

Challenging Pension Reforms

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While the leading trade unions have launched strike action partially to challenge pension reform, fundamental misconceptions about an aging population need to be tackled to mount an effective opposition.

Italy does have the highest proportion of people over 65 years old in the European Union, along with Switzerland, and the lowest proportion under 14.

But we must treat these as statistic proportions. Otherwise, it is easy to present the problem as too many pensioners living longer and stigmatize them.

The principal reason for the high proportion of people over 65 is low fertility rates. The fertility rate in Italy is now 1.21 children per woman, the lowest in Europe. This means that there are fewer young people compared to the elderly.

There has been a long-term decline in Italian total period fertility rates from 2.55 per woman in 1965, to 2.19 in 1975, and to 1.53 in 1983. These earlier declines are influential now as they mean that there are fewer people currently at their peak reproducing ages than before. So the problem is more one of aging from "below" than from "above," as Phil Mullan superbly explains in "The Imaginary Time Bomb."

This is also critical in challenging predictions of a future "time bomb" of too many elderly. The World Bank has projected that the percentage of the Italian population over 60 years old will rise from 27.4 in 2010 to 36.5 percent in 2050. However, few commentators have pointed to the same institution's prediction of a subsequent fall to 30.9 percent in 2075, or considered that these projections would mean fewer dependent children requiring family benefits or health and education provisions.

Barring a human disaster, there will be many more over 65s in 2050. However, projections ignore how the percentage of elderly could be reduced by an increase in the fertility rate before then.

It is also incorrect to present the elderly as increasingly dependent on people of working age. Many people of working age are not employed and many of those who are do not pay taxes in full.

What it means to be "old" has changed for the better, and pensioners should not be regarded as a group of increasingly ill dependents. Many elderly work, and improved fitness has

reduced their dependency on the health system. Their greatest demands on the health system tend to be in the final few years of life, especially if terminal illnesses set in, which now tend to be later in life.

Obviously, the elderly are more dependent on welfare than most people under 65. In particular, INPS-administered pensions currently consume more than 14 percent of GDP.

Providing for the old is an indication of a civilized society. Nevertheless, an additional component of the future elderly time bomb is that their growing numbers will consume a greater proportion of the wealth that society creates.

Such predictions are based on the current productive capacity of the economy, however, and they make no allowances for expanding the wealth of society by employing more people at higher levels of technology and increasing productivity.

As Mr. Mullan points out, modern societies historically double their wealth roughly every 25 years, which dwarfs even the most pessimistic predictions for the future burden of an older population.

The government's reforms in the 2002 budget will shift the way some of the wealth of society is distributed to pensioners away from the INPS' pay-as-you-go system to investment funds. The aim is to boost private pensions by putting employees' TFR, or severance pay, equal to 75 percent of a salary, into occupational and private funds of their choice.

Both private and public systems will make payments to future pensioners from the wealth created by the workforce of the future. Private funds will simply make this transfer through the dividends on shares in pension funds that workers own. Given the high costs associated with most private pension funds, the main beneficiaries will be the companies that run them.

The reforms in the 2002 budget also include offering tax incentives for employees to work beyond the retirement ages of 65 for men and 60 for women. This change follows the advice of the World Bank to increase retirement ages and is designed to postpone, and therefore reduce, pension payments. The government is acutely aware of how unpopular attacking pensions is, and it is no coincidence that this measure was accompanied by a promise to raise minimum pensions for 2.2 million Italians to bring their retirement income to €516 a month.

Misconceptions about aging affect all of us. The government is attempting to instill a sense of individual responsibility

by expanding private pensions and has suggested that further structural reforms to the pension system will follow.

The legend of a burden of pensioners can be used to justify cuts in their benefits and welfare spending on others due to the so-called strains caused by more elderly.

Questioning the notion that Italy faces an aging time bomb will be more effective in challenging pension reforms than presenting the elderly as victims of a wicked government.

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