infamous press briefing by the Chancellor, Nigel Lawson, in 1988 in which he stated that there were no poor pensioners in Britain. However, the impact of such statements on current pensioners living on low incomes has, apparently, not been considered or investigated. Yet up to 700,000 are living on incomes below their income support entitlement levels. (This estimate has been revised downwards in 1999 as a result of the discovery of a mistake in benefit uptake estimates by the Government Statistical Service.)

That, then, is the background to the current debate about the future of pensions. The earnings-related second-tier addition to the flat-rate Beveridge-inspired first tier has been damaged—some would say beyond repair. The main reason behind this change was ideological:

the desire to residualize public provision and promote private pensions. The outcome is that pension provision in Britain is in an unsustainable mess. Poverty and low incomes persist among a significant minority of the current generations of pensioners, particularly very elderly women (five times as many female pensioners as male ones live on income support; three-quarters of income support pensioners are women), while fewer than half of those workers approaching retirement have any occupational pension entitlement—68 percent of men and only 29 percent of women. Indeed, the average membership of occupational schemes for men has declined in recent years (to 57 percent) and the average for the whole workforce is 48 percent (Government Actuary, 1994). The result of the mushrooming of private provision in the 1980s is that 26 percent of full-time male employees are paying into such schemes. The figures for full-time female employees are 19 percent and 11 percent for part-timers. Despite this massive upheaval in pension provision and the purposive erosion of its value over the past 18 years, it is remarkable that the NI pension is still the main source of income for the majority of Britain's pensioners. The current system is incapable of meeting the future pension needs of many women and others experiencing insecurity in the labour market. It is worth noting too, because it is rarely commented on, that the Tory governments purposely shifted NI contributions from employers to employees. Between 1979 and 1994 contributions from employees increased by 68 percent while those from employers rose by 38 percent in real terms (House of Commons, 1996).

Thus, rather than advancing towards a comprehensive pension system commensurate with other EU countries, the pension consensus has been shattered, the state scheme broken up and the prospects for future pensioners made less secure than they would otherwise have been. In fact the problems were well summarized by a joint pre-election statement by Tony Blair, John Prescott, Harriet Harman and Gordon Brown (1997):

> Millions of people face poverty in retirement. Tory policies have failed too many of today's pensioners and too many of tomorrow's. Today's pensioners have lost £20 a week through the government breaking the earnings link with the basic state pension. SERPS has been more than halved in value. Millions have been encouraged to join personal pensions which, for many, are costly and inadequate.

The pensions review

Pensions policy was a major item on the agenda of the Labour Opposition and began to take shape well before the 1997 general election. It was very clear at the time that this area of policy was regarded by the leadership as being highly sensitive. The pensions brief was shuffled between Donald Dewar, Chris Smith and eventually Harriet Harman, making it very difficult to exert consistent influence from the outside and giving internal advisors greater control. Chris Smith proved to be particularly open to argument and persuasion and it looked as if he was coming around to supporting an increase in the basic pension and the retention of SERPS when he was replaced by Harriet Harman from the shadow Treasury team. Peter Townsend and I prepared a briefing paper for him on how the NI scheme could be enlarged, along German lines, to cover the whole of the working age population. Because the idea of stakeholding was then fashionable we called the paper 'Towards a Stakeholder Pension System' (a title we were to regret).

The key document *Security in Retirement* was issued in April 1996 and was to cause a storm at that year's party conference. The four main proposals were as follows and the most significant was that favouring funding of the second-tier pension rather than PAYG:

1. the basic NI pension—based on contributions and non-means tested as now;
2. a stakeholder's pension—the second tier based on various funded pension schemes: single-employer occupational schemes, industry-wide schemes and personal pensions;
3. a citizenship pension—a continuation of SERPS (without the restoration of the 1986 Act cuts) incorporating those, such as low-paid workers, who cannot provide for themselves an adequate second-tier pension;
4. a pension entitlement—a simplified means-tested benefit to replace income support for pensioners (to get over the problem of non-claiming).

Security in Retirement was prepared by Harriet Harman's shadow team. It caused a furore at the 1996 Labour Party Conference when, in the debate on the document, Barbara Castle spoke in favour of restoring the earnings link for the basic NI pension and retaining SERPS as the second tier. To avoid an embarrassing public defeat Harriet Harman promised to consult with pensioners about the proposed changes. Meanwhile, behind the scenes Jack Jones, President of the National Pensioners Convention (NPC), was also persuading shadow ministers, including the Shadow Chancellor, to consult with pensioners.

The NPC team met with the shadow ministers three times before the election (Barbara Castle was also present). They were not optimistic because Harman and her team stuck firmly to the line set out in *Security in Retirement* and, rather than listen to the pensioners' representatives, they were subjected to several presentations of the existing policy. However, following the election the Pensions Review, promised in Labour's manifesto, was officially launched on 17 July 1997. Its terms of reference were:

> To review the central areas of insecurity for elderly people including all aspects of the basic pension and its value and second pensions including SERPS; to build a sustainable consensus for the long term future of pensions; and to publish the Government's proposals, for further consultation, in the first part of 1998.

The NPC was given a special consultative role in the review. In the DSS press release John Denham, Pensions Minister, said 'we particularly want to hear from today's pensioners'. No one is better equipped than the NPC 'to ensure that the right sense of urgency is given to the views of today's pensioners and that these are taken fully into account throughout the review process.'

The NPC met with the Pensions Minister and his team on a dozen occasions between July 1997 and October 1998 and forcefully put the case for urgent action to combat poverty and injustice among today's pensioners. But, on the evidence of the Green Paper, they did not listen to a word. There is only one chapter devoted to today's pensioners—just four and a half pages. The argument for an increase in the basic pension, as the only sure way of getting money to those who need it immediately, is not dealt with properly, and there is no reasoned response to the carefully argued paper the NPC presented on restoring SERPS. The argument put forward in a joint submission with other pensioners organizations for a significant increase in pensions for the over 80s—an alternative form of targeting to means testing—is not addressed at all. (The various NPC submissions to the Pensions Review are summarized in NPC, 1998.)

So where does that leave the pensioners' movement at the end of two years on the inside track? At the beginning the NPC was delighted to be included in discussions, as consultation never occurred under the previous Tory administrations. Also, although the NPC thought it was wrong, the government had tied itself to previous spending limits for two years and there was a strong inclination to give them the benefit of the doubt. Meanwhile pensioners at grassroots level in local forums and action groups were getting increasingly worried about what was happening in the review process and there was mounting fury among pensioners about the lack of any policy announcement or, at least, official acknowledgement of the pensioners' case. Then the Green Paper that was scheduled for early 1998 was delayed and delayed and finally appeared in December. Its contents make dismal reading for the pensioners' movement. Its case has been ignored and the framework proposed is essentially the same as that set out two years earlier in *Security in Retirement,* the document which led to the consultation exercise. The proposals have more in common with the previous government's than those advanced by the NPC. The pensioners' movement has very effectively been kept quiet for two years and now it will have to embark on a different strategy.

Labour's third way for pensions

The first striking thing about the Green Paper *Partnership in Pensions* (DSS, 1998) is the tiny amount of space devoted to today's pensioners—by any objective standard the most pressing issue that should confront a review of pensions and despite the Minister's promise to the NPC. For current pensioners there are just three main proposals: a minimum income guarantee (MIG), extra help with fuel bills and measures to increase the uptake of the MIG by pensioners.

The MIG is essentially a case of back to the future: the Labour Party promised an 'income guarantee' for pensioners—a minimum benefit to be paid free of a means test—in the run-up to the 1964 election, the idea quickly being dropped after Labour came to power. Predictably, the pensioners' needs for housing and other help proved more complex than could be met by a 'single, affordable, unmeans-tested sum'. Moreover, tax returns were filled in annually but pensioners becoming disabled, or finding that other benefits or additional earnings were coming to an end would need money that week, not next year. In the words of the Labour Minister responsible at the time, Douglas Houghton, the scheme 'went on the rocks' (Timmins, 1996). What was salvaged from the wreck was the supplementary benefits scheme.

The Borrie Commission on Social Justice (1994) went in search of the same holy grail and proposed a minimum pension guarantee. Donald Dewar, as social security shadow, and the National Executive Committee of the Labour Party reacted favourably, but his successor, Chris Smith, accepted the argument that such a guarantee would suffer from many of the disincentive effects of existing means tests. Then, in a pamphlet from Labour's Campaign on Social Justice, the Deputy Chair of the Borrie Commission, Patricia Hewitt, abandoned the concept: 'Unfortunately, it has become clear in subsequent debate that the pension guarantee could be widely seen as yet another form of means testing and that the Treasury might well insist upon retaining the hated assets test now applied for income support'.

In fact the MIG is not a new benefit at all, it is income support renamed (and was announced five months in advance of the Green Paper). The only new element is the aim, not a promise, to increase income support for pensioners in line with earnings. For the present, however, those who receive the MIG will find that the first payment in April 1999 only just restores the value of income support to its level in April 1997 as a proportion of average earnings. For the future there is no guarantee of an earnings link and, in fact, the assumption in the original announcement was that the upratings in 2000 and 2001 would be in line with prices, not earnings. But, in the 1999 Budget, the Chancellor announced that the MIG would be increased in line with earnings. If this commitment is sustained annually the prospect, following the Green Paper, of pensioners living on income support being worse off under Labour, in relative terms, than they were under the Tories will be avoided. However, even if the aim of earnings-linking the MIG is achieved, it would not mean that *all* pensioners were sharing in the rising prosperity of the nation because only one in four pensioners is entitled to income support.

The second proposal for current pensioners is the announcement of extra help with fuel bills from next winter. However, for those on income support, this would have meant a reduction from £50 to £20 but the 1999 Budget increased the fuel allowance to £100.

Third, there are measures to increase uptake of the MIG. Via a 'combination of publicity and (the) more automatic delivery systems' (DSS, 1998: 36) the government proposes to encourage eligible pensioners to claim their entitlement. The short-term priorities are to try to 'pinpoint those who may be entitled more accurately', to identify pensioners who may be entitled and to 'encourage them to claim in a way which they find acceptable and which helps to overcome stigma and uncertainty about the claiming process', and to 'trigger claims to income support automatically at points where pensioners are likely to become entitled to the MIG'. These include reaching the ages of 75 and 80 and the award of attendance allowance.

As welcome and long overdue as these measures to increase uptake are, past experience does not justify the government's confidence in means testing. Successive governments have tried the same thing, with little success, which is why just under 1 million pensioners live below the income support poverty line. Providing advice is not enough. There is nothing in the Green Paper which suggests that the government can 'ensure that everyone who is entitled to (the MIG) receives it'. Indeed the government is not even confident itself: thus the assumption built into the costing of the MIG is that uptake among eligible pensioners will rise by only 13 percent (to between 74 and 83 percent) by 2002. By its own assumption, therefore, at least half a million pensioners are expected to remain below the poverty line by 2002 despite all of the measures intended to encourage them to apply.

If the Green Paper fails the acid test with regard to overcoming poverty in old age, it also offers no hope at all to the majority of pensioners living on low incomes but above the income support level. They will not qualify for the MIG and they will not be helped by any other measures in the Green Paper. Their main hope was that the government would accept the case, put by the NPC, for a substantial increase in the basic pension and for a restoration of the earnings link. But this was rejected or, more precisely, ignored, because there is no reasoned argument against this way forward. This failure to raise the level of the basic pension relative to earnings affects women more than men because so few of them have private pensions.

Furthermore the Green Paper represents a crucial departure from the Labour Party's election manifesto, which referred to increasing the basic pension 'at least in line with prices', whereas the Green Paper says 'we will raise it in line with prices'. In other words the basic pension will continue to decline relative both to average earnings and the value of the pensioner's price index.

A further major failing of the Green Paper is the absence of any discussion about the *adequacy* of pensioners' incomes. In particular the Green Paper fails to justify the claim that the MIG of £75 (raised to £78 in the 1999 Budget) will provide 'a decent income in retirement'—by whose standards? And by what reasoning? More objective measures, such as those compiled by the budgets standards unit (Parker, 1998) put the adequacy level at double that proposed by the government. Moreover, there is a strong case for even higher incomes for the oldest pensioners.

Turning to tomorrow's pensioners, 'those who can save', in the words of the Green Paper, we find that here too the proposals follow *Security in Retirement*, with one major departure and a minor one.

The major change is the proposal to abolish SERPS. The election manifesto also included a commitment to retain SERPS 'as an option for those who prefer to remain in it' and the government's annual report for 1997–8 listed the retention of SERPS as a promise kept (HM Government, 1998). The advantages of SERPS have been well rehearsed and are widely recognized, including by the private pension industry itself (see, for example, Pension Provision Group, 1998). The original scheme offered the prospect of pensions superior to most occupational and private pensions and, even in its reduced form, SERPS provides protection which is simply not available in the private sector. Paradoxically, the Green Paper is also full of praise for SERPS, as the following quotations show, yet still proposes its abolition:

> SERPS is a good value pension for lower earners for whom private pensions are poor value. . .
>
> SERPS is already an efficient and cost-effective second pension for lower earners for whom funded pensions are often unsuitable.
>
> SERPS has served some pensioners well and has strengths, but it gives least help to those who need it most. We are therefore replacing SERPS with a new State Second Pension.

The only reason offered is that it is earnings-related. But the government's actual case against it appears to be that it is a state scheme that might be attractive to high earners.

The State Second Pension will replace SERPS but as a flat-rate pension for low-paid workers under 50 not covered by occupational schemes and for whom 'private second pensions are not an option'. On the face of it this second pension will yield substantial benefits for low-paid workers. But at the same time that the second pension is building up, the basic NI pension will continue to fall in value relative to average earnings. When the two are combined, as the Green Paper does for illustrative purposes, a person retiring in 2050 on average earnings would expect a replacement rate (pension as a percentage of final earnings) of around 25 percent—an appallingly low level for a new pension system to aspire to.

For those earning more than half the national average, the only state provision will be the NI pension which will be worth less and less. Therefore their retirement income will be derived almost entirely from the savings they have made themselves through occupational, personal or stakeholder schemes, none of which are as secure as SERPS. There are no guarantees given that the considerable disadvantages of personal pensions will not apply equally to stakeholder pensions, such as low annuity rates and the unpredictability of investments. Furthermore the relationship between the State Second Pension and the stakeholder schemes is not clear in the Green Paper. For example, how can people make contributions to the Second Pension in periods when they have either no or low earnings, as the Green Paper suggests?

The minor change from *Security in Retirement* is the agreement not to name the second pension for carers and disabled people a 'citizenship pension'—perhaps the only item on which the government listened to the NPC. The idea of crediting into the State Second Pension some groups of carers and disabled people as if they had earnings of £9000 a year is welcome, but it is not new. For example there was the 'best 20 years' formula in the original SERPS. But the pension credits under the State Second Pension are much more restricted than current 'home responsibilities protection'. The latter covers the basic NI pension as long as there is a dependent child at home but, in the new system it is only those with pre-school children who will qualify for credits.

That is the third way for pensions. If we compare the pledges made on pensions at the last election we can see some important departures—particularly the change in the commitment to uprate the basic pension *at least* in line with prices and the abolition of SERPS (see Table 1). So, in very important respects pensioners have lost ground since 1997. Then there is the manifesto pledge that all pensioners should share fairly in increasing prosperity. There is nothing in the Green Paper to suggest that this pledge will be kept. Indeed the only sure way of ensuring all pensioners a fair share in rising prosperity—raising the level of the basic pension in line with earnings—has been rejected.

A better way

Labour's third way will not achieve even the limited goals the govern-

Table 1. New Labour's pension policies

The pledges

- All pensioners should share fairly in the increasing prosperity of the nation
- Protect the basic pension and increase it at least in line with prices
- Retain SERPS
- Help the poorest pensioners
- Create stakeholder and citizenship pensions

The proposals

- Retain the basic pension and raise it in line with prices
- Turn income support for pensioners into a minimum income guarantee (April 1999)
- Replace SERPS with second pension (from April 2002 at earliest)
- Create stakeholder pensions (from April 2001)

ment has set itself—the proposals will consign more not less to means-tested pensions, the minimum guarantee will not provide 'a decent income in retirement', the majority of today's pensioners will not see their pensions rise relative to earnings and future generations of pensioners will experience higher levels of insecurity than is thought acceptable in other EU countries. There is a better way. The NPC argued this case strongly in the Pensions Review. The centrepiece of the better way forward for pensioners is to raise the basic pension in line with earnings and to make a substantial age addition (non-means tested) for those over 75. This would immediately benefit today's pensioners. Making the NI system more inclusive, to overcome discrimination against women in particular, and restoring SERPS to its original form would offer future pensioners the same opportunities for security in old age as those in continental EU countries (Townsend and Walker, 1995; Castle and Townsend, 1996; Lynes, 1996). There is no doubt that if the basic NI pension was relinked to earnings and SERPS was restored to its 25 percent earnings replacement value, virtually everyone would receive higher pensions than the Green Paper proposes.

Why did the government reject the better way? The Green Paper says that two 'extreme' alternatives were considered but rejected: privatization and trying to build a continental model of mainly state provision. Privatizing pension provision would, of course, be an extreme measure, but why is the universal approach favoured by other EU countries regarded as extreme? Pension reform is taking place in all EU countries but none of them has rejected the central role of the state or has sought to undermine social insurance in the way this Green Paper intends. None of them sets their pension replacement ratio sights as low as this government has done. Arguably the reformed Swedish pension system offers a better third way model than the one proposed by the government: 2 percent of the 18 percent contributions will be capitalized in a compromise between funding and PAYG. Alternatively the government could have taken action to encourage final salary occupational pensions in partnership with equivalent state provision for those without sufficient contributions. More radically, it could have followed the Danish citizenship model and abolished employment-based contributions.

The government has apparently made an historic choice, or is on the verge of doing so. Rather than aligning UK pensions with those of our EU neighbours the government is looking instead towards the market-dominated system of the US. In this respect the Green Paper proposals have more in common with those of the previous government than may at first seem apparent.

Similarities are clear with regard to the constant emphasis on costs and future 'unaffordable' commitments, even though the myth of the demographic time-bomb has been laid bare on numerous occasions—most recently by the government's own Pension Provision Group (1998). Second, there is the decision to continue with the previous Tory policy towards the basic pension. Third, there is the emphasis on personal responsibility and the parallel desire to reduce the role of the state in pension provision. The following passage might be compared with the earlier quotation from the 1985 Green Paper:

> The current pension system needs to be modernised if the problems of the poorest pensioners are to be addressed and those who can are to be encouraged to provide a decent income in retirement for themselves. (p. 537)

The assumption that the state should not provide pensions for people who could pay into private schemes—regardless of whether the state could do it better or whether it would be preferred by contributors—is very reminiscent of the dogma of the previous government.

The government has set a policy course which will continue that charted by its predecessor to residualize the public sector as a provider of pensions and to undermine the universality of national insurance. The Green Paper even boasts of a reduction in public spending on pensions and a reversal of the roles of the public and private sectors:

> Public spending on pensions will decline as a share of GDP, from 5.4 percent today to 4.5 percent in 2050. By 2050, the proportion of pensioner incomes coming from the state, now 60 percent, will have fallen to 40 percent, and the proportion coming from private pension provision will have increased from 40 to 60 percent.

Fourth, there is the strong emphasis on 'targeting' state help on the poorest. Even though greater efforts will be made to ensure that people take up their entitlements, the government still accepts that hundreds of thousands will be missed. It cannot be claimed that the proposals in the Green Paper are the same as those the Tory government would have produced but there are sufficient continuities with the previous path of pension policy to suggest that this 'third way' is already well-worn.

Conclusion

The Green Paper fails on the key tests of tackling poverty among today's pensioners and ensuring economic security for tomorrow's. It provides nothing for the vast majority of pensioners living on low incomes above income support level and certainly nothing to fulfil the pledge that *all* pensioners will share in rising prosperity. The very title 'Partnership in Pensions' is misleading. It is not a partnership that is proposed, but a much reduced role for state provision, focusing on the poorest, with the private sector taking responsibility for the rest. In contrast the original SERP scheme provided for genuine partnership between the state and occupational pension schemes in which the state promoted good quality schemes and protected the position of those employees that contracted out. That was a better way, perhaps the original third way, for pensions.

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