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‘What matters is what works’: Labour’s journey from ‘national superannuation’ to ‘personal accounts’¹

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Abstract

A key element of Labour’s response to the Pensions Commission’s recommendations for ‘a new pension settlement for the twenty-first century’ is a system of ‘personal accounts’ that that will be administered and invested by the private sector. The contrast with fifty years ago, when Britain faced similar pressures, is striking. Then, Labour presented to the British public proposals for a state-run scheme embodying redistribution between higher and lower-paid workers and the accumulation of a very large fund that would be directly invested in stock markets by the state to promote faster growth. Today’s scheme embodies neither redistribution nor collective control of the scheme’s assets, and investment and risk-taking will be the responsibility of individuals not the state. The article explores the differences between Labour’s proposals in 1957 and the scheme it proposes today, considers what these differences tell us about the party’s changing conception of social democracy, and highlights the irony that, with consumers’ faith in financial markets shattered by the most severe financial crisis since 1929, New Labour’s embrace of a private sector solution on the grounds that ‘what matters is what works’ now seems badly mistaken.

We can now begin to see the final shape of the government's response to the cogently argued case made by the Pension Commission (2005) for 'a new pensions settlement for the twenty-first century'. When the Pensions Commission reported, received opinion was that we faced a 'perfect storm' (see, for example, Langley 2004), an unprecedented combination of an ageing population, changes in the labour market resulting from globalization, a failure to cater for those unable to contribute towards a pension due to caring responsibilities, and already inadequate state pensions in a world in which voluntary provision remains the preserve of a fortunate minority.² A situation worsened by the relative lack of success of private pensions³, and by employers' flight from occupational pension provision for their workers.⁴ It has been widely noted that the Pensions Commission played an important part in creating a consensus that radical change in Britain's system of old age income provision was essential: to equip the country to meet the future financial challenge of an ageing population; and to meet the present challenge of an already inadequate state pension. Few, however, acknowledged that in many ways we have been here before. Half a century ago British politicians woke up to a 'crisis' in British pensions: the financial implications of an ageing population; a minimalist state pension failing to match rising living standards in an economic boom; an ever-increasing reliance on means-tested supplementary assistance to the aged poor; and the growing inequity between those with and without top-up private pension savings (the parallels with today are highlighted by Whiteside 2003). Then, as now, Labour produced radical proposals for legislation to address the problems. Then, as now, a key element of those proposals was a new system, then dubbed 'national superannuation', now termed 'personal accounts', designed to extend the benefits of occupational pension provision to all workers, with contributions invested in stock markets to maximize returns.

Beneath the superficial similarities of the pressures driving reform then and now, however, there are important differences between 'old' and 'new' Labour's policy responses. The starting point for this article is that analyzing these differences can reveal much about the party's changing conception of social

democracy over the past 50 years. To this end, I begin with a short consideration of the literature on New Labour and social democracy. I then go on to set out the context within which Labour put forward its national superannuation proposal in 1957 before outlining significant features of the scheme and the key aims of its architects, not least the hope that the national superannuation fund would at once increase pension savings and undermine the increasing financial power possessed by private pension funds. I then examine Labour's recent response to the Pensions Commission's proposed National Pensions Savings Scheme. In doing so, I highlight a series of key differences between the 1957 approach and the legislation proposed today. Most notably, the analysis emphasizes the ways in which New Labour from the start accepted a central role for the private sector in the new scheme and the assumption that the pensions received would be directly related to contributions paid, with no redistribution between higher- and lower-paid contributors. It also explores the very different reactions of the insurance industry and of the unions to the final form of New Labour's legislative proposals. We conclude with a meditation on the different ways in which social democracy was conceived by Labour then and now, and on the implications of the recent financial crisis for this key plank in New Labour proposed solution to the pensions crisis.

Labour and social democracy

At the time of writing, New Labour has been in government for twelve years and we are two years into the 'post-Blair era', yet agreement on what exactly 'New Labour' is and was remains elusive. As Wickham-Jones (2007, 237) has recently noted, 'we still know remarkably little about the theoretical core or defining principles of New Labour'. Some argue that it essentially repudiated social democracy in its eagerness to accept and accommodate itself to Thatcher's neo-liberal revolution (Coates and Lawler 2000; Hay 1999; Heffernan 2001; Lund 2008; Rubinstein 2006). Bogdanor (2007, 182) talks about 'the emasculation' [sic] of social democracy, inasmuch as the party broke with one of its fundamental tenets; that processes of social and economic

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change can be controlled by government. Some are less persuaded, but nonetheless see New Labour's policies as working with the grain of a traditionally liberal market economy (Hall 2002; Smith 2001). Some see it as a 'post-Thatcherite' party: much less rooted in social democratic ideals of equality of outcome and the importance of state intervention to secure both economic growth and social welfare; heavily influenced by Thatcherite verities on the desirability of globalized free markets, the importance of individual initiative, supply-side economics, and so on (Driver and Martell 2006). In this view, Labour has become a party that embraces social justice *and* economic efficiency, rights *and* responsibilities, a successful market economy *and* social cohesion; a party that has not capitulated to neo-liberalism quite as much as its critics suggest, but which nonetheless has plainly moved quite sharply rightwards. Hindmoor (2004) has made a persuasive case that this was more than just a shift rightwards in policies, it required the party to persuade the media, voters, and other parties that it had made such a shift (see also Wickham-Jones 2005). It also required the party to undertake a difficult balancing act. Andrew Glyn and Stewart Wood (2001, 64), for instance, found that New Labour's 'concern for improving the position of the most disadvantaged coexists with policies that reflect a tolerance for (and even actively encourage) the further acquisition of wealth by the most advantaged.' They noted that many on the left find the approach 'both unacceptable ... and unconvincing.' Lister (2001), for one, has expressed her doubt that genuine equal worth and opportunity are actually possible in such an unequal society.

Though many highlight the degree to which New Labour has broken with traditional social democracy, others, emphasise revisionist continuities between 'old' and 'new' Labour (Fielding 2002; Meredith 2003 and 2006), arguing that it is the means rather than the ends of policy that have changed (Diamond 2004; Hickson 2007). New Labour politicians have themselves often made this claim, reaching back to the work of fifties revisionists, most notably Anthony Crosland, to establish social democratic credentials (for good overviews of these appeals to a revisionist heritage see Meredith 2006 and Wickham-Jones 2007). Peter Mandelson (2002, xxix) wrote that there was 'much of Croslandism that is still

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relevant to Labour thinking'. Gordon Brown (1999) identified Crosland as the 'starting point [and] compass' for any discussion of equality. In this way, New Labour is being consciously presented as a modernized social democratic party that has caught up with 'new times'. The argument is that economic and social changes since the 1970s have required Labour to update its conception of social democracy but, in the process, necessarily to change that conception significantly (Allender 2001; Bevir 2005).

Smith (2001, 267) probably came closest both to defining New Labour, and to defining the problem we have in defining it, when he described New Labour as 'essentially ambiguous and Janus-faced', characterized by 'the often contradictory and conflicting traditions of social democracy, social conservatism, Thatcherism and pragmatism' on which it draws. Until recently, it could certainly chalk-up significant successes in terms of economic growth and getting people into work (though less success at dealing with long-term dependence on invalidity benefit). It could also reasonably claim to have reduced the proportion of those living in poverty by more than 2.5 million since 1997 (though it had less success in reducing inequality), to have improved health care, and to have raised spending on education and training (Hills and Stewart, 2005; Toynbee and Walker 2005; Coates 2005). Giddens (2007, 23-31) has suggested that, taken as a whole, Labour has shifted the UK in a more social democratic direction since 1997. But in its preparedness pragmatically to embrace new ideas, to accept constraints, and to dilute its traditional ideological commitment to social democracy, is it in danger of 'losing its soul' as Eric Shaw (2007) alleges?

Any judgement on New Labour's changing relationship with social democracy requires us not just to assess what exactly its conception of social democracy is; it also requires us to judge how 'old' Labour conceived it. Plainly, New Labour has been keen to distance itself from the perceived failures of Labour in the 1960s and 1970s (Cowell 2001; Cronin 2004; Fielding, 2004). But it consistently tries to have it both ways. On the one hand, when it suits it, New Labour seeks to place itself in a revisionist tradition, (Meredith 2006; Wickham-

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Jones 2007). On the other hand, from the start New Labour conceived ‘the project’ as involving a ‘year-zero’ break with the past in general, and with the ‘failed’ policies of ‘old’ Labour in particular (Thompson 2000; Thomas 2007). At best, these parallel readings of history require a tendentious assumption that revisionism had little practical effect on Labour policy in the postwar period. At worst, it involves a deliberate misreading of ‘old’ Labour and of its relationship to social democracy (Fielding 2000).

In short, we must beware the danger of accepting too readily New Labour’s portrayal of pre-1979 Labour (O’Hara and Parr 2006). As Leggett (2007) points out, social democrats aspired to ‘third way’ politics long before New Labour. For example, in his first reading of New Labour (before his Damascene conversion to the idea that New Labour had forsaken social democracy), Rubinstein (2000) persuasively argued that in its desire to forge cross-class alliances, New Labour was simply following in the footsteps of the Attlee and Wilson governments, albeit with some adjustment to reflect economic and social changes since the 1970s. And whilst New Labour has plainly become a profoundly pragmatic party, a party that has in some ways moved beyond ideology in its emphasis on ‘what matters is what works’ (Allender 2001; Lister 2001; Page 2007; Powell 2000; Shaw 2004), we should not underestimate the pragmatism of ‘old’ Labour (Temple 2000).

However, any answer to the question ‘is New Labour a social democratic party?’ depends to a degree on how exactly one defines social democracy. As Leggett (2007, 349) notes, ‘Traditionalist social democrats assess New Labour against a supposedly enduring benchmark of social democratic values and/or practices’. In this paper, I too propose this as my starting point; not because I necessarily agree with the proposition, but because it is by adopting such a benchmark definition of social democracy that I think one can most effectively interrogate the differences between Labour’s policies in the 1950s and those today. Thus, for the purposes of this analysis, I define social democracy on the lines proposed by Hay (1999, 57): i) a commitment to redistribution to increase equality of life outcomes; ii) a commitment to social protectionism (i.e. to the

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welfare state), again to increase equality; and iii) a commitment to the idea that the market is inherently inefficient and requires state intervention to ameliorate its failings. It is this definition that informs the analysis that follows, firstly of Labour in the 1950s, and then of developments in the last three years.

Then

By the mid-1950s the inadequacies of the Beveridgean flat-rate pension were becoming manifest (Baldwin 1990, 232-47; Bridgen 2000; Glennerster and Evans 1994; Whiteside 2003). There were concerns about the financial consequences of an ageing population and of dropping Beveridge's 20-year 'golden staircase' to full pension rights. The Treasury was also only too aware that periodic increases in the pension to reflect rising prices (something unforeseen by Beveridge) were creating substantial unfunded future liabilities. But the Treasury was also painfully aware that its ability to reduce these liabilities by raising the national insurance contribution was limited because a flat rate system of contributions and benefits tied the level of the contribution to that which was affordable by the poorest worker - the 'Beveridge straitjacket' (Fawcett 1996). Thus the finances of the national insurance pension were being squeezed from two directions; its costs were rising but its capacity to offset those costs through higher contributions was severely constrained.

The state pension, which had been set below subsistence at its inception in 1948 at Treasury insistence (Harris 1997, 398-404; Macnicol 1998, 371-84; Thane 2000, 367), persistently fell in real terms as a result of rising prices in the buoyant postwar economy. As a result, it fell below the rate of National Assistance and by 1954 the number of claimants had reached 1.8 million (Lowe 2005, 154). The result was mounting political pressure to deal with the growing problem of poverty in old age. But the inadequacy of the state pension also created a growing tendency for employers to provide earnings-related pensions to their workers (Hannah 1986, 31-45; Whiteside 2006). By 1954, the Phillips Committee's report on the economic and financial problems of provision for old

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age revealed that the rapid increase of occupational pensions provision meant that some seven million workers were now covered (compared with one and a half million before the war), around a third of the workforce.

By the second half of the 1950s, therefore, there were significant pressures building up in the system. Politically, there was mounting pressure not just for an improvement in the state pension to ‘subsistence’ (i.e. to a level at which pensioners could live on without the need for means-tested supplementation) but for that pension to be comparable with the superior benefits offered by rapidly expanding occupational schemes. Financially, however, any increase in the state pension would plainly require some rethinking of the flat-rate principle. The ‘need for new initiatives’ was palpable, and of those new initiatives the first, best thought-out, and most radical was that brought forward by Labour (Hill 1993, 57).

In 1957 Labour published its proposals for a new system of ‘national superannuation’. Championed by Richard Crossman, its real architects were the ‘skiffle group’ of academics that advised him: Richard Titmuss, Brian Abel-Smith, and Peter Townsend. For Titmuss, the most important aim of national superannuation must be to bring an end to the ‘two nations in retirement’ being created by a growing divide between a ‘privileged minority’ lucky enough to benefit from generous occupational pension schemes and the ‘unprivileged majority’ who continued to be dependent on the Beveridge pension (Labour Party 1957, 13-16). However, the plan for state earnings-related national superannuation, crafted by Titmuss and his LSE colleagues for a party study group on old age, was not to be a simple copy of private schemes; Labour proposed to give it a socialist dimension by incorporating within it an element of redistribution from high- to low-wage earners. Most revolutionary, perhaps, Labour proposed that the considerable fund that earnings-related contributions would generate should be invested in stock markets. The figures were huge – the scheme’s architects estimated the fund would reach £7.8bn by 1980 (around £450bn today when revalued in terms of GDP). And it would be ‘boldly

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invested’ with a view to modernizing British industry, raising economic growth, and accelerating the rise in living standards (Labour Party 1957, 29 and 100-1).

This, therefore, was a self-consciously ‘socialist’ plan, albeit one that accepted a degree of inequality of post-retirement income by virtue of linking benefits paid to earnings received. The more so because an unstated aim of its architects was, by providing benefits superior to those available in occupational schemes, to begin a process of ‘nationalization by attraction’ that would see private occupational pension provision wither away. Thus national superannuation, as those involved in the devising of the proposals privately acknowledged, also represented a deliberate attack on the ‘investment and political power’ of the insurance industry in general, and of the pension funds in particular.

Not surprisingly, as soon as it got wind of Labour’s developing ideas on national superannuation, the insurance industry began to campaign against them (Pemberton forthcoming). The joint Life Offices engaged an advertising agency to oversee a lobbying and public relations campaign aimed at discrediting Labour’s proposals. The campaign hammered home the message that Labour’s scheme could have a catastrophic impact on existing occupational pension schemes and that the proposed investment fund heralded the effective nationalization of much of the economy. In this, of course, the life offices were working with the grain of widespread criticisms by Conservative ministers, by City spokesmen, and by many newspapers and journals, that national superannuation amounted to ‘nationalization by the back door’.⁵ This claim was, of course, given added credence by the almost simultaneous publication by the party of *Industry and Society* which, whilst endorsing the relatively positive attitude towards the private sector of many Labour revisionists, defended the principle of nationalization. By linking national superannuation with nationalization, the life offices were able to capitalize on popular opposition to the latter to help discredit the former.⁶

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The insurance industry also quickly identified trade unionists as important allies against Labour's pension proposals and began discussions with the head of the TUC's social insurance and industrial welfare committee and with individual unions.⁷ Two aspects of Labour's plan were used to mobilize union opposition. Firstly, the 'socialist element of support of the low-paid workers by the higher-paid' would operate to the detriment of many trade union members. Secondly, Labour proposed to require any schemes contracting out of national superannuation to match its benefits, but any truly funded scheme would find it impossible to do so. This might lead employers to wind those schemes up, raising the prospective loss of workers' accrued benefits, not to mention hoped-for future benefits.⁸ The strategy was successful and it helped to shape union resistance in joint Labour-TUC discussions before and after the publication of *National Superannuation*.

Indeed, whilst opposition from the insurance industry had been expected, though Labour underestimated just how sophisticated and effective it would be, the party had not anticipated the strength of trade union opposition. In a major battle with the TUC, Crossman had one major success. Ultimately the TUC was reluctantly forced to concede the adoption of earnings-related contributions was the only means by which the state pension could be raised (though the quid pro quo was the retention of the basic pension, the raising of its level to £3 from £2, and its indexation to the cost-of-living).⁹ This was a significant achievement, albeit also an important break with the rigorously flat-rate approach to welfare benefits that had hitherto been seen as central to Labour's conception of social democracy.

Where Crossman encountered a major problem was in the TUC's reaction to the implications of its national superannuation proposals for fast-expanding occupational pension schemes. From the start, the party recognized political realities and accepted that existing members must be allowed to remain in their company schemes. Compelling new entrants to the labour market to enter national superannuation was, however, essential to national superannuation's financing, and to the long-term aim to 'nationalize by attraction' the occupational

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pension funds.¹⁰ But whilst national superannuation’s architects saw national superannuation as attacking the pension funds, they failed to appreciate the extent to which it was also an attack on the pension rights of many unionized workers. This was a fatal misjudgement.

Labour’s study group frankly conceded to the TUC that compelling new entrants to enter national superannuation was essential to the financial viability of the new scheme.¹¹ But its frankness laid bare the financial cost of redistribution for better paid workers— a point being hammered home to them by the life offices in their advertising and in their booklets aimed at occupational scheme members. Moreover, the TUC’s social insurance committee feared, and again this reading was being pressed on them by the life offices, that the loss of new entrants might make many existing occupational schemes actuarially ‘unsound’ and ‘break’ the system by leading such schemes inevitably to ‘wither away’ – indeed this was the essence of ‘nationalization by attraction’.¹²

In its essentials, therefore, the TUC’s analysis was identical to that of the City: Labour’s proposals as they stood would herald the nationalization of occupational pensions. This was not just a matter of occupational pension scheme members risking the loss of current and prospective pension rights, serious though that obviously was. There would be job losses in the insurance industry, something inevitably opposed by the insurance unions. The Co-op, a significant player in the market via the Co-operative Insurance Society, was also opposed. Privately, members of the TUC’s social insurance committee were livid at the way in which Labour was trying to bounce them on an issue dear to the hearts of many union members.¹³ The result was that the TUC General Council made it clear that compelling new entrants to join national superannuation would be seen by the General Council as a ‘mistake’.¹⁴ Within weeks the compulsory enrolment of new workers into the new scheme had disappeared from the draft of *National Superannuation*.¹⁵

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The Labour Party conference in October 1957 unanimously endorsed national superannuation but its reception at that year's TUC conference was lukewarm. Rhetorically, there was enthusiasm for the principle of better pensions for the low paid, and for existing pensioners, but worries about the impact on higher-paid union members with company pensions were clear. Crossman's concern, expressed in his speech to Labour's conference, that the plan might actually be 'too socialist', in that better-paid workers might jib at the amount of redistribution it involved, was therefore a frank acknowledgement of political realities.

The opposition of the unions to redistribution, and their desire to protect existing occupational schemes did indeed blow a hole in Labour's pension plan. The result of the many concessions forced on Labour by the unions was, as Tony Lynes brutally put it in an internal minute, that 'whatever words we may use to conceal the fact' national superannuation became 'essentially a pay-as-you-go scheme' offering benefits that could not be actuarially justified.¹⁶ This made it that much easier for the life offices to question national superannuation's financial viability, and to discredit the scheme further. The result was that, though Labour had hoped that its national superannuation proposals would appeal to a wide cross section of voters, the party found that its national superannuation played well only with the old and the poor in the 1959 general election, and then only because it was also offering a significant increase in the basic pension (Butler 1960). Generally, the election came to be dominated by the issue of nationalization, with which national superannuation had become indelibly linked in the minds of voters.

Thus, in response to Britain's first postwar 'pensions crisis', Labour pragmatically crafted a scheme that accepted a degree of inequality in old age retirement income. In every other respect, however, it was thoroughly social democratic; being redistributive, state-run, envisaging a marked extension of effective state control of British industry, and amounting to a major attack on the power of private capital. But the policy failed to catch the public imagination, not least because Labour failed to anticipate or to defeat a cross-class alliance between the insurance industry and the trade unions against the scheme.

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Labour learned important lessons from these events that informed its ensuing development of policy: that the interests of the still expanding private sector must necessarily be taken into account; and that on no account must it ever again advocate a state-owned equity-based investment fund for fear of being accused of ‘nationalization by stealth’. When the concept of ‘national superannuation’ was revived by Crossman in 1968, after he became secretary of state for social services, he found he now had to fight not just the unions and the industry but his own ministry and the Treasury (Thornton 2009, 109-68). Both of the latter were opposed to a ‘funded’ scheme, not least because it would take so long to build up and thus would not relieve the short- to medium-term pressure for better pensions. The result was that a decision was soon taken effectively to adopt the pay-as-you-go principle for the proposed scheme (Crossman 1977, 176). A fund would still be accumulated but it would be much smaller than in 1957, and the expected return implied investment in gilts. There would be no ‘bold investment’ in equities for the modernization of Britain (Heclo 1974, 274-5; Thornton 2009, 131). When Labour’s white paper was published in January 1969 it was also clear that there was to be no question that national superannuation should replace occupational provision (Department of Health and Social Security 1969). Negotiations with the industry were about the price of contracting out, not the principle (Hannah 1986, 59-60; Fawcett 1995; Thornton 2009) and a second white paper set out the terms Labour would ‘make it easier for occupational schemes to live alongside the new State scheme’ (Department of Health and Social Security 1969b, 14).

Labour’s revised version of national superannuation foundered with the party’s ejection from office in 1970. However, when the party returned to power in 1974 better pensions were an important part of improvements to the welfare state that formed part of the party’s ‘social contract’ with the unions. The mantle of ‘national superannuation’ was taken up by Barbara Castle, now secretary of state for social services, and in 1975 she successfully piloted the Social Security Pensions Bill through Parliament, thus inaugurating the State Earnings Related Pension Scheme (SERPS) in 1976. This was in many ways a praiseworthy measure, not least in giving women a better deal, via a measure of

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‘home responsibility protection’ of social security contributions missed whilst caring, but it also represented a further watering down of the ‘national superannuation’ model, indeed that term was now notable by its absence (Ellis 1989, 46-56). Most obviously, the terms under which occupational schemes would be allowed to contract out were even more generous than those proposed in 1969, not least in that such schemes were required only to provide a pension of 25 per cent of earnings (the ‘guaranteed minimum pension’). In what Castle described as ‘a unique form of partnership between the State and private schemes’, rather than ‘whittling down the standards of provision to a level that private schemes can afford’ the state would give ‘help to private schemes to enable them to meet the targets we have laid down’ (quoted in Ellis 1989, 53).

In short, the lesson learned by Labour from its experience with national superannuation was that a generous state pensions scheme financed by earnings-related contributions with a substantial state-controlled investment fund that could be used actively to shape and enhance the country’s economic development was simply not on the cards. By the 1950s the private sector had become too powerful to be defeated, employees in occupational schemes were not prepared to sacrifice their benefits, and the Treasury was not prepared to underwrite the risks involved.

Now

Half a century on from the 1950s, Britain faced another major crisis in its system of old age income provision. Again, an ageing population was one aspect of the problem. But, unlike most other countries facing a so-called ‘pensions time-bomb’, the biggest problems faced by Britain in the first decade of the twenty-first century was the manifest inadequacy of its state pension system, the growing gap between those with and without some form of private pension savings, and the increasing reliance of the latter on means-tested

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supplementation (Pemberton *et al* 2006, 2-11). Plus ça change, plus c'est la même chose.

In 2006, New Labour published two white papers setting out its response to the Pension Commission (2005) proposals for ‘a new pensions settlement for the twenty-first century’. The first, published in May, set out a series of reforms to state pensions (Department of Work and Pensions 2006a). Of these, the most important were a phased increase in the state pension age from 65 to 68 between 2026 and 2046; a commitment to re-link the basic state pension to earnings at some point between 2012 and 2015 (though with the proviso that this should be ‘subject to affordability and the fiscal position’); and a reduction to 30 in the number of years of contributions required to qualify for the basic state pension (the latter of particular benefit to women who, undertaking a disproportionate amount of caring, often have relatively patchy contribution histories).

These were significant reforms to the parameters within which Britain’s system of state pensions operated. To help pay for them, the white paper proposed that, whilst contributors to the State Second Pension would continue to be earnings-related, its benefits would become flat-rate from 2030 (thus redistributing from the higher- to the lower-paid). In addition, £4-5bn in rebates paid to millions of contributors to private ‘defined contribution’ pensions would end in 2012, and changes to means-tested pension credit would gradually reduce its generosity and target the benefit on the most needy pensioners. Overall, the proposed reforms were widely judged to amount to the effective implementation of Lord Turner’s proposals, albeit with some tweaking at the edges. Whilst the proposed changes to the state system were extensive, however, this was clearly a solution for future pensioners, though even then around a third of all pensioner households were still expected to qualify for means-tested benefits in 2050 (hitherto the figure had been expected to reach around 70 per cent).

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The government acknowledged that the proposed changes to the state system would far from entirely solve the future problem of low replacement income in old age. To deal with this, responding to the Pension Commission’s suggestion of a new national pension savings scheme, a key element of New Labour proposals was a system of ‘personal accounts’ whereby British workers (and their employers) would be encouraged by ‘auto-enrolment’ to save towards their future pensions (Department of Work and Pensions 2006a). In the process of devising this scheme, on which this section will now focus, the government had to consider fundamental questions that were left unanswered by Turner. It had, for example, to consider whether the state or the private sector should be responsible for the collection of workers’ pension contributions. Most notably, it had to consider how and by whom the investment of those contributions in stock markets, as proposed by Turner, should be undertaken. This in turn necessitated deliberations about whether the ultimate control of those assets should reside with the state or with the City.

Feasibly both collection and investment could be done by the state. Potentially, therefore, the Pension Commission’s national pensions savings scheme could be have been used both to redistribute wealth and income and to extend public ownership of British industry and commerce, as in Labour’s 1957 proposal for national superannuation. This led a number of commentators to see Turner’s proposal as a repudiation of market solutions in the field of pensions. One academic critic wrote that ‘Turner has found a way back to social democracy rather than promoting innovation in the private sector’ (Clark 2006), 146). In the City, it was not uncommon for the Pension Commission’s proposal, like the 1957 national superannuation scheme, to be denounced as ‘nationalization by the back-door’.¹⁷

Moreover, how the proceeds of these investments would be divided amongst the scheme’s contributors had not been finally determined by the Pensions Commission (2005). Certainly, it proposed an individual account-based NPSS, a ‘defined contribution’ approach in which the pension paid would be a function of an individual’s contributions over time and the return obtained on their

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investment. There was nothing, however, to prevent the government from relaxing the link between contributions and benefits so as to allow the possibility of redistributing investment returns from higher- to lower-paid workers (Grieve Smith 2006, Pensions Reform Group 2006).

In the event, although the government’s second white paper on ‘personal accounts’ fleshed out the details somewhat it too was lacking when it came to the crucial questions about how the new scheme would actually be administered, and by whom (Department of Work and Pensions 2006b). Even when the government’s legislative proposals were published in the 2007 Pensions Bill they did little more than confirm that a duty would be placed on employers automatically to enrol employees into the new system of ‘personal accounts’ if an alternative approved occupational pension scheme was not on offer. The detail of what exactly those accounts would look like, and who would run them was again lacking, with responsibility for defining answers to these questions handed on to the new personal accounts delivery authority.¹⁸

Plainly, the government was finding it hard to devise a solution, and one can divine that a key problem here was New Labour’s wish to maintain the consensus for change, and thus to avoid a confrontation with entrenched special interests. In contrast with the 1950s, these did not include the TUC. In its response to the Pensions Commission, the TUC (2005) strongly endorsed fundamental principles underlying the proposed national pension savings scheme.’ On publication of the personal accounts white paper, it hailed the proposals as ‘another important building block in a new pensions settlement. Compulsory employer contributions are a major gain for people at work’ (TUC 2006).

Why was the TUC in favour of the NPSS and of compulsion given its spirited opposition to national superannuation in the late-1950s? The answer almost certainly lies in two factors. Firstly, from the start New Labour accepted that workers would not be compelled to join unless their employer failed to offer a

company pension, thus ensuring that the proposals did not work to the detriment of occupational schemes. The extraordinary change in the fortunes of such schemes had also done much to change minds. In the 1950s such schemes were expanding rapidly and appeared to offer the prospect of markedly higher pensions than any competing solution on offer. By the turn of the century, however, they were in rapid decline, and their benefits appeared less and less secure. A combination of rising longevity, government intervention to protect members pensions in the event of a change of job, inflation, or scheme default, and the collapse of stock markets after the pricking of the dotcom bubble in 2001 meant that the traditional final salary occupational pensions was a ‘house of cards’ (Turner 2007). By 2007, two-thirds of UK final salary pension schemes had closed to new members, and a third of those were considering winding up the scheme to get the liability off their balance sheets (Johnson 2007; Timmins 2007a; see also Clark 2006). As Brendan Barber (2007) noted, ‘The sharp decline of occupational pensions means there are millions of people in work today who are not saving for retirement. The compulsory employer contribution and automatic enrolment at the heart of personal accounts offers a real opportunity to reverse this trend.’

Secondly, it was also clear early on that New Labour’s response to Turner was not going to embody any redistribution within the earnings-related scheme. Thus the TUC’s (2006) response to the personal accounts white paper noted that only 35 per cent of workers benefitted from occupational provision but ‘that most employees would rather build up *their own* pension pot, rather than rely on the future vagaries of state pension benefits’ (emphasis added). Its ‘one disappointment [wa]s that the administration of the new scheme will take place in the private sector’. In short, the TUC had come to the view that for those not in a secure occupational scheme the best way forward was an individualized, though preferably state-run, quasi-compulsory earnings-related scheme.

As in the 1950s, however, it was the financial services sector that was the most significant lobbyist shaping Labour’s developing proposals. Two groups in particular fought hard to limit the scope of personal accounts: the National

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Association of Pension funds sought to secure a lower upper-limit on contributions than initially proposed, in order to secure a future for occupational pension schemes covering better-paid workers; likewise, insurers pushed a low upper-limit to defend the group personal pension schemes they run for smaller firms, though they also lobbied hard to secure a role for themselves in the investment of contributions, and preferably in collection as well.

This industry lobbying campaign is the most likely reason why an exact description of how personal accounts are to operate has yet to appear. Nonetheless, it is not hard to delineate the broad outline of the government’s intentions. Firstly, it has been clear from the start that it is not interested in redistribution within personal accounts. Even before the publication of the Pension Commission’s second report, John Hutton, then secretary of state for work and pensions, made the promotion of ‘personal responsibility’ one of five key tests that any long-lasting settlement for the 21st century must meet (Hutton 2005). Whatever the exact nature of the personal accounts system we can be sure of one thing; they are to be personal. There will be no interaction between accounts. Thus there can be no redistribution.

It was also apparent that the opposition of the pension funds and the insurance industry to a state-run solution (i.e. a scheme on the lines of national superannuation) was at the front of Hutton’s mind. By April 2006, it was clear that the government wanted the insurance industry rather than the state to run the new scheme (Inman 2006). On the investment side, one suspects a re-run of 1957 – a fear in the Treasury that in a system in which investments were overseen by the state the Exchequer would effectively stand as guarantor in the event of disappointing financial returns. On the collection side, one detects a desire to shield the government from accusations of ‘misselling’ and claims for compensation (if it turned out that low-income earners would have been better off discharging debts, or saving money in a more accessible form, or if they lost out on means-tested benefits, or because risky equity investments might simply be inappropriate for low-earners).¹⁹

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One way of simultaneously appeasing Treasury concerns about writing an effective blank cheque to personal accounts members and assuaging the industry would have been to create a hybrid model in which the state was responsible for collection (thus keeping collection costs down) but the private sector took control of investment. But such a solution would nonetheless still have important implications for the industry, not least that it would force them to compete for access to the scheme’s investment stream. They would much prefer to adapt their existing collection mechanisms (see Hillman 2008), though to do so would inevitably be to lose an important economy of scale that had been central to Turner’s original conception whilst simultaneously reinforcing the monopoly power of the industry (Skypala 2006).

By the time the white paper on personal accounts was published at the end of 2006, the industry had made considerable headway. Branded funds were now to be made available ‘for those who want them’, with a default fund provided for those who did not (Department of Work and Pensions 2006b, 11 and 27-8). For the ABI, the concession on branded funds was a significant achievement. It had not yet won the battle but, as its director general put it, it had ‘lived to fight another day’ (Timmins and Hall 2006). Thereafter this battle was to focus on three questions: 1) the number of workers likely to be covered by personal accounts; 2) who should collect their contributions; and 3) who should be responsible for the investments of this default fund, into which the government thought it likely that most of the annual £4-5bn of contributions from up to 10 million workers would be directed. On all these issues, decisions were deferred, this time to be answered by the new personal accounts delivery authority proposed by the white paper. Whilst it is too soon definitively to answer any of these questions, it is clear that the industry has won its battle to restrict the maximum value of individual contributions to personal accounts – the government setting the figure at £3,600, below the £5000 originally suggested by the Pensions Commission, higher than the industry wanted, but appreciably lower than the unions and employers had campaigned for (Timmins 2007b-e). This was clearly an acceptable outcome for the insurance industry.

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The direction of travel is therefore clear. There will be no redistribution. To all intents and purposes the industry has won its battle to secure a privately run state superannuation and to limit its scope in order to protect occupational schemes and other private pensions. John Hutton could not have put it more clearly: ‘This is not nationalization. It is the opposite of that. It will be private sector run.’ And, whilst there would be an overriding duty of trustees to act in members’ interests, there would be no state control of the scheme’s assets. As Hutton unequivocally stated, ‘the best people to fix these operational details are the experts and the industry, not ministers or politicians’ (Timmins 2007f).

Conclusions

This article has argued that there are similarities between the political and financial imperatives driving pension reform in the 1950s and in the first decade of the twenty-first century. Thus in both the late-fifties and the early-‘noughties’ Britain faced an impending crisis in its pension system partly as a result of an ageing population, but more particularly because of an increasingly inadequate state pension and the growing gap between those with and those without top-up private pension provision. In both decades, a key element of the Labour Party’s response was to extend the benefits of earnings-related occupational pensions to all workers. In both decades, the party accepted that this would entail the persistence of inequality, though with increases in the basic state pension to ameliorate this.

It is in the variations between the detailed content of these policy responses that we can identify important changes in the party’s conception of social democracy over the past 50 years. In 1957, ‘Old’ Labour concluded that the ‘equal shares in deprivation’ approach embodied in the Beveridgean flat-rate state pension had reached a dead-end and that there was a limit to the degree to which workers, particularly middling- and higher-paid workers, would accept increases in taxation to improve pensions for all. In other words, the party accepted that better pensions for the poor could only be financed by higher contributions, but

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that the support of higher income earners would only be obtained by offering ‘something for something’, even if this meant endorsing inequality in the incomes of the retired. Plainly, therefore, pragmatism is not the preserve of ‘New’ Labour. Crucially, however, in the 1950s ‘Old’ Labour assumed that any ‘socialist’ solution must nevertheless necessarily embody some element of redistribution between contributors within the earnings-related scheme and state control of its assets. By 2006, ‘New’ Labour’s conception of redistribution and the role of the state was much more limited.

Looking back on his prime ministership, Tony Blair (2007) highlighted pensions as a field of policy in which he had learnt that an affordable pension system required citizens to top up their basic pension from their own finances. This is essentially the *raison d’être* of personal accounts. The redistribution on offer in this conception of pension reform is via a shift to a wholly flat-rate state pension set at a higher level, reindexed to prices, and financed from earnings-related contributions, and via means-tested supplementation targeted on the very poorest pensioners and financed from general taxation. This is a more collectivist approach than New Labour 1997-8 certainly. But the continued importance of means-testing means that well over a third of workers, particularly older workers, low-earners, and those likely to rent in retirement (i.e. those likely to claim benefits), would be better off if they opted out of personal accounts, and thus opted out of voluntary topping up (Pensions Policy Institute 2006; House of Commons Work and Pensions Committee 2007, 22-27; Price 2008, 63). Even before we consider other reasons why people might opt out, therefore, personal accounts will fail to address the problem of poverty in old age.

In terms of state control, in crafting its proposals in 1957 the Labour Party then saw a very clear imperative for its national superannuation scheme to be state-run: contributions would be collected and invested by the state and the pensions they would generate would be paid out by the state. By 2006, however, whilst the Turner Commission’s proposals did allow scope for a similar approach, it was immediately clear that Labour would prefer not to take that

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road. The government has spent the last three years steadily rowing back from the idea that there should be state involvement. In New Labour’s judgement, ‘privatizing’ responsibility for investing personal accounts offers attractive benefits to government in that financial risks will be transferred to contributors and pension providers. It has also consistently sought, by accepting limitations on the scope of personal accounts, to allay industry fears that they could jeopardize the future existence of occupational pension schemes or of the insurance industry’s lucrative private pensions business.

We see here a marked shift in Labour’s analysis of capitalism. In 1957, the architects of national superannuation sought to break the financial power of the pension funds and to link their proposals to the party’s developing ideas for state intervention in stock markets to stimulate long-term investment in the modernization of British industry. The concept of personal accounts was designed before the credit crunch. In it, we have a very different analysis by New Labour. There is an acceptance of the power of private capital, and implicitly of the idea that investment decisions are best made by capitalists. We see a desire by New Labour to repudiate the accusation that it proposed, in effect, to ‘nationalize’ parts of British industry and commerce via its control of the new personal accounts fund. At a time when key figures in the party talk of the need to ‘rebalance the economy’ as a consequence of the worst financial crisis since 1929 we see no attempt to use that control to influence the direction and duration of investment in quest of faster and more sustainable growth.

However, whilst Labour has eschewed redistribution with personal accounts, accepted a key role for the private sector in their operation and investment, and put severe limits on their scope, we should also note another key difference between ‘then’ and ‘now’. Labour’s conception of national superannuation as a funded but redistributive occupational scheme owned and managed by government effectively expired with the party’s loss of the 1959 general election. What Labour expected to be an unbeatable offering to the British electorate proved to be a dud. In this failure, we have identified the resistance to redistribution by the trade unions, and the resistance to ‘nationalization’ by the

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insurance industry as the key variables. Labour's 1957 proposals thus failed to reach the statute book because rhetorical support from the trade unions for solidarity concealed the reality of self-interested groups of workers defending sectional interests, and because Labour utterly underestimated the power of the capitalist interests which it sought to destroy.

There can be little doubt, however, that New Labour's 'personal accounts' will be implemented. In part this reflects the passage of time and the declining scope and attractions of company pensions. In part it reflects the fact that Labour today is in power, whereas it was in opposition in the 1950s. But the concept of personal accounts was also the product of a preparedness to accept the power of capital (greatly increased after half a century of growth) and to adapt Labour ideology to reflect this. New Labour hoped that its reforms would allow millions of workers to save towards their pension for the first time, with government expenditure targeted on means-tested assistance to the poorest pensioners rather than on all pensioners. In this sense, 'new' Labour like 'old' Labour exhibited a concern for social justice but the means by which this would be achieved was very different, though it hoped more effective. It is this that is perhaps the most important and most obvious difference between 'old' and 'new' Labour in the analysis presented here. If 'New' Labour is defined by anything, it is its appreciation of Rab Butler's dictum that politics is 'the art of the possible', and of the ideological compromises that are required by that pragmatic conception of politics. In the case of pensions, pragmatism trumped ideology.

However, New Labour's preparedness pragmatically to adjust its ideology to reflect political 'realities', and to embrace a private sector system of personal accounts on the principle that 'what matters is what works,' has left it badly exposed. Firstly, there is the unresolved problem that New Labour's continued reliance on means-testing will undermine personal accounts by encouraging low-earners to opt out. Then, there is the accident of timing that is the worst financial crisis since 1929. The crisis has shattered faith in the efficiency of markets. It has shown that a 'hands-off' approach to financial services cannot

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shield the state from compensating ordinary citizens from the poor performance of financial institutions; thus any hope that the government would not stand as ultimate guarantor to the personal accounts system has been exposed as a sham. Finally, the scale of the crisis strikes at the heart of Labour's entire approach to personal accounts, in which the income of future pensioners will become dependent on underlying stock market returns. The timing could not be less propitious. UK pension fund asset values contracted by 17.4 per cent in 2008 (OECD 2009). Private investors saw stock markets collapse, with the FTSE down over 28 per cent in 2008. With faith in financial institutions, and in stock markets, significantly weakened, if not shattered, where does that leave Labour? At just the moment at which the financial crisis has exposed the limitations of the neo-liberal model, and New Labour has been forced to accept that market failure requires an active state and to turn back towards redistribution and collectivism, in pensions policy its generals are still fighting the last war.

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Notes

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² The problem can briefly be summarised with a few contemporary statistics. In 2003 there were 3.3 people of working age for every pensioner in the UK, but by 2051 this was expected to have fallen to 2.3 (National Statistics 2005, Ch.2). By that time men aged 65 were expected to live for a further 22 years, and women for 24 (in 1981 the figures were 14 and 18 years respectively). Around 28 per cent of pensioner households received no income from an occupational or private pension – and those that did received on average only around £88 per week at 2003/4 prices (National Statistics 2005, Ch.4). A similar proportion had no savings (and of those that did the median income generated was only £4 per week). Women were in a particularly bad position – for 3.1 million women the BSP was their only source of pension income, and National Statistics (2009, Ch5) showed that 2.3 million of them received 60 per cent of the BSP or less.

³ Again, figures from National Statistics (2005, Ch. 7) summarise the problem. In 2003/4, 52 per cent of men and 40 per cent of women contributed to a personal or stakeholder pension. However, the proportion of men contributing was down from 48 per cent in 1999/2000. Moreover, the low level of many contributions combined with poor persistency in payment

meant that 55 per cent of men and 73 per cent of women had a total fund value of less than £10,000. In 2009, the maximum income for a man aged 65 that could be gained from a fund of £130,000 was only £721 p.a. (£13.86 p.w.), with no inflation protection (Pensions World 2009).

⁴ The number of active members of occupational pension schemes was, and is, in long-term decline – down from 12.2 million in 1967 (about half the workforce) to 9.8 million in 2004 (National Statistics 2005, Ch.7), to 8.8 million in 2007 (National Statistics 2009, Ch. 7), about 30 per cent of the workforce. By 2005, a marked shift away from traditional 'defined benefit' (typically final salary) schemes was also under way, with the number of such schemes nearly halving between 2001 and 2005. Typically, they were being replaced with 'defined contribution' schemes, which transfer all investment risk to the employee. In addition, employers were typically making lower contributions to such schemes, with all that entailed for future benefits.

⁵ The phrase is Macmillan's (*The Times*, 3 June 1957, 'Restrictive practices "out of date," says Mr. Macmillan').

⁶ In July 1957, following the publication of *Industry and Society*, only 18 per cent were in favour of more nationalisation (Gallup 1976, 413).

⁷ Archive of the Life Offices' Association (hereafter 'LOA'), Guildhall Library, London: Ms. 28376/91, minutes of the Publicity Joint Committee, 12 June 1957.

⁸ LOA: Ms. 28376/90 notes by the Chairman of the Publicity Joint Committee, 22 May 1957.

⁹ TUCA: MSS.292/161/14, 'Labour Party Study Group proposals for superannuation scheme', 10 January 1957; Alf Roberts, *TUC Report, 1957*, p. 352.

¹⁰ Labour Party Archive, Manchester: Re.92, 'Compulsory or voluntary. A note by R. M. Titmuss', July 1956.

¹¹ TUCA: MSS.292/161/14, SIIWC 10/9 'Report of an informal meeting with the Home Policy Committee of the Labour Party, 27 February 1957'.

¹² TUCA: MSS.292/161/14, SIIWC 10 Appendix to the minutes of the 10th meeting of the Social Insurance and Industrial Welfare Committee, 13 March 1957.

¹³ TUCA: MSS.292/161/14, minutes of the TUC Social Insurance and Industrial Welfare Committee, 13 March 1957; TUCA: MSS.292/166.21/2b, SIIWC 10/5 'The insurance industry', 13 March 1957.

¹⁴ TUCA: MSS.292/166.21/2a, General Council minutes, Item 61, 27 March 1957; TUCA: MSS.292/166.21/2a, Tewson to Phillips, 5 April 1957.

¹⁵ Crossman Papers, Modern Records Centre, University of Warwick: MSS.154/3/S/204-419, Re.152 ‘Draft policy statement on National Superannuation: Labour’s policy for security in old age’, April 1957.

¹⁶ Crossman Papers: MSS.154/3/S/1/1-203, ‘Contracting out. Note by Tony Lynes’, 20 February 1959.

¹⁷ See, for example, Martin Wolf’s (2005a) immediate reaction that ‘The Pensions Commission wishes to nationalise a part of the UK’s financial sector’ and his (2005b) reporting of complaints by the Association of British Insurers and the National Association of Pension Funds that the NPSS would effectively nationalize the savings industry because it would be unable to compete with such low costs. See also Treanor (2006), reporting the views of Peter Butler, ‘One of the City’s most respected fund management activists’; and the assertion of the financial editor of *The Times* (Seargent 2006) that the NPSS was ‘a semi-compulsory nationalised rehash of the unpopular stakeholder pensions’.

¹⁸ Pensions Bill, 2007-08, services.parliament.uk/bills/2007-08/pensions.html.

¹⁹ A point made by several witnesses giving evidence to the House of Commons Work and Pensions Committee (*Pension Reform. Fourth Report of Session 2005-06, Vols 1-2*) and repeatedly by Frank Field (2006) who warned that the scheme posed ‘the biggest risk of the mis-selling of pensions for a quarter of a century’. On means-testing see also Pensions Policy Institute (2006), and on the issue of risk see Inman and Wood (2006).