

## Reply

### Just pensions: reply to Myles, Oksanen and Fornero

Erik Schokkaert, *Katholieke Universiteit Leuven, Belgium*

Philippe Van Parijs, *Université Catholique de Louvain, Belgium*

As careful readers will have noticed, there is much common ground between our competent and benevolent critics and ourselves. But there is also some disagreement, on which we shall briefly comment.

#### Ethics, efficiency, politics

In an attempt to describe how close we are, Elsa Fornero states that ‘justice and efficiency are not competitors (or at least not too much so) in the reform process, and that the main disagreement is dictated by political preferences not by economic or ethical evaluations’. What she means may be correct, but the formulation is misleading. A sensible conception of justice must take efficiency on board. Our own does so by opting for a ‘sustainable maximin’, taking all incentive (and other efficiency-relevant) consequences into account when assessing the value of an existing or proposed policy. Sensible ethics, in other words, must not sit next to economics but incorporate it. But by no means does it follow that ‘good for economic growth’ and ‘ethically justified’ are synonymous. A reform can therefore involve an economic cost due to ‘excessive redistribution’, to use Fornero’s phrase, and yet be perfectly justifiable ethically speaking.

An ethical evaluation can also, indeed must, inspire ‘political preferences’. For publicly defensible political preferences cannot just be based on personal or categorical interests. They must rest on ethical principles and on empirical conjectures about the facts which these principles identify as relevant. But they

must not rush to incorporate constraints of political feasibility. For ethically rooted arguments are part of what shapes and must shape political feasibility.

Take the idea of a flat-rate basic pension, which we favour – more than a ‘minor point’ of divergence from the ‘Bismarckian’ consensus which Fornero asserts we share. When discussing it, John Myles notes in passing that, whatever its normative merits (which he does not deny) there has been ‘a political retreat from this design in countries where it was well established’ and that he is ‘dubious about its adoption elsewhere’. While it is important to listen to and understand any serious objection to the desirability of what one proposes, it is of no less crucial importance not to be too easily inhibited by assertions of political feasibility. As academics active in this area, it is part of our job to indefatigably open and reopen the realm of the publicly discussable in order to help make politically feasible what is, all things considered, ethically desirable.

#### The Musgrave rule and generational responsibility

To a large extent, what we regard as ethically desirable in matters relevant to the pension debate is captured in the principle that the endowment of the worst-off cohorts be maximized, so as to allow them to make the situation of their own worst-off members as good as possible. This principle emphatically does *not* imply that the ratio of benefits to contributions should be equal for all cohorts (a

position Heikki Oksanen occasionally seems to ascribe to us). But nor does it exclude a (partial) recourse to funding, systematically defended by those committed to such a criterion. As emphasized by both us and Fornero, the choice between funding and pay-as-you-go is largely an ethical question – not simply a technical one, as Fornero believes we assume – even though working out the exact implications of our principle of intercohort justice to the phasing-in of some funding requires careful calculations, whose crucial importance Oksanen rightly emphasizes. There is little point in knowing what the principles of justice say if we lack the factual information needed to derive from them what we must do.

Let us turn to the Musgrave rule – fixed ratios of (per period) benefits to (per period) net earnings – usefully revived in Myles's contribution to the EU report (Esping-Andersen et al., 2002) and neatly presented by him in his commentary as an elegant compromise between fixed replacement rates (very tough on the active population under conditions of increasing longevity and decreasing fertility) and fixed contribution rates (very tough on the retirees under these conditions). Like Myles, we see Musgrave's rule not as an 'iron law' but only as a 'litmus test'. We introduce it as a risk-sharing device in the case of overlapping identical cohorts, i.e. where we abstract from any problem of intergenerational distributive justice.<sup>1</sup> However, as soon as we turn to the case of intercohort inequalities of opportunities, the Musgrave rule is in our view definitely subordinate to the basic principle of maximising opportunities. It is only when there is no clear ethical case for (re)distribution from one cohort to another that the Musgrave rule constitutes a useful benchmark.

The crucial questions then become: What can be seen as a collective and unpredictable 'risk'? and When can cohorts be held responsible for their decisions? Answers to these questions will determine how much guidance the Musgrave rule will be allowed to give us in specific situations. Oksanen explicitly defends the idea that generations initiating low fertility

rates should be held responsible for the latter's consequences. Hence, the Musgrave rule cannot serve as an acceptable approximation in this context. No less explicitly, Myles rejects this very same ascription of responsibility. In his view, cohorts – which are just an abstract category of individuals – cannot be viewed as moral agents and hence can never be held responsible for their decisions. This is why he believes that the Musgrave rule provides a useful benchmark. Our own position lies in between. Along with Myles, we expressed doubts about the idea of responsibility for fertility. Yet we do believe that it makes ethical sense to assert that a cohort is to be held responsible for its aggregate decisions – and hence bear (some of) the latter's consequences – even if it makes no sense to say that all individuals in that cohort are to be held personally responsible for them. In the same way we think that a country can be held responsible (and can be expected to pay compensation) to another country in the aftermath of war and war crimes, while at the same time it would be unacceptable to blame all its individual citizens for whatever happened. There may be sound ethical reasons for compensation from one cohort to another, even if there is no reason at all for a subjective feeling of guilt even for those individuals whose procreative restraint had nothing to do with noble concerns for global overcrowding. As regards the distinct problem of how to distribute the 'burden' within a cohort, in contrast, differences in personal responsibility may enter the picture, even though we doubt whether they should be an important consideration in the case of differential fertility.

We agree with Myles, therefore, that the case for the Musgrave rule needs an explicit normative foundation. But we wish to emphasize more than he does that the Musgrave rule will only kick in – as a risk-sharing device – after a negative answer has been given to the more basic question: Is there an ethical case for redistribution from one cohort to another? And we see more room than he does for such justice-based redistribution. This brings us

back to the earlier point about political feasibility and ethical desirability. As Myles reminds us, the Musgrave rule was first defended because it would lead to a 'politically sustainable' intergenerational contract. The importance of these political considerations should not be underestimated. But political feasibility should not dominate ethical desirability. The use of the Musgrave rule as a 'litmus test' should not close the broader ethical debate, but rather open and structure it. Beyond these differences in emphasis, however, there is not much of a difference between Myles's substantive positions and ours: they are almost identical.

### Gender differentiation and family policy

Both Fornero and Myles react to our tentative suggestions about the gender differentiation of pensions by 'bringing families back in'. They do so in a different but, in each case, illuminating way. According to Fornero, our argument might be accepted if families did not exist. But families do exist and play a key role in the security system for the elderly, typically in the form of survivors' pensions which our reasoning, she says, overlooks.

We do agree that survivor's pensions have been playing an important and useful role in the context of traditional family patterns. Indeed, it could nearly be said that pension systems were born to provide pensions for the industrial workers' widows which the workers themselves seldom lived long enough to enjoy. More generally, a system that incorporates a survivor's pension component can first of all be viewed as a convenient and fair way of sharing pension rights irrespective of the (typically very unequal) division of paid and unpaid labour among the members of a couple. This worked fine as long as it could be taken for granted that the woman left widowed by the worker's death was the same as the one who bore and brought up his children. But it no longer does, for example, if she

happens to be a much younger second or third wife who can enjoy for many years a generous survivor's pension, none of which serves to compensate the person who bore and raised the deceased worker's children for her labour. Of course, the system can be adjusted, and has been in many countries. Its best amended version is one in which whatever pension rights are accumulated – or indeed whatever saving is accumulated from family members' earnings – should be shared equally between the two members of the couple. We have no objection whatever to such a scheme – quite the contrary. But adopting it is orthogonal to our claim that, as long as we are not talking about the basic pension, any given 'pension rights', whether acquired individually or jointly, should translate into a higher pension level for the person with the shorter post-retirement life expectancy.

A survivor's pension is not only a form of redistribution within a couple. As Fornero rightly points out, it is also, secondly, a form of redistribution – relative to the baseline of actuarial fairness – from 'single men and single women in favour of families'. Fornero believes this to be a fair (indeed insufficient) compensation for the bearing and rearing of children. As long as the traditional family pattern could be taken for granted, we agree that this could be sustained. But again, under current circumstances survivors' pensions have become a very clumsy instrument for this purpose. They also involve implicit net transfers to the increasing proportion of childless couples, paid for in part by single parents. If families get less than a fair deal, as they undoubtedly do in many countries, it makes far more sense to expand net transfers to couples at a stage at which their thoughts are on whether or not they will create a new life, rather than at the much later stage at which one of its members is retired and the other has died.

Hence, however important their historical role might have been, survivors' pensions are just a clumsy and obsolete instrument, which should be replaced as soon as possible by an equal sharing of pension rights within couples,

and by more generous child benefits and other child-related provisions. Moreover, in the context we were presupposing for the sake of the argument (equal basic pension for all women and men and equalization across genders of labour-market participation and wage levels), we cannot see how survivors' pensions could fail to make things worse rather than better. The age gap of 2–3 years between women and their husbands does not only persist. Owing to second marriages, it even shows signs of increasing. Hence, adding survivors' pensions in a gender-undifferentiated system could be safely expected to further increase the net transfer from men to women which, under the stated presuppositions, we already argued was unfair.

Myles also believes that the existence of families shatters our ethical challenge to the gender-insensitivity of pension benefit levels, but this time the families 'brought back in' are old caring couples rather than child-rearing families. In Myles's interpretation, the implicit transfers from men to women that necessarily flow, in a gender-undifferentiated system, from their unequal longevities (whether or not amplified by a survivor's pension) can be plausibly construed as a payment for 'a form of care insurance for men'. Here is our reformulation of his interesting argument.

The pension system as a whole can be viewed as protecting us against hardship in old age and against the pinch of the obligations we would feel towards our ageing parents. The gender-insensitivity of that system (and the survivor's pension that may supplement it) can be viewed as a way for men to help secure their partners – most likely to survive them by quite a few years – a level of comfort in old age equal to their own. This could be done without requiring women to postpone their retirement for this purpose, which would deprive men of their active companionship in family, social and leisure activities if healthy enough to practise them, or of their caring presence if in poor health.

This is an ingenious argument, based on the interesting idea that social insurance can fulfil

the function of covering the risk of costly obligations as well as that of needy situations. However, the risk of having elderly parents whom we would feel a filial duty to maintain can arguably be regarded widespread enough for the state to include it in a compulsory package. Hence, such inclusion need not violate the neutrality constraint. Yet this is far less obvious for the risk of men having one day an elderly female partner whom they would not like to fare less well than they would themselves if and when they were left as sole survivors. For the higher the proportion of men finishing their lives alone as a result of never having married or of having divorced, and the higher the proportion of gay couples, the trickier it becomes for Myles's insurance argument to justify net transfers from men to women (under the hypothetical circumstances we are presupposing) in a way consistent with impartiality towards the various conceptions of the good life that coexist in our pluralist societies.

We would have loved to close this reply by admitting that, on this perplexing gender issue, we had to change our minds. But we did not. We remain stuck with our initial puzzling claim: other things being equal (which, it is worth repeating, they are now far from being) and beyond a common basic pension, there is something unjust about women getting the same pension level as men while enjoying the privilege of a longer life expectancy. Not exactly the most pressing ethical issue in the reform of Europe's pension systems, but perhaps one of the trickiest.

#### Note

- 1 Even in that simple context, Oksanen rightly points out that the transition process may raise problems of justice.

#### Reference

- Esping-Andersen, G., Gallie, D., Hemerijck, A. and Myles, J. (2002) *Why We Need a New Welfare State*. Oxford: Oxford University Press.