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# Retirement, Pensions and Justice: A Philosophical Analysis

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# RETIREMENT, PENSIONS AND JUSTICE

A Philosophical  
Analysis

**Mark Hyde and  
Rory Shand**



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Mark Hyde • Rory Shand

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A Philosophical Analysis

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## PREFACE

Though they are vitally important, retirement and pensions are rarely appraised through the lens of political philosophy. In seeking to square the circle of increasingly adverse demographics, and serious pressures on the public finances, policy makers have been pre-occupied with the “practicalities” of pension design and financing. Embracing a utilitarian set of priorities, many scholars of pensions have been concerned with the question, “what works?”—where “works” signifies capacity to improve living standards in old age. Rarely does the literature pause to consider the fundamentals of pension design, which are to be found in its underlying normative principles. Still less has the field addressed retirement as a matter of justice, as understood by political philosophers. To what extent is “society” obligated to support people in their retirement? Is the right to financial assistance in old age unconditional, or must such entitlements always be contingent on obligations, including work or savings? Should welfare states be used to pursue wider moral agendas, such as those represented by individualism, or social solidarity? These are the fundamental questions that need to be answered.

To the limited extent that it has engaged with the concerns of political philosophy, the field of pension analysis has been characterised by two salient biases. One is represented by the tradition of neoliberal social security analysis, as expounded by the *Institute of Economic Affairs* (Booth and Niemietz 2014), the *World Bank* (1994) and—in the United States—the *Cato Institute* (Shapiro 2007). Taking direct inspiration from the ethical and economic doctrines of the Enlightenment, neoliberal exponents of *laissez faire* regard the universal welfare state as

one of the single most important threats to individual freedom. Public pensions curtail liberty directly by forcing the economically active to support the poor—invariably, those who fail to take sufficient responsibility for their own retirement—as well as undermining individual capacities for self-provisioning. Social security creates significant opportunity costs. Much like any other public monopoly, state pensions are insulated against market competition, and are prone to problems of inefficient management. In spite of their emphasis on the creation of retirement income security, public pensions tend to deliver sub-optimal benefit entitlements (Shapiro 2007; Booth and Niemietz 2014).

The tradition of social policy analysis has characteristically responded to these arguments by re-asserting a distinctive set of values and priorities (Titmuss 1974; Esping-Andersen 1990; Trampusch 2007). Taking direct inspiration from the normative repertoire of Northern European social democracy, scholars of social policy regard the universal welfare state as the single most important instrument of social justice, an end that is defined in terms of social solidarity and economic security. People are happier when their associations are cohesive, giving expression to the norms and values that members share in common. Reflecting this foundational premise, scholars of social policy are characteristically hostile to any suggestion that we should privatise pensions. The market, they say, creates harmful social divisions by intensifying income inequalities. Competition fractures the affective bonds that unite people by fostering individualism and selfishness. Solidarity requires a universal welfare state, acting in the interests of society as a whole, and giving financial benefits to all retirees, irrespective of differences in social class or gender (Rothstein and Uslaner 2005; Trampusch 2007).

Reflecting the influence of these very different narratives, the “philosophical” debate on ageing and pensions has become increasingly polarised, and this has served to frustrate the emergence of a comprehensive model of justice in retirement. Influential though it may be, neoliberalism has not taken sufficient account of “market failure”, and cannot ensure that everyone is able to enjoy a comfortable and secure retirement (Rothstein and Uslaner 2005). Social policy analysis has addressed market failure at some length, but is arguably wedded to a model of retirement provision that is insensitive to legitimate concerns around liberty and choice (Hyde and Borzutzky 2016). Against this background of ideological polarisation, Hyde and Shand’s analysis of retirement and justice delivers three substantive benefits.

First, the monograph endorses the “primacy of liberty”, a principle that has arguably been given insufficient attention by the literature of social security and pensions. It would be fair to say that the debate around freedom and retirement has been colonised by neoliberals, who emphasise the importance of protection against coercion. In the real world of pension reform, neoliberalism has informed the creation of privately managed, fully funded retirement schemes that have intensified the risk of poverty in old age (Borzutzky 2002, 2005). Hyde and Shand embrace a wider conception of liberty that emphasises the importance of economic security, and accept a prominent role for the state in ensuring that all retirees can enjoy a satisfactory standard of living.

Second, the monograph insists that the efficacy of retirement systems should be regarded as a matter of justice, not economic or political expedience. Are people due any particular resources or opportunities by virtue of their capacities for sovereign decision making, or their status as members of the political community? How should economic and political institutions distribute the burdens and benefits of citizenship? Neoliberals are clear that justice is served only by the “minimal state”, which can do no more than protect people against force, theft and fraudulent activity (Hayek 1960; Nozick 1974). This means of course that the vast majority of statutory measures that have shaped existing retirement systems should be regarded as morally unacceptable. Hyde and Shand’s analysis is clear that the legitimate scope of governmental action is wider, allowing for a range of measures to shape the distribution of retirement income.

Third, the monograph articulates a comprehensive account of justice that acknowledges a range of important issues. To the limited extent that they engage with the concerns of political philosophy, scholars of social security tend to emphasise the importance of a single principle of justice, such as equality or liberty (Hayek 1960; Rothstein and Uslander 2005). In contrast, Hyde and Shand highlight the importance of a range of principles, each giving expression to the distinctive networks or associations that shape people’s lives. *Need* designates the resources and opportunities that are required to perform social roles and obligations in a minimally satisfactory way, and requires a robust first pillar retirement income safety-net. *Desert* refers to the legitimacy of “earnings”—the financial rewards that track each workers’ contribution to the production of goods and services—and requires people to save for their own retirement, as acknowledged by the vast majority of second pillar pensions



arrangements. And *citizenship* denotes the shared status of societal membership, conferring universal entitlements to security in retirement. While their conception of justice is ultimately premised on the “primacy of liberty”, Hyde and Shand acknowledge the very different contexts in which its demands become relevant.

Ageing and retirement have become increasingly prominent issues, reflecting growing pressures on existing pension arrangements. Its reliance on fiscal transfers to finance retirement benefits means that statutory social security has become increasingly vulnerable to the pressures of demographic ageing. While they confer a degree of financial security, public pensions have been designed in accordance with the priorities and preferences of political elites, and give workers few opportunities to exercise meaningful choice around work and retirement. But while it seems to address these issues, the privatisation of pensions has intensified disparities of income and opportunity. The question is, how as a society should we order and pursue our preferences for retirement? Which mode of decision making is appropriate to this task? In spite of claims to the contrary, governments typically respond to such issues as a matter of expedience, reflecting the vicissitudes of the electoral process, and the shifting fortunes of economic development (Hyde and Borzutzky 2016). This monograph represents a plea for pension design in accordance with a rationally determined set of moral priorities. As well as articulating a coherent account of justice, Hyde and Shand convert its demands to a detailed set of reform proposals. Echoing other work in the field (Borzutzky 2002, 2005), the authors demonstrate that retirement policy must address two imperatives that are central to justice. A retirement system that promotes financial security without liberty should be regarded as unacceptable, for people will be unable to realise their own preferences for work and retirement. But liberty without security is also unacceptable because, although given protection against coercive intrusion, people may not have sufficient means to pursue their preferences.

As always, what is required, but what cannot be sustained by any monograph on justice, is the political will to make its demands a reality.

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## LIST OF ABBREVIATIONS

CRA	Contractual retirement age
DB	Defined benefit
DC	Defined contribution
GDP	Gross domestic product
MPG	Minimum pension guarantee
NCR	Notional contribution rate
NRA	Normal retirement age
PAYG	Pay-as-you-go
TSA	Targeted social assistance
UCP	Universal citizens' pension
USI	Universal social insurance

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# Liberty, Equality, or Fraternity? A “Liberal” Approach to the Design of Pensions?

**Abstract** Unlike much of the pensions’ literature, we regard the design of retirement systems as a matter of justice, as articulated by political philosophers. Characteristically, scholars of social policy endorse the deployment of state power to realise a particular conception of “the good”, emphasising the importance of social solidarity and altruism. But liberalism endorses “institutional neutrality”, a principle that rules out the possibility of such action. The nature of “the good” should be regarded as a private matter, subject only to each agent’s sovereign preferences. Rather than endorsing social solidarity, justice requires the state to uphold the primacy of liberty, including the possibility of individual choice around matters of work and retirement. Several variants of this general argument are explored here.

**Keywords** Justice · Pension design · Social policy · Social solidarity · Liberalism · Liberty

## INTRODUCTION

Population ageing presents enormous financial and ethical challenges for the state, as well as those who are required to pay for retirement income protection—the working generation. How should public policy decision makers design the institutional arrangements that are responsible for supporting older people financially, if they should be involved in designing

them at all? For many observers of social security, this is a matter of simple economic arithmetic (Ginn 2004; Ghilarducci 2008; Booth and Niemietz 2014).<sup>1</sup> Given the reality of scarce resources in any society, how may we generate the financial means to sustain adequate income-transfer programmes for retirees? And, in this context of sustained population ageing—amplifying demands on retirement systems—how can public or private savings effort be arranged with the greatest effect? Unusually, but reflecting the paucity of scholarly interest in the political philosophy of retirement, this monograph addresses the design of pensions as a *normative* issue. Economic and political institutions—including retirement systems—can be regarded as acceptable to the extent that their design corresponds to the moral requirements of a compelling theory of *justice*.

Broadly, justice refers to notions of *fairness* in the way that people are regarded and treated by legal and political arrangements (Rawls 1971; Kymlicka 2002). Inevitably, justice has been unpacked in a variety of ways, reflecting a range of distinctive normative premises. Not surprising when we consider the degree of value pluralism that characterises political philosophy, the social sciences more generally, and publicly articulated discourses around the salient economic and social issues of the day. As we shall see, *procedural justice* refers to the processes, by which rights or obligations are instituted, not their substance (Kymlicka 2002). In a prominent set of arguments in favour of *laissez faire*, for example, Nozick (1974) endorses state involvement in enforcing the rule of law on the grounds that private alternatives are suffused with personal biases, and are bound to give protection against coercion in ways that are arbitrary and haphazard. At the other end of the ideological spectrum, Fraser (1996) regards justice as the core focus of the “politics of recognition”, requiring equality of dignity and respect in the treatment of different groups. This translates into the requirement for a system of government that allows citizens to be democratically involved in public policy decision making. In contrast, *distributive justice* is concerned with the substance of rights or responsibilities, not with the processes by which they are conferred (Miller 1999). In a seminal contribution to the current debate (Rawls 1971), “justice as fairness” is represented by the highly redistributive public institutions and income transfers that risk-averse agents would choose from behind a “veil of ignorance”. And, speaking from another point on the ideological spectrum, classical liberals have conceptualised distributive justice in terms of desert, arguing that resource allocation should track performance differentials in the market (Friedman 1962;

Carson 2007). The concern that unites these diverse perspectives is their search for appropriate normative principles to inform the design of just economic and political institutions.

We share this concern, for the following chapters of the monograph focus centrally on the ethical foundations of just pension scheme design. The questions that direct our focus can be stated formally as follows.

1. Given the wide range of perspectives and principles in political philosophy, which are most relevant to retirement and the design of pensions? Previous work in this area has been limited in scope, because there has been little interest in the political philosophy of retirement and pensions.<sup>2</sup>
2. How should the principles that are deemed to have the greatest relevance to retirement be instantiated through pension scheme design? Previous work in this area has been even less prolific, for the design of retirement systems is characteristically framed without reference to insights from political philosophy.<sup>3</sup>

## POLITICAL PHILOSOPHY AND PENSIONS

To the limited extent that it has addressed retirement and pensions, political philosophy has demonstrated salient ideological biases. Much of the field has been colonised by classical liberal economists, ever keen to highlight the failings of the public sector. Most prominently in the United States, *The Cato Institute* has argued that the welfare state diminishes individual freedom by denying people the opportunity to realise their sovereign preferences around retirement, while wasting scarce resources through inefficient design and delivery (Kelly 1998; Tanner 2004). In state-managed pension schemes, retirement is shaped only by the preferences of public policy decision makers, who typically act in accordance with their own interests, and those of their preferred constituents. This theme has been amplified by public choice theory, which regards the liberal democratic polity as a regime of unmitigated rent-seeking.<sup>4</sup> Colombatto (1997) is highly critical of statutory social insurance, an institutional arrangement he regards as purposively designed to facilitate predatory transfers by redistributing financial resources from the economically active (particularly future generations of tax-payers) to retirees, a segment of society with considerable electoral leverage. This arrangement was initially premised on an “implicit contract” whereby the “working (and

voting) population agreed to satisfy the policy-makers' request to run the rent-seeking game by means of an over-grown welfare state. In return, the median voter asked for a disposable income over his lifetime higher than the value justified by his productivity" (1997, p. 8). In effect, if not by design, public pensions have created a "fiscal commons", where "one generation can vote itself benefits to be paid for by future generations who cannot vote and may not even have been born" (Booth and Niemietz 2014, p. 31). For exponents of public choice theory, "political rent-seeking" can be eliminated by replacing statutory social insurance with a fully funded pension scheme, requiring plan participants to save for their own retirement (Colombatto 1997; Shapiro 2007).

A second salient bias in the debate has favoured publicly managed pension arrangements to realise an egalitarian vision of justice, one that would minimise the degree of retiree income inequality, while protecting the least-advantaged. Although it has been embraced by scholars across the ideological spectrum of political philosophy (Shapiro 2007; Etzioni and Brodbeck 2010), this normative emphasis is illustrated here with reference to the ideological mainstream of *social policy analysis*, the field of academic study that is concerned centrally with evaluating income-transfer programmes (Titmuss 1974; Esping-Andersen, 1990). Reflecting its roots in Fabian socialism (Taylor-Gooby and Dale 1981), and the continuing influence of Northern European social democracy (Esping-Andersen 1990; Korpi and Palme 1998; Rothstein and Uslaner 2005), social policy analysis tends to reject any substantive role for the private sector in delivering retirement income protection. As well as creating vast disparities of income and wealth, the market is widely regarded as accentuating egoism and selfishness, which erode the affective bonds and mutual obligations that give cohesion to society (Titmuss 1974; Rothstein and Uslaner 2005). *Social solidarity* requires strong public institutions with the capacity to plan and execute income redistribution on the scale that would eliminate extremes of economic and social disadvantage. When considered in terms of retirement, this critique requires a distinctive approach to the design of statutory income-transfer programmes. The social insurance schemes of Northern Europe<sup>5</sup> have several salient characteristics that give expression to this egalitarian vision of justice, notably inclusive access, redistributive and generous income transfers, and solidarity between the generations (Esping-Andersen 1990; Korpi and Palme 1998; Rothstein and Uslaner 2005).

Ultimately, both approaches tend towards a *monist* conception of justice, that is, one which gives priority to a single normative principle

(Miller 1999). While they address a broad range of concerns, classical liberal scholars of retirement assert the primacy of *liberty*, defined in negative terms as the absence of coercion by other human agents. But social policy analysis evaluates economic and social institutions against the requirements of *fraternity*, which can be thought of as the functional and affective integration of people in society. In contrast, this monograph embraces a pluralist conception of justice, one which highlights the importance of three normative principles.

- *Need*. All human agents need access to designated resources and opportunities if they are to function optimally as members of associations and networks (Doyal and Gough 1991; Miller 1999). In retirement systems, need requires redistributive income transfers to address financial impoverishment.
- *Desert*. Workers should be rewarded financially in accordance with their performance at work, and this justifies earnings differentials (Olsaretti 2004; Wolff 2007). Pensions should be regarded as an extension of the labour market, giving workers the opportunity to plan and save for their own retirement.
- *Citizenship*. Public policy should acknowledge the salient characteristics that people share in common—e.g., membership of communities, a common cultural heritage, human capacities—by conferring universal rights or obligations (Rawls 1971; Armstrong 2006). Pensions should distribute resources or opportunities in ways that reflect this emphasis on universality.

Although these principles are compatible with a wide range of perspectives in political philosophy, the following chapters develop an account of just pension design that is informed by liberalism, which emphasises the primacy of liberty (Van Parijs 1995; Dworkin 2000; Kymlicka 2002). The justification for this focus, as well as its principal normative characteristics, can be illustrated by way of contrast with social policy analysis.

## THE NORMATIVE BIASES OF SOCIAL POLICY ANALYSIS

A close inspection of the corpus of social policy analysis—particularly work on retirement income protection (e.g., see Titmuss 1974; Vail et al. 1999; Minns 2001; Rowlingson 2002; Ginn 2004; Trampusch

2007; Lorey 2015; Macnicol 2015)—would reveal salient ideological biases, notably a foundational endorsement of social solidarity as a mode of human association, a strenuous objection to the role of the market in retirement provision, and a commitment to extensive governmental action as a means of securing justice. At the same time, it is clear that scholars of social policy have demonstrated indifference—even outright hostility—towards philosophical perspectives that are tolerant of voluntary exchange and individualism (Esping-Andersen 1990; Armstrong 2006). Some of these biases have manifested in the following ways.

### *Bias in Favour of Social Solidarity*

In articulating the nature of justice, and the legitimacy of institutional arrangements for allocating resources and opportunities, the mainstream of social policy analysis has characteristically demonstrated a commitment to the ideal of social solidarity (Titmuss 1974; Esping-Andersen 1990; Korpi and Palme 1998; Rothstein and Uslaner 2005; Thelen 2014). The cohesiveness of societies has been a recurring theme of the discipline, particularly its analysis of the impact of economic and political institutions on social welfare. Arguably the most prominent exponent of the universal welfare state, Titmuss (1968, 1974) regards fraternity as a function of the cultural and affective bonds that make human association possible, particularly *altruism*—a willingness to help others including strangers. Others have conceptualised solidarity as “generalised trust”—deeply entrenched cultural expectations of reciprocity (Rothstein and Uslaner 2005). Such confidence helps to sustain the “social conscience”, the notion that different groups in society have a shared fate, with an obligation to help each other. Defined in these ways, social solidarity is able to generate several key benefits. At the level of the individual, people with high expectations of reciprocity are “inclined to have a positive view of their democratic institutions, to participate more in politics, and to be more active in civic organisations”. At the societal level, cohesive communities “are likely to have better working democratic institutions, to have more growth in their economy, and less crime and corruption” (Rothstein and Uslaner 2005, p. 6). Just as the market is deemed to be responsible for a multitude of sins, social solidarity is responsible for a wide range of benefits.

### *Hostility Towards the Market*

The issue that arises at this point concerns the choice of model that can optimise the pursuit of normative ends, including the principles that should inform the design of income transfer programmes. Scholars of social policy typically assert that social cohesion is best pursued by means of the universal welfare state, a model that relies on public monopolies to confer equal entitlements and opportunities (Titmuss 1974; Townsend 1993; Korpi and Palme 1998; Rothstein and Uslaner 2005). This approach is exemplified by Esping-Andersen’s highly influential work of comparative social policy, which evaluates retirement systems in terms of their “decommodification potential”—their capacity to diminish the relationship between work and welfare (Esping-Andersen 1990). Considered in terms of pension design, decommodification requires:

- *Ease of access.* Social security design should eliminate legal and institutional barriers to eligibility, particularly scheme rules that require a threshold of prior work or savings’ effort (Esping-Andersen 1990; see also Korpi and Palme 1998). Such inclusiveness can be optimised by providing a universal retirement system, giving entitlements to all retirees as a condition of citizenship.
- *Benefit generosity.* While it may appear to waste scarce resources, the universal welfare state is a more effective means of generating outcome-equality in old age, a precondition for social cohesion (Esping-Andersen 1990; see also Rothstein and Uslaner 2005).

Politically, universality generates wide electoral support for redistributive income transfers by giving everyone a vested interest in the welfare system. In rejecting targeting and means-testing, the universal welfare state treats all retirees with dignity and respect.

Reflecting the same set of concerns, the mainstream of social policy analysis typically rejects alternative models of pension design, particularly those that are tolerant of private sector involvement in the retirement system. Characteristically, the “liberal” welfare state relies on the market to provide for the economically active, with targeted statutory income transfers for the least advantaged. *Internally*, private pensions have few if any redistributive design features, making benefit entitlements wholly or very substantially dependent on individual savings’ effort. *Externally*, private pensions impact adversely on the retirement system as a whole,

diminishing its redistributive impetus. While they generate a powerful constituency of support that is hostile to egalitarian concerns, private pensions depend substantially on taxpayer subsidies, directing scarce fiscal resources away from provision for the financially impoverished. The selective public pillar commands little electoral support, and exposes workers to degrading means-tests, forcing them to “feel that they are apart from others in society” (Rothstein and Uslaner 2005, p. 24). For a variety of reasons, then, the mainstream of social policy analysis is highly intolerant of the “liberal” welfare state, which is incapable of sustaining fraternity. Where people are unable to “see themselves as part of the same moral community, they will not have the solidarity that is essential for building up social trust” (Rothstein and Uslaner 2005, p. 24).

### *Mischaracterisation of Liberalism*

A third prominent theme of social policy analysis has been its negative characterisation of liberalism as a political project in pursuit of free market fundamentalism, prioritising the interests of corporate elites, while making workers fully responsible for their own financial well-being (Esping-Andersen 1990; Armstrong 2003, 2006). According to one of its prominent critics, the “liberal” project is premised on the assumption that:

the market is emancipatory, the best possible shell for self-reliance and industriousness. If not interfered with, its self-regulatory mechanisms will ensure that all who want to work will be employed, and thus be able to secure their own welfare. Private life may be wrought with insecurity, danger, and pitfalls; and poverty or helplessness is in principle not unlikely to occur. Yet, this is not the fault of the system, but solely a consequence of an individual’s lack of foresight and thrift (Esping-Andersen 1990, p. 42).

For another set of critics, liberalism found its fullest flowering in the *laissez faire* of the nineteenth century, but has subsequently pursued a growing role for the state on the grounds of “market failure”—that is, the argument that the state may step in to modify resource allocation under circumstances where the market is unable to supply goods or services according to some designated optimum (Goodin et al. 1996). One of its most enduring solutions to market failure, we are told, has been statutory social assistance based on the Poor Law principle of “less eligibility”, requiring stringent means-tests and parsimonious benefit entitlements.



For the vast majority of people in a just society, liberals endorse the pursuit of welfare through voluntary self-provisioning including work, saving and insurance to cover contingencies of interrupted earnings such as unemployment, disability and retirement (Esping-Andersen 1990; Anderson 1999; Armstrong 2003, 2006). This characterisation has been developed in several related ways, each reinforcing a portrayal of liberalism as a close analogue to the “neoliberal” emphasis on individualism and free markets.

### *Reinforcing Individualism*

This refers to the liberal premise that inequalities of outcome are morally acceptable only where they arise from the sovereign choices of each agent (Rawls 1971; Van Parijs 1995; Dworkin 2000). Where appropriate statutory measures to protect liberty are in place, “any outcomes due to voluntary choices whose consequences could reasonably be foreseen by the agent should be borne or enjoyed by the agent” (Anderson 1999, p. 295). This emphasis on personal responsibility is regarded by the critics as deeply problematic. As well as providing little consolation to those who are made to suffer because of their own defective decisions, liberalism has failed to “demonstrate a clear method for ascertaining which part of an individual’s life is the result of his or her own choices and which part is not” (Armstrong 2003, p. 414). Its critics deny that this is even possible, arguing that the scope of genuine sovereignty in a capitalist society is negligible. In effect, if not by intent, liberalism ends up blaming the least advantaged for their misfortune.

### *Disparaging the Least Advantaged*

Just beneath the surface rhetoric of equal respect and concern for citizens, liberals deploy a language of justice that demonstrates a deep contempt for people whose diminutive opportunities and financial resources place them at the margins of society. Their disregard for the “imprudent”—those deemed responsible for their own misfortune—echoes the logic of the 1834 Poor Law, particularly the principle of “less eligibility”, which shaped a highly punitive architecture of public assistance for the “idle” and “feckless” (Anderson 1999; Armstrong 2003). The liberal disdain for the least-advantaged becomes even clearer when we turn to consider the reasons given for targeting redistributive effort towards the victims of involuntary incurred dis-welfares. To disabled people, liberals say: “your defective native endowments or current disabilities, alas, make your life less worth living than the lives of normal people”. To the “stupid” and untalented:

“unfortunately, other people don’t value what little you have to offer [ . . . ] Your talents are too meagre to command much market value”. And to the “socially backward”: “how sad that you are so repulsive to people around you that no-one wants to be your friend or lifetime companion” (Anderson 1999, p. 305). For liberals, the least-advantaged lay claim to the resources directed by redistributive effort by virtue of their inferiority, not any relation of equality with others in society.

*Diverting Attention Away from “Social” Injustice*

Although we may not realise it, liberals are responsible for articulating a normative theory that diverts public attention away from the “social” causes of injustice. In a seminal contribution to the debate, Armstrong (2003) reminds us that liberalism lacks an explanatory theory of economic and social inequality, one that is able to highlight the “systemic” asymmetries of power that confine the least-advantaged to the margins of society. The obstacles to be overcome in securing distributive justice are addressed by liberals “as if they were deposited by forces of nature rather than being a product of human interaction” (p. 416). In a more recent contribution, Armstrong (2006) asserts that liberalism has failed to acknowledge “the ‘structural’ inequalities that characterise economic life, and/or the domestic division of labour” (p. 107). The “rich” derive disproportionate benefits from public institutions, yet they refuse to contribute financially to their upkeep. The vitality of the market is sustained “on a day-to-day level by the unpaid labour of carers and volunteers” (Armstrong 2006, p. 109), who are condemned to financial impoverishment. The failure of liberalism to take sufficient account of the “structural” gives a spurious legitimacy to the market by suggesting that extremes of wealth and disadvantage are somehow “deserved”, rather than imposed involuntarily. And, most importantly, it impairs the possibility of addressing injustice through public means. If it is to stand any chance of success, a programme of governmental action to realise justice requires a “theoretically developed account of what it is about such a system that throws up relations of inequality with such regularity; otherwise we shall be powerless to combat it” (Armstrong 2003, p. 416).

*Imposing a Narrow Conception of Human Nature*

Fundamentally, according to its critics, the liberal endorsement of inequalities of circumstance, income and wealth is premised on a distorted conception of human nature—one which regards people as narrowly selfish and egoistic,

driven only by the cash nexus, and unable to demonstrate regard for others (Kohn 1986; Layard 2005; Armstrong 2006). Or, as neoclassical economists might put it, human agents are “rational, desirous, consistent, and self-interested with a known and consistently ordered set of preferences that allows them to allocate their scarce resources to maximise their well-being” (Dixon 1999, p. 66). Though they claim to prioritise the impaired circumstances of the least advantaged, egalitarian liberals accept that the resilience of redistributive income transfers requires institutional arrangements that work with the grain of human nature by permitting wide disparities of earnings. If the winners of the distributive game “were made to share their winnings with losers, no-one would gamble” (Dworkin 2000, p. 185), and tax revenue would be insufficient to support redistribution. The persistence of disadvantage in any liberal scheme of justice is an artefact of a flawed conception of human nature that generates a remarkably high tolerance of socio-economic inequalities. These characteristics mean that liberalism provides an unacceptable normative framework for the design of pension institutions. Its tendency to blame the least advantaged for their predicament is at odds with the stark reality of impoverished choice at the bottom of society. Rather than disparaging them by deploying the Poor Law rhetoric of “less eligibility”, the least well-off would be better served by measures that enable them to associate with their peers as equals (Anderson 1999). People are at their happiest when they are able to benefit from affective bonds with others—“on average, happier than those who are more preoccupied with themselves” (Layard 2005, p. 72).

### A LIBERAL APPROACH TO PENSION DESIGN?

In view of this critique, is it possible to sustain an adequate liberal conception of justice? In reality, liberalism is made distinctive in the field of political philosophy only by its commitment to the primacy of individual freedom, conceptualised in terms of the capacity of human agents to define and act on their sovereign preferences (Rawls 1971; Nozick 1974; Conway 1995; Kymlicka 2002; Hyde and Borzutzky 2016). Everyone counts equally, which means that all should have the opportunity to frame and act on their own conception of “the good”.<sup>6</sup> And yet even a cursory inspection of the liberal corpus would suggest that liberalism is a very broad church, encompassing a range of distinctive approaches. While all assert the primacy of liberty, and a prominent role for the state in protecting individual rights,<sup>7</sup> liberals have embraced very different positions with regard to three issues.

### *Justifying the Foundational Importance of Liberty*

The first concerns the mode of deliberation by which the foundational importance of freedom can be justified. Why should we give priority to liberty, as opposed to some other normative principle such as fraternity? The corpus of liberal political philosophy has articulated at least three responses to this question.

- *Natural rights theory.* The requirement for liberty is derived from the Enlightenment premise that human agents have capacities that distinguish them from all other known species (Rand 1967; Nozick 1974; Kelly 1998; Machan 2006). Each person should be regarded as an entity “with the ability to regulate and guide its life in accordance with some overall conception it chooses to accept” (Nozick 1974, p. 49). Defined against this background, the “separateness of persons” requires people to be treated as ends in their own right, not merely as means to the ends of others.
- *Consequentialism.* A substantial “subjectivist” strand of liberalism maintains that normative principles such as liberty are “arbitrary, and cannot be derived authoritatively from either the nature of man or objective natural law” (Barry 1998, p. 101). Liberty must be justified by other means, such as its role in augmenting welfare. Utilitarians contend that the possibility of individual freedom incentivises innovation and efficiency in the production of goods and services, and intensifies work effort, generating economic development that benefits everyone (Hayek 1960; Friedman 1962; Conway 1995).
- *Contractarianism.* Alternatively, but no less prominently, some liberals have sought to determine the importance and scope of liberty by deliberating around the substance of some hypothetical social contract, agreed to by people in a state of nature (Rawls 1971; Buchanan 2000).<sup>8</sup> In his seminal account of “justice as fairness”, Rawls articulates a distinctive variant of the contractarian method where those who are expected to deliberate must do so behind the “veil of ignorance”—that is, “no-one knows his place in society, his class position or social status, nor does anyone know his fortune in the distribution of natural assets and abilities” (Rawls 1971, p. 12). Liberty is what remains once the scope of state authority and the demands of distributive justice have been agreed.

As we shall see, the mode of deliberation by which the importance and scope of liberty are determined has important implications for the design of economic and political institutions, including income transfer programmes.

### *The Nature of Liberty*

A second issue is concerned with the substance of individual freedom, particularly the distinction between two salient concepts. *Negative liberty*—or “freedom from”—can be defined as the absence of external constraints on people, such that they are able to act according to their sovereign preferences. What is the “area within which the subject—a person or a group of persons—is or should be left to do or be without interference” (Berlin 1969, p. 121)? This emphasis has been a salient feature of classical liberalism, which defines coercion narrowly as the deployment of force by other human agents. If liberty is to be preserved, “no man or group of men may aggress against the person or property of anyone else” (Rothbard 1973, p. 23; see also Friedman 1962; Machan 2006). Egalitarian liberals have extended the scope of negative liberty to include freedom from impersonal external restrictions such as diminutive opportunities to participate in economic activity, or financial impoverishment. “Real freedom” is not only a matter of “having the right to do what one might want to do, but also a matter of having the means to do it” (Van Parijs 1995, p. 4; see also Rawls 1971; Dworkin 2000).

*Positive liberty*—or “freedom to”—can be defined in terms of the actions that agents are able to perform, or the ends that they are able to realise by virtue of exercising sovereignty. For one authoritative formulation (Fromm 1944), this approximates to “self-realisation”—the “realisation of man’s [...] personality by the active expression of his emotional and intellectual potentialities” (p. 222). Positive liberty rests on the notion of the “divided self”—the argument that human agents are comprised of two selves; the “lower self”—the empirical self of “passions, of unreflecting desires and irrational impulses”; and the “higher self”—the rational reflecting self, capable of moral action and self-direction (Carter 2012, p. 5). This emphasis on the realisation of individual capacities has been highly characteristic of Marxism which proposes a conception of the good life as one of unimpeded autonomy—the “full and free actualisation and externalisation of the powers and abilities of the individual” (Elster 1989, p. 131). The autonomous development of agents in the present is circumscribed in a variety of ways, each attributable to the asymmetries of wealth and power that pervade the

capitalist mode of production. Although characteristic of socialist collectivist accounts, we should note that positive liberty has been embraced by some scholars of liberalism. Objectivism—a perfectionist variant of the natural rights tradition—conceptualises liberty as “eudemonia”, a state of human flourishing, of excellence, where the individual’s capacities have developed to the fullest possible extent (Rand 1967; Machan 2006). This depends not on collective action to reduce asymmetries of wealth and power, as Marxists suppose, but on voluntary exchange, where our ideals are instantiated through self-driven engagement with the external environment.

In certain respects, it could be argued that the distinction between positive and negative liberty is misleading since freedom always involves constraints, and actions that people wish to perform. In an important contribution to the debate, MacCallum demonstrates that liberty involves a “triadic relationship”, taking the form “ $x$  is (is not) free from  $y$  to do (not do, become, not become)  $z$ ” (1967, p. 34), where:

$x$	is the agent whose freedom is in question;
$y$	is the restrictions that may impair freedom, whether internal of external; and
$z$	is the substance of liberty.

According to MacCallum’s argument, positive and negative liberty should be thought of not as two entirely different approaches, but as incomplete references to the same underlying conception of freedom. In reality, “proponents of positive and negative freedom argue not over alternative conceptions but only over the proper emphasis within one and the same fundamental conception” (Goodin 1982, p. 152).

### *Liberal Justice*

Though they may disagree on these important issues, all liberals converge around the primacy of liberty, defined in terms of the capacity of agents to deliberate and act in accordance with their sovereign preferences. Liberal justice restricts the scope of governmental action to the measures that are necessary to protect individual freedom, and no more. In re-affirming the importance of “institutional neutrality”, Dworkin (2000) insists that

political decisions—including those that might shape retirement—should be “independent of any conception of the good life, or what gives value to life” (p. 127). This means that ethical principles and values, such as egoism and altruism, must be chosen by agents on the basis of their own deliberative activity, not imposed by public officials. At the same time, liberal justice requires the state to take an active role in distributing the resources that are necessary to protect and sustain individual liberty. Any failure to distribute such resources, in any way they might be defined, could result in substantial restrictions on liberty, and would be incompatible with justice. In the words of one prominent exponent of liberal political philosophy, the correct “role of the state is to protect the capacity of individuals to judge for themselves the worth of different conceptions of the good life, and to provide a fair distribution of the rights and resources to enable people to pursue their conception of the good life” (Kymlicka 2002, p. 218). Legal and political institutions may be regarded as just to the extent that they give expression to the principle of equal regard for the liberties of all citizens. In exploring the relevance of liberal justice to appropriate pension scheme design, this monograph adjudicates between several prominent approaches in the repertoire of liberal political philosophy.

### *Distinctive Liberalisms*

The reasons for emphasising the importance of liberalism, rather than focussing on the broader repertoire of political philosophy should be clear. First, liberal political philosophy has been marginal to the scholarly debate on appropriate pension scheme design, particularly its normative foundations. While utilitarians have articulated an extensive critique of public pensions (Barry 1986), other variants of liberalism have largely ignored matters of ageing and retirement. The social democratic “philosophers” of social policy analysis, on the other hand, have generated a substantial body of literature around the dynamics of inequality and disadvantage in old age, as well as the design of retirement systems (Esping-Andersen 1990; Goodin et al. 1996). This means of course that the field is biased in favour of a particular conception of “the good”—a vision of socially engineered fraternity, coalescing around “other-regarding” values such as altruism and equality. In addressing these biases, the monograph broadens the debate on the dynamics of injustice. Rather than assuming that all income differentials are an artefact of external economic forces, for example, liberals maintain that agents can be responsible for their own

circumstances, given just laws and institutional arrangements. The monograph also sensitises readers to the “possibility” of diverse ends—reflecting variation in people’s sovereign preferences—instead of assuming prior agreement around any particular set of values, including the value of retirement. In articulating these concerns, it draws consistently on the insights of four perspectives, situated at different points across the ideological spectrum of liberal political philosophy.

It would be fair to say that perceptions of classical liberalism have been mixed. For some observers, its roots can be traced back to the Enlightenment, a period when scholars of political philosophy articulated a direct frontal challenge to feudal systems of power and authority, wealth and privilege (Van Parijs 1995; Kymlicka 2002). But for others, classical liberalism should be regarded as a deeply conservative political project, endorsing principles and policies that would intensify social and economic inequalities. Informed by the precepts of “neoliberalism”, governments have embarked on programmes of reform that have redistributed resources and power away from civil society to the corporate sector, intensifying inequalities in the distribution of income, wealth and opportunity (Glennister and Midgley 1991; Deacon 2002). Putting these external characterisations to one side, a closer inspection of the classical liberal corpus (Hayek 1960; Friedman 1962; Nozick 1974; Conway 1995; Machan 2006) would highlight distinctive deontological and consequentialist doctrines, each articulating a trenchant critique of collectivism, but very different visions of the role of government in realising justice.

- *Natural rights libertarianism.* Libertarianism insists that all agents have rights that can never be violated by other people, including agents of the state (Nozick 1974; Kelly 1998; Machan 2006). Everyone is entitled to exercise discretionary control around their physical and psychological capacities, as well as any external objects that have been acquired by legitimate means. State intrusion in economic and social life is invariably coercive, and morally unacceptable. In effect, this makes people responsible for their own retirement futures by whatever means they deem appropriate, provided that this does not involve coercion. That is, if they want to cease their involvement in economic activity at all, for retirement can only be voluntary, a lifestyle choice. The minimal state would refrain from the intrusive regulation that is characteristic of modern retirement systems.



- *Utilitarianism.* A second and perhaps more influential variant of classical liberalism, utilitarianism rejects this emphasis on protecting individual rights in favour of a focus on outcomes (Hayek 1960; Friedman 1989; Conway 1995). While voluntary exchange is generally conducive to economic and technological development, growth and prosperity, the market cannot be relied on to optimise the production and distribution of goods and services, at least not consistently. Market failure manifests in a variety of ways, but principally the defective decision making that arises when agents have too much freedom. Emphasising the importance of financial well-being and security, the state must protect liberty where the market is able to augment welfare, but take action to circumscribe voluntary exchange where it is not. This approach generally upholds a free market in pensions, but endorses considerable state intrusion in the retirement system.

Perceptions of egalitarian liberalism have also been mixed, manifesting in at least two distinctive ways. For some, egalitarian liberals endorse a deeply conservative political project, no different to “neoliberalism” in its aim to confer economic and social advantages on corporate actors (Armstrong 2006). Egalitarian liberalism is dismissed as an ideological rationale for a system of resource allocation that gives disproportionate benefits to the wealthy and powerful. But for others, egalitarian liberalism should be regarded as a collectivist political project, promoting a vision of “the good” that is permissive with regard to tax-payer financed largesse and public morality (Kekes 1997). Egalitarian liberals endorse measures to generate substantial outcome equality, oblivious to the possibility of adverse economic and moral consequences. In reality, a detailed inspection of the corpus of egalitarian liberalism would suggest that neither of these negative characterisations is adequate. Like classical liberalism, its exponents give priority to liberty, which enables people to define and pursue their own conception of “the good”. But, unlike classical liberalism, egalitarian liberals regard access to material resources as a precondition for individual freedom, and unregulated markets as creating barriers to sovereign decision making. The egalitarian liberal rationale for governmental action has been articulated in two prominent ways.

- *Prioritarianism.* The priority view recognises that liberty can be circumscribed by a range of contingencies, including financial

impoverishment (Rawls 1971; Kangas 2000; Costa 2011). In this respect, Rawls (1971) makes the vital distinction between the “scope” of liberty and its “worth”, an artefact of individual capacities, and a function of access to resources and opportunities. As well as protecting all agents against coercive intrusion by other people, justice should give priority to the least advantaged by augmenting their resources and opportunities. To the limited extent that they have engaged with ageing and retirement, Rawlsians typically endorse a substantial role for the state in shaping the pension system.

- *Luck egalitarianism*. While it may accept some prioritarian insights, luck egalitarianism is distinctive in vitally important ways (Van Parijs 1995; Dworkin 2000). Its exponents insist that redistributive transfers should be directed only towards those whose capacities for sovereign decision making have been impaired by circumstances that are not of their choosing—or what might be thought of as bad “brute luck”. This refers to internal obstacles to self-direction, including impaired rationality, and external barriers to autonomy such as financial impoverishment. Once these basic inequalities have been addressed, voluntary exchange should be sufficient to expedite sovereign decision making. This approach could involve the state substantially in the design and management of pensions.

## THE MONOGRAPH

Turning to the particular concerns of the monograph, our central aim is to articulate and justify a distinctive liberal account of justice that can be deployed to inform the design of pensions, or to evaluate existing retirement systems. In approaching this task, we have drawn on and synthesised the insights of two disciplinary traditions. Political philosophy is concerned primarily with the legitimacy of economic and political institutions, particularly their normative foundations (Miller 1999; Kymlicka 2002; Schmidt 2005). According to one prominent political philosopher, the discipline “tells us what we ought to think about justice” (Miller 1999, p. 32), by engaging with, and evaluating the relevance of normative principles to institutional design. Political philosophers have not characteristically been concerned with developing concrete programmes of welfare reform that can instantiate justice, and have therefore been subject to the criticism that their

work has little relevance to the “real” world of policy making. In contrast, social policy has been concerned with the dynamics of injustice—as manifest in particular national jurisdictions—including the design, societal impact, and sustainability of income transfer programmes (Titmuss 1974; Esping-Andersen 1990; Hyde and Borzutzky 2016). In principle, this applied focus has considerable relevance to those with responsibility for designing or working in economic and political institutions, but is vulnerable to the objection that it lacks a critical or coherent normative rationale. According to Miller, this omission reflects a tendency to “bracket off the question of what justice really is”, and to investigate “justice beliefs and justice behaviour without the theoretical presuppositions” (1999, p. 43). Our analysis in the following chapters reflects the assumption that an adequate account of just pension design must draw on the strengths of both traditions. If it is to articulate elements of design that are compatible with justice, social policy requires an appropriate normative theory. But if it is to generate principles that can—reliably and sustainably—be instantiated by reformers, political philosophy requires a concrete understanding of the dynamics of injustice. These challenges are addressed by the monograph in the following ways.

Chapter 2 is concerned with the relevance of need to pension design. Defined in terms of the minimum threshold of resources or opportunities that are necessary for agents to function optimally in a social context (Doyal and Gough 1991; Schmidt 2005), *need* is widely regarded as the responsibility of the retirement income safety-net (World Bank 1994; Dixon 1999; Hyde et al. 2006). Our analysis starts by highlighting the normative foundations of the needs-focussed first pillar pension arrangement. Although libertarianism acknowledges the importance of collective action to address extremes of disadvantage (Conway 1995; Kelly 1998; Machan 2006), the efficacy of libertarian justice as a means of addressing unmet need is limited by its reliance on voluntary exchange. While financial impoverishment is universally disadvantageous, philanthropic and charitable effort have proven to be uneven, and have failed to address unsatisfied need in an equitable way. Utilitarianism justifies the importance of liberty in terms of its role in generating and diffusing the benefits of economic prosperity (Hayek 1960; Friedman 1962). Moreover, their emphasis on the primacy of outcomes<sup>9</sup> would suggest that utilitarians are tolerant of statutory measures to aid the least advantaged, particularly means-tested social assistance. Yet utilitarianism is flawed in its assumption that a free market in pensions will optimise the economic circumstances of retirees, including the poorest. And, for a

variety of reasons, residual safety-net transfers are one of the least effective means of targeting poverty relief. Though acknowledging the role of morally arbitrary contingencies<sup>10</sup> in shaping patterns of disadvantage in old age, Rawls' account of justice is limited by its failure to articulate a concept of need that could resonate with policy makers and the public at large (Doyal and Gough 1991). We find that luck egalitarians have articulated such a concept, endorsing governmental action to augment the circumstances of the least advantaged. Reflecting these normative foundations, Chapter 2 evaluates several approaches to the design of the first pillar social security safety-net. Though it might seem to waste scarce fiscal resources, a "universal citizen's pension" is judged to be the most effective means of targeting poverty in retirement (Van Parijs 1995; Hyde and Dixon 2009).

Chapter 3 is concerned with the relevance of the desert principle to the design of retirement systems, particularly the second pillar pension arrangement. Defined in terms of the degree of correspondence—or "fittingness"—between differentials of economic activity and financial remuneration (Miller 1999; Olsaretti 2004), desert is widely regarded as the defining moral impetus of work-related retirement schemes, which redistribute each worker's earnings horizontally across the lifecycle (Hyde and Dixon 2009). Where it regards desert as a cardinal virtue (Rand 1967; Smith 2006), libertarian justice is rendered problematic by its emphasis on the efficacy of voluntary exchange. Before their performance can be appraised, desert requires each agent to exercise responsibility for their actions, but the "free" market generates extremes of wealth and disadvantage that make distributive outcomes dependent on circumstantial luck. This applies in equal measure to utilitarian exponents of voluntary exchange, who fail to acknowledge the role of the market in circumscribing opportunity and well-being. In spite of his emphasis on the importance of individual sovereignty, Rawls' analysis is limited by its dismissal of "agent-responsibility", and the very possibility of desert. Along with others (Sher 1987; Miller 1999), we believe that Rawls overstates the role of native endowments as a source of arbitrariness in the distribution of opportunities and rewards. Unlike these variants of liberalism, luck egalitarianism acknowledges both the possibility of agent-responsibility, and the beneficial role of the state in arranging institutions to ensure that deserts are rewarded, reliably and consistently. Building on this discussion of normative foundations, Chapter 3 evaluates several models of second pillar retirement provision. Our analysis finds that an

appropriately crafted “defined benefit” pension scheme<sup>11</sup> is most likely to satisfy the requirements of the desert principle.

Chapter 4 addresses the relevance of universal human capacities for sovereign decision making to the design of just pensions. Defined in terms of governmental action to impose binding rights or duties (Rawls 1971; Kymlicka 2002), citizenship is arguably the responsibility of the retirement system as a whole. Our analysis finds that libertarianism endorses an arbitrary selection of the public transfers that can make citizenship a reality. While insisting on the importance of “negative rights” to justice, libertarians reject outright the notion of “positive rights” to redistributive income transfers (Kelly 1998; Machan 2006). The repertoire of governmental action to instantiate citizenship is exhausted by its role in enforcing the rule of law. While utilitarianism permits the state to be actively involved in directing economic affairs, this role is not articulated as a function of citizenship, and does not give rise to constitutionally binding entitlements. Reflecting their ideational roots in utilitarian political philosophy, “liberal” retirement systems are characteristically less-than-inclusive (Esping-Andersen 1990; Rothstein and Uslaner 2005). Prioritarians address this issue directly by highlighting the vital importance of compulsory redistributive measures to ensure that all citizens can access “primary goods”,<sup>12</sup> but tend to over-emphasise the role of collective decision making in determining the substance of governmental action (Rawls 1971, 2003). Looking beneath the rhetoric of universal suffrage, the liberal democratic polity is suffused with untrammelled self-interest, which intensifies political rent-seeking (Hyde and Borzutzky 2016). Luck egalitarians address these issues by emphasising the role of individuals in crafting their own lives, and the role of the state in ensuring that this is possible. Reflecting several of these insights, Chapter 4 highlights a range of pension design features that would augment individual capacities for sovereign decision making around work and retirement.

Chapter 5 concludes the monograph by asserting the distinctiveness and importance of the liberal justice to the design of retirement systems. As we shall see, our understanding of the “liberal” approach to retirement and pensions is fundamentally different to the mischaracterisations that are so prevalent in the literature of social policy analysis. We also note that the critics typically endorse perspectives that are dismissive of individual freedom. Taken together, these observations reinforce the case for institutional neutrality regarding rival conceptions of “the good”. If justice is to be served, governmental action should be restricted to the measures that are necessary to protect individual sovereignty around work and retirement.

## NOTES

1. The consequentialist mainstream of classical liberal economics, for example, tends to criticise the welfare state on the grounds that it is financially unsustainable, increasingly incapable of supporting people in their old age (Tanner 2004; Booth and Niemietz 2014). Collectivists have rejected this negative appraisal, arguing that the issue of financial support for older people is merely one of political will. As a society, do we put people before private gain? The state has the power and authority to make this a reality, what it lacks is the commitment—or so we are told (Ginn 2004; Ghilarducci 2008).
2. But see a special edition of the *Journal of European Social Policy*, particularly the lead article by Schokkaert and Van Parijs (2003), which develops and applies an egalitarian liberal theory of distributive justice to pension reform. Sunstein and Thaler's seminal work on "libertarian paternalism" (2003) makes the case for automatic enrolment in terms of liberty, which has become increasingly prominent in public debate around pension reform. Kelly (1998) develops a compelling set of arguments in favour of *laissez faire*—premised on natural rights—while Barry (1986) argues the case for limited state intrusion in retirement planning on utilitarian grounds.
3. One of the best scholarly works on the instantiation of normative principles through pension design has been Shapiro's 2007 monograph, although it is limited by its emphasis on egalitarian principles, and defined contribution pensions. Esping-Andersen (1990) discusses different approaches to the design of retirement schemes, but his exposition fails to consider private pension schemes in sufficient detail. Perhaps the most thorough treatment of pension scheme design is Dixon's cross-national comparative analysis of retirement provision (1999), but it is largely devoid of philosophical content. Our own work in this area has of course been ongoing (Hyde et al. 2006, 2007; Hyde and Dixon 2009), including two Special Editions of the *Journal of International & Comparative Social Policy* (2009, 25/2; 2012, 28/2).
4. Where people's economic fortunes depend substantially on their capacity to generate preferential treatment by the state at the expense of their fellow citizens (Tullock 1976).
5. Or at least those that existed for much of the twentieth century. Several Northern European countries have introduced compulsory fully funded pensions, which are anathema to the mainstream of social policy analysis (Hyde et al. 2006).
6. Following Rawls (1971), we may define "the good" as an "ordered family of final ends and aims which specifies a person's conception of what is of value

in human life, or, alternatively, of what is regarded as a fully worthwhile life” (Rawls 2003, p. 19).

7. Though we should acknowledge that “anarcho-capitalists” reject any role for the state in public life (Rothbard 1973; Friedman 1989). Public officials and political leaders cannot be trusted to take appropriate action in pursuit of justice, only their own immediate interests. The business of protecting liberty should be left to the market.
8. That is, pre-political society.
9. Which means of course that it does not endorse the “primacy” of liberty, merely its pivotal importance.
10. Factors that agents cannot control through their own effort, such as unequal starting points, prejudice, discrimination and differences of natural ability.
11. Defined benefit pensions confer retirement income security by giving plan participants a “promise” of entitlements in the future (Hyde and Borzutzky 2016).
12. The resources and opportunities that are necessary for people to define and pursue their own conception of “the good” (Rawls 1971; Kymlicka 2002).

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## Need and Just Pension Design

**Abstract** Inevitably, there has been considerable disagreement around the means by which unsatisfied need should be addressed. Classical liberals insist that such action should be voluntary, confined only to philanthropic and charitable effort. But egalitarian liberals are highly tolerant of state involvement in directing ameliorative transfers to those at the bottom of society. Accepting the principle of compulsory collective responsibility for the worst-off, our analysis evaluates several models for the design of the first pillar retirement income safety-net. Selective social security programmes target financial assistance on the poor, but are blighted by low take-up and parsimonious benefit entitlements. While they appear to waste scarce resources, universal first pillar pensions maximise the flow and generosity of transfers to the least advantaged.

**Keywords** Need · Financial impoverishment · Retirement income safety-net · Selectivism · Universalism · Universal citizen’s pension

### INTRODUCTION

More than any other principle of justice, need is associated in the public mind with the development and consolidation of the modern welfare state (Forma and Kangas 1999; Bode 2007). Following others (Doyal and Gough 1991; Hyde and Dixon 2009), need can be defined for the purposes of our analysis of pension design in terms of the “minimum

threshold” of resources and opportunities that are necessary for agents to function optimally in a social context. For a range of influential commentaries, the propriety of need as an element of justice rests on the claim that social organisation embodies a sense of the minimum “standards that an adequate human life must meet”. As a matter of justice, each member of society is “expected to contribute to relieving the needs of others in proportion to ability” (Miller 1999, p. 27). Consistent with our focus on the distribution of retirement income, this chapter is concerned with the challenge of addressing financial impoverishment in old age.

While need is widely regarded as a cornerstone of retirement systems, its status as a moral justification for claims on the societal distribution of resources has been vigorously disputed (Nevitt 1977; Plant et al. 1980; Doyal and Gough 1991). As we shall see, classical liberals reject need on a variety of grounds, but particularly the foundational argument that the imposition of compulsory income transfer programmes violates people’s rights to non-interference. Libertarianism rests on the contentious assertion that only the minimal state can protect people against coercive intrusion, and allow them to live their lives according to their sovereign preferences (Nozick 1974; Machan 2006). In direct contrast, egalitarian liberals insist that financial impoverishment is integral to the circumstances that can impair individual capacities for sovereign decision making. Voluntary exchange is the essence of individual freedom, but *laissez faire* is unable to optimise the supply of appropriate needs-satisfiers. The reality of “market failure” justifies an active role for the state in arranging satisfactory income transfers to the least advantaged (Rawls 1971; Dworkin 2000). Yet beneath these public differences, both approaches seem to concur that extremes of economic disadvantage are morally unacceptable. The question is, how, and to what extent, should the state be involved in designing and instituting redistributive income transfers. Chapter 2 addresses this question in two ways.

1. First, we highlight the distinctive ways in which liberals of different ideological hues have approached the problem of extremes of economic disadvantage—particularly financial impoverishment in old age—and the legitimate scope of governmental action to sustain retirement income security.
2. Second, we tease out the implications of this excursion into political philosophy for the design of pensions, particularly the first pillar retirement income safety-net. There are those who insist that need

is irrelevant to such deliberation, since it generates public policy initiatives that are incompatible with liberty, the core value of liberalism (Rand 1967; Machan 2006). Others maintain that extremes of disadvantage constrain freedom in unacceptable ways, and must be addressed through ameliorative governmental action (Rawls 1971; Van Parijs 1995).

For a variety of reasons, our analysis concurs with the principle of compulsory collective responsibility for the well-being of the least advantaged, stewarded by the state. The failure of *laissez faire* to optimise the satisfaction of unmet need gives a powerful justification for public involvement in arranging the first pillar retirement income safety-net.

### APPROPRIATE NORMATIVE FOUNDATIONS

The broad understanding of need that is deployed in this chapter refers to the adequacy of each agent's financial resources—where “adequacy” denotes an income that is sufficient to realise a minimally satisfactory quality of life. We should note that much of the literature in the field is concerned with the status of need as a satisfactory descriptor of “objective” human characteristics that manifest in universally determinate ways. Some have denied this very possibility, portraying need as a discursive phenomenon that reflects the particular circumstances or preferences of different groups or individuals (Nevitt 1977; Walzer 1983). Inevitably, any characterisation of need as “relative” would complicate the possibility of agreement on the substance of appropriate needs-satisfiers. Others have insisted that “basic human needs can be shown to exist” in ways that could be regarded as objective and universal, and “that individuals have the right to the optimal satisfaction of these needs” (Doyal and Gough 1991, p. 2). Our own position with regard to this important debate is largely shaped by our focus on the efficacy of pension arrangements. The consolidation of retirement systems should generally be regarded as an artefact of industrialisation, which creates the possibility of the “surplus” that would enable people to subsist after disengaging from economic activity. By extension, the consequences of irregular or insufficient income in retirement are universally negative, manifesting as diminished choice, impaired access to goods and services and, ultimately, a lower quality of life. Naturally, our focus on liberalism suggests that “quality of life”

should be understood in terms of individual capacities for sovereign decision making.

Considered superficially, it would be difficult to discern a unified liberal position regarding the concept of need, or appropriate governmental responses to financial impoverishment. Still less is it possible to identify a common liberal understanding of financial disadvantage in old age. To the limited extent that liberal political philosophy has even considered the importance of retirement and pensions, its exponents have endorsed divergent themes and perspectives on the causation of income deprivation, and the nature of the ameliorative action that is required for justice (Kelly 1998; Schokkaert and Van Parijs 2003; Shapiro 2007). Yet a more careful appraisal of the literature reveals a deep attachment to the belief that the economic plight of the worst-off in society is objectionable, and requires a considered response.

### *Classical Liberalism*

Even a superficial glance at the vast literature of classical liberalism would highlight substantial disagreement around the legitimate scope of governmental action to address financial impoverishment. Unlike many other public philosophies, *natural rights libertarianism* rejects the very idea of state intrusion to aid the economically disadvantaged, including those who have disengaged from work on the grounds of retirement (Nozick 1974; Kelly 1998; Machan 2006). As its designation suggests, libertarian justice requires the state to treat people in accordance with their “nature”, which is indicated by universal capacities for self-directed action (Rand 1967; Rasmussen and Den Uyl 2005). *Self-ownership rights* give all agents absolute discretionary control over salient attributes of “the self”, particularly capacities for conscious deliberation, and purposive engagement with the external environment. Similarly, but with a more specific focus, property rights give people the same authority around any external objects that have been acquired by legitimate means—principally “voluntary exchange”, or transfers that involve consent. Considered in this context, the right to save for retirement is simply an extension of property rights in earnings (Kelly 1998; Skoble 2005).

Crucially for the focus of this chapter, liberty takes priority over all other concerns, including the possibility of financial impoverishment in old age. The requirements of justice are satisfied by the “minimal state”, responsible only for enforcing the constitutional rights that give protection against coercion (Nozick 1974; Machan 2006).

Libertarians reject any role for government in addressing the unsatisfied needs of the least advantaged in favour of voluntary exchange and self-provisioning. The primacy of liberty suggests that all agents should be regarded as the sole architects of their own lives, with sole responsibility for their financial futures. In giving expression to this ethos of personal independence, justice is intended only to protect the “possibility” of self-sustaining action, not to secure any particular outcomes (Kelly 1998; Machan 2006). Given these premises, it would not be surprising to learn that libertarians are highly sceptical about the welfare state, an arrangement that supplants voluntary individual with compulsory collective responsibility. Consider how the social insurance schemes that are typical of publicly managed retirement systems operate: “you do not choose whether to participate; you have no say in how the money is to be invested; and you cannot withdraw in response to poor performance” (Skoble 2005, p. 9). “The welfare state diminishes individual capacities by fostering passive dependence on the effort of others, while libertarian justice gives everyone the right to learn prudential savings and investment habits” (Skoble 2005, p. 9).

At this point, we should note that libertarianism is characterised by an apparent ambivalence regarding extremes of economic disadvantage. Like liberalism in general, libertarians regard the moral repertoire of “the good” as a private matter, subject only to each agents’ sovereign preferences and values. Some have interpreted this stance as demonstrating a callous indifference to the circumstances of those at the bottom of society (Olsaretti 2004; Armstrong 2006). The possibility of voluntary exchange trumps all other concerns, including the adversity of financial impoverishment. Yet it is clear that the burgeoning literature of libertarianism is suffused with the conviction that extremes of disadvantage are morally unacceptable, particularly involuntarily incurred dis-welfares (Kelly 1998; Shapiro 2007). This concern differs from the compulsory altruism of socialist-collectivism in its insistence that aid to the least advantaged should be directed through charitable and philanthropic effort. By discriminating in favour the involuntarily impoverished, and those who are able to demonstrate habits of thrift and self-reliance, voluntary collective aid is conducive to the sense of personal responsibility that is at the heart of self-ownership.

While these arguments have been articulated persuasively and cogently, can we really be this confident in the efficacy of voluntary exchange and individualism? Several concerns might suggest that the

answer is negative. For a start, some agents may find themselves in a position where their disadvantage is so overwhelming that it creates insurmountable barriers to the possibility of self-provisioning, even where they are consistently and sufficiently motivated to pursue a better life (Olsaretti 2004). There is little evidence to suggest that the scale of philanthropic effort under *laissez faire* would be sufficient to fill the void created by the dissolution of the welfare state (Heelas and Morris 1992). And, even if voluntary aid could maximise the aggregate flow of resources to the least advantaged, it cannot do so in ways that are compatible with the principle of need. Financial impoverishment is universally disadvantageous, yet philanthropic effort is likely to be patchy and uneven, reflecting problems of insufficient coordination, bias, and inconsistency of treatment—a possibility acknowledged by the libertarian critique of privately administered criminal justice systems (Nozick 1974; Machan 2006), but conveniently ignored in other contexts. Though voluntary exchange is vital to libertarian justice, it may prove insufficient for the liberty of those at the bottom of society.

A second strand of classical liberalism has articulated the case for liberty through the lens of *utilitarianism*, for the propriety of any system of justice would be questionable if it didn't routinely optimise people's well-being (Friedman 1962; Friedman 1989; Conway 1995). Economic and political institutions should be evaluated and endorsed only in terms of their consequences for welfare, not their capacity to give protection against coercion. Characteristically endorsed by political elites as an instrument of distributive justice, statutory income transfer programmes of the kind that are so prevalent in Continental Europe represent the least effective means of addressing economic disadvantage. Several elements of defective design impair the retirement prospects of all workers, intensifying the risk of poverty after they have disengaged from economic activity.

- *Insufficient benefits.* The diminutive performance of statutory social insurance is accentuated by its peculiar method of financing—"pay-as-you-go" (PAYG), as highlighted in Chapter 3. Unlike the fully funded retirement schemes that are typical of private pension markets, benefit entitlements in a social insurance scheme are determined politically, and are financed by means of compulsory payroll taxes. Persuasive research suggests that welfare state provision has become increasingly unsustainable, incapable of meeting its obligations to workers in the future (World Bank 1994; Friedman 2004).



- *Impaired flexibility.* The sheer scale of coercive intrusion that is required to sustain the welfare state has drastically impaired liberty, the single most important driver of economic growth and prosperity (Conway 1995; Friedman 2004). Rather than permitting choice from a range of supply-side actors, offering meaningful variation of pricing and performance, workers are assigned to a public monopoly which provides no opportunities for sovereign decision making.
- *Opportunity cost.* Inevitably, the consolidation of large public monopolies in retirement provision has stifled the emergence of the voluntary alternatives that would optimise welfare. Commenting on this issue several decades ago, Hayek warned, “when we commit ourselves to a single comprehensive organisation because its immediate coverage is greater, we may well prevent the evolution of other organisations whose eventual contribution to welfare might have been greater” (1960, p. 250).

Overwhelmingly, classical liberal exponents of utilitarianism insist that liberty—defined only as the absence of coercion—maximises economic and social welfare, in aggregate, and for groups such as the least advantaged (Hayek 1960; Friedman 1962; Conway 1995). Negative rights must be prioritised, not because they are consistent with universal attributes of human nature—which are regarded as highly improbable—but because their enforcement sustains the institutions that are able to maximise welfare. But, at the same time, this emphasis on the importance of outcomes suggests that liberty may be sacrificed where this would yield greater utility. In this respect, classical liberal economists have long recognised the possibility of goods or services that are vital for compelling practical reasons, but which will not be supplied in sufficient quantities by the market because of their salient characteristics: “non-rivalry”—one person’s consumption is not affected by another’s; and “non-excludability”—no one can be prevented from consuming the good, even if they haven’t paid for it, and “there is a temptation for everybody to become free riders” (Barry 2004, p. 13). In a much cited passage of his prominent defence of capitalism, Friedman (1962) highlights compelling grounds for regarding poverty relief as a *public good*.

I am distressed by the sight of poverty; I am equally benefitted by its alleviation; but I am benefitted equally whether I or someone else pays for its alleviation; the benefits of other people’s charity accrue to me. To put it

differently, we might all of us be willing to contribute to the relief of poverty, providing everybody else did (1962, p. 87).

Articulated in this way, the value of poverty relief as a public good is psychological, eliminating the discomfort that people would feel when in close proximity to the least advantaged. In contrast, Hayek (1960) highlights the importance of poverty relief by focussing on the protection it gives against the desperate acts of the financially impoverished, as they struggle to survive with their meagre resources. For both accounts, the “residual” welfare state can make such protection a reality, providing a targeted retirement income safety-net that is sufficiently generous to meet basic needs, but not so generous that it will undermine work or savings effort (Hayek 1960; Friedman 1962; Murray 2006).

When considered in terms of our focus here on need, this distinctive juxtaposition of public and private action has several advantages over the minimal state. As well as seeking to preserve voluntary exchange—historically, the most reliable means of securing economic and technological development (Frankel Paul et al. 2003)—classical liberal exponents of utilitarianism endorse purposive and coordinated governmental action to address income deprivation. Most accept the proposition that the free market system minimises the prevalence and intensity of unmet need in retirement. Yet this utilitarian vision is contradicted by the reality of substantial reservoirs of economic insecurity and financial impoverishment in retirement. Rather than lifting all boats in a rising tide of opulence, the free market system intensifies the risk of income deprivation for some. The evidence of cross-national comparative welfare state research is clear, ranking fully funded pensions as the least effective means of sustaining retirement income security. And, instead of maximising the flow of redistributive transfers to the least advantaged, the residual welfare state accentuates their economic marginality (Esping-Andersen 1990; Korpi and Palme 1998; Ginn 2004). This distinctive classical liberal endorsement of collective responsibility for needs satisfaction has proven to be insufficient.

### *Egalitarian Liberalism*

A glance at the literature of egalitarian liberalism would similarly highlight considerable disagreement around the substance of need, and the role of the state as arbiter of justice. As well as endorsing governmental action to protect everyone against coercion, *prioritarians* have articulated powerful arguments for compulsory redistributive transfers to those at the bottom

of society (Rawls 1971, 2003; Kangas 2000; Costa 2011). Consistent with liberalism in general, Rawls' exposition of "justice as fairness" rests on the primacy of liberty, which gives all agents the opportunity to frame and act on their own conception of "the good". Much like classical liberalism, Rawls' analysis defines freedom negatively as the absence of coercive intrusion by other people. While this enormously influential contribution to the debate does not refer explicitly to the concept of need, its normative impetus is reflected in the vital distinction between the scope of liberty—as indicated by the "action spaces" that remain once the possibility of coercion has been taken care of—and its "worth", a "measure that depends both on the ability that a citizen has to make use of that liberty, and on the degree to which the exercise of that liberty is useful or essential to the realisation of that citizen's plan of life" (Costa 2011, p. 75). The worth of liberty, in turn, is an artefact of each agent's access to "primary goods",<sup>1</sup> a range of resources and opportunities that are vital to their pursuit of "the good". Inevitably, says Rawls, those who lack any or all of these "all-purpose means" are less likely than others to realise the outcomes and achievements that are embedded in their life-plans, though there may be no discernible differences in the scope of liberty. While Rawls claims neutrality between capitalism and socialism, his analysis is clear that voluntary exchange generates distributive outcomes that circumscribe the worth of liberty, particularly extremes of financial impoverishment. Justice requires measures to address unsatisfied need, this much is clear, but how should their substance be determined, and what would they look like?

Rawls approaches this in several ways, though his distinctive variant of the contractarian method has arguably been the most prominent. The legal and institutional architecture of justice are derived from a hypothetical contract involving agents who are deprived of information about their salient economic and social characteristics, creating a degree of uncertainty about the future. Behind the "veil of ignorance", people are invited to "choose together in one joint act the principles that are [to be] used to assign basic rights and duties and to determine the division of social benefits" (Rawls 1971, p. 11). According to this analysis, rational deliberators in the "original position" will concur on the importance of three principles of justice.

1. *Equal basic liberties.* Above all, justice requires laws, constitutional rights, and institutional arrangements to protect individual

freedom. The priority assigned to liberty behind the veil of ignorance is an artefact of people's "concern to protect their freedom to choose, change and pursue their own conception of the good" (Mulhall and Swift 1992, p. 8).

- 2a. *Fair equality of opportunity*. Access to opportunities that confer disproportionate benefits must be open to all "under conditions of fair equality of opportunity" (Rawls 2003, p. 42). This requirement derives from concern generated by the possibility that people might turn out to have economically valued capacities.
- 2b. *The difference principle*. Inequalities of advantage are acceptable only to the extent that they are able to maximise the resources of the worst-off in society. Knowing that their fates are uncertain, deliberators behind the veil of ignorance will seek to ensure that their circumstances are as good as they can be, even if they end up at the bottom.

The lexicographical ordering of these principles might seem to contradict the implicit emphasis of justice on addressing unsatisfied needs. Rawls gives priority to liberty, which can never be sacrificed for any other end—including improved benefits for the least advantaged—yet the redistributive impetus of the difference principle would seem to belong to a class of measures that are inherently coercive. This apparent conflict between principles one and two becomes less salient if we turn to consider the distinctive way that freedom is framed. Where classical liberals conceptualise liberty generally as the possibility of voluntary exchange, Rawls presents us with a list of designated "basic liberties", including the right to "personal property". The imposition of a parsimonious definition of property rights diminishes the possibility of conflict between the demands of negative liberty, and the taxation that is required to finance redistributive transfers.

Though some regard this variant of prioritarian justice as ultimately compelling (Kangas 2000; Costa 2011), there are lingering doubts about its efficacy as a means of addressing unsatisfied need. Doyal and Gough (1991) insist that Rawls has little to say about the specific nature of the relationship between primary goods and individual welfare, nor is there any attempt to "get behind his general redistributive rules to determine the typical needs that are visible in modern societies" (Barry 1998, p. 88). Arguably, this imposes an unacceptable degree of ignorance on those who are required to endorse distributive justice, on whose decision making much depends (Doyal and Gough 1991). Participants in the original

position might, for example, be tempted “to gamble their futures in the hope that they will be among the better off”, instead of endorsing the difference principle. If they are to be clear “that their best interests will be served no matter where they find themselves”, they must be able to “define ‘best interest’ in relation to the optimal health and autonomy which they will require to compete fairly, or cooperate with those who have been more fortunate” (Doyal and Gough 1991, pp. 131–132). In the real world, of course, the failure to articulate a meaningful concept of need may undermine the willingness of taxpayers to finance the statutory services and income transfers upon which the least advantaged depend. It has been argued further that the relevance of Rawls’ account to the applied focus of policy design is limited by salient ambiguities. In a trenchant critique of the egalitarian liberal tradition, Armstrong maintains that the “difference principle can only be safely discussed at a very high level of generality, and that while it gives some shape to a broad intuition, it does not provide enough shape to securely generate a specific policy programme” (Armstrong 2006, p. 35). In a similar vein, others believe that the notion of the “least advantaged” is not sufficiently determinate to enable governmental actors to develop appropriate needs satisfiers. Who are they, and which of their circumstances require remedial governmental action? In a seminal contribution to the debate, Ronald Dworkin has justifiably declared that “the concept of the worst-off group is too malleable to generate any detailed welfare scheme” (2000, p. 330).

This challenge has been taken up by *luck egalitarianism*, a variant of liberalism that regards unsatisfied need as an artefact of adverse circumstances that are beyond each agent’s conscious control (Van Parijs 1995; Dworkin 2000). A prominent exponent of this variant of liberalism, Van Parijs (1995) defines liberty as “real freedom”, which should be distinguished from “formal freedom”, which can:

can only be restricted by coercion, broadly understood as the (threat of a) violation of a person’s rights, her ownership of herself included. But real freedom can be further restricted by any limit to what a person is permitted or enabled to do. Both a person’s purchasing power and a person’s genetic set-up, for example, are directly relevant to a person’s real freedom. (Van Parijs 2000, p. 4)

Unlike formal freedom, which requires the right to exercise sovereignty, real freedom designates and requires the means to do it. Thus defined,

liberty can be circumscribed in several ways, resulting in unsatisfied need (Van Parijs 1995, 2000).

One is diminished opportunities for involvement in economic activity, the means by which most people are able to generate the financial resources that are necessary for liberty. Even if agents can exercise choice around the acquisition of skills and capacities, their opportunities to deploy them can be curtailed by a lack of sufficient and suitable work. Van Parijs (1995, 2000) rejects the argument that free labour markets clear at full employment. In the real world of economic development, the absence of perfect competition creates joblessness and under-employment, depriving people of the opportunity to sustain themselves. Furthermore, this departure from the market-clearing ideal enables those in work to generate “employment rents”—above market earnings—at the expense of the unemployed.

Echoing Rawls (1971, 2003), a second way in which real freedom can be diminished is where individual capacities are impaired by diminutive native endowments. In this respect, we might note that people are not:

unequally equipped or equally under-equipped by the lottery of nature. Some people are healthy and athletic and others are sickly; some are very intelligent [...] and others are slow-witted; some are highly sexually attractive and others are even repulsive; some enjoy impeccable functioning of their bodies while others suffer serious impediments.

Van Parijs (1995, 2000) is clear that agents whose social functioning is impaired by some “disability” will enjoy fewer opportunities to exercise liberty than others. Articulated in this way, unsatisfied need should be regarded as a matter of injustice, requiring “targeted” statutory income transfer programmes.

But the more substantial reform proposed by this seminal contribution is the introduction of a universal basic income—an income paid by the state to citizens irrespective of their employment status, their income or wealth, and their cohabitation arrangements. Unlike many existing social security programmes, the rationale for this proposal is not the amelioration of poverty as a means of sustaining social cohesion. The principal aim for its liberal architects is to address the possibility of unsatisfied need, which can be thought of as a lack of resources that are necessary to exercise sovereignty around “the good”. The “real freedom” that we are concerned with here is “not only the freedom to purchase or consume. It is the freedom to live as

one might want to live” (Van Parijs 2000, p. 30), however this might be defined, and subject only to the legitimate claims of others. Where we are concerned about realising real freedom, “what we have to go for is the highest unconditional income for all consistent with security and self-ownership” (Van Parijs 2000, p. 33). This emphasis on the deployment of governmental action to address the possibility of impaired capacities and opportunities is revisited in the development of our rationale for the reform of the retirement income safety-net, a matter to which we now turn.

### APPROPRIATE PENSION DESIGN

How might these reflections around appropriate normative foundations translate into requirements for the design of just pensions? Given its focus on financial impoverishment, the first pillar of the retirement system is widely regarded as the appropriate administrative locus of collective action to address unsatisfied need (Dixon 1999; Hyde et al. 2006; Hyde and Borzutzky 2016). In spite of significant variation in their institutional architecture, all social security safety-nets are designed in some way to sustain a minimum threshold of financial well-being in old age. In evaluating the performance of such arrangements, Esping-Andersen (1990, pp. 47–54) highlights the importance of two concerns.

- *Access.* This refers to the rules and procedures that determine access to retirement benefits. Social security schemes are acceptable to the extent that their design permits “ease of access”.
- *Adequacy.* This is concerned with the generosity of first pillar retirement benefits. Social security programmes are acceptable to the extent that the benefits they are responsible for distributing correspond to some justifiable notion of income “adequacy”.

Both concerns may usefully be illustrated with reference to the debate around the efficacy of two broad approaches to the design of the social security safety-net.

#### *A Selective Welfare State?*

The selectivist case for social security reform is directed by the conviction that financial impoverishment requires vertical income redistribution in a targeted income transfer programme (Hayek 1960; World Bank 1994;

Shapiro 2007). Arguably the most prevalent variant, *targeted social assistance* (TSA) is financed from general taxation, paying benefits to those who are first able to demonstrate unsatisfied need. Its exponents insist that TSA has at least two advantages over rival and more inclusive approaches to the design of the retirement income safety-net.

- *Efficiency of targeting.* TSA makes the best use of scarce fiscal resources by restricting financial assistance to households below a designated income threshold—arguably those who need it the most. Such targeting is made possible by means-testing, where household income is evaluated by social security administrators.
- *Internal coherence.* Unlike statutory social insurance (see below), which graduates benefits according to prior contributions, access to transfers in a TSA scheme is a function of need only. This internal coherence makes it possible to graduate benefits in accordance with the intensity of financial impoverishment.

Taken together, these arguments seem to suggest that TSA is the most effective means of ameliorating poverty in old age. And yet looking beneath the surface of this rhetoric, the evidence around existing TSA schemes highlights several salient flaws, each detracting from their effectiveness as a means of addressing financial impoverishment. Alcock (1985) regards “stigma”—a loss of self-respect and personal dignity—as the inevitable consequence of means-testing, an arrangement suffused with the suspicion that people who do not need benefits are somehow managing to get them. Stigma is associated with “non-take-up”, because “ignorance, fear, and in some cases, pride mean that many who are entitled to benefits do not claim them” (Alcock 1985, p. 31). At the same time, its emphasis on targeting means that TSA commands little public support, and retirement benefits are likely to be parsimonious (Walker 1993; Hyde and Dixon 2009).

Alternatively, the World Bank (1994) has endorsed the *minimum pension guarantee* (MPG), a form of means-tested statutory income transfer programme that could only work effectively alongside a mandatory second pillar pension arrangement—particularly a fully funded private pension. If income from the contributory scheme is below a state-designated standard of living, the publicly managed MPG transfers the difference to retirees. In effect, this involves an “automatic means-test”, based on records maintained by the public authority responsible for supervising



the mandatory second pillar, where the only means tested are those that are derived from other pension income. In addition to expediting take-up, this approach seems to address the perverse incentives that are typically associated with selective income transfer programmes. In theory at least, it eliminates some of the negative effects on “saving, since saving is mandatory [...] and it encourages compliance with the mandatory savings plan by providing a bonus in the form of a guarantee” (World Bank 1994, p. 242). In spite of powerful institutional backing, it is clear that this variant of selectivism has failed to address financial impoverishment in old age satisfactorily. The effectiveness of such guarantees is a function of several contingencies. Most require a threshold of prior contributions, but if the bar is set too high, the poor will be unable to qualify for the transfers that they need to survive, and will be forced to rely on TSA. Such failure is exemplified by the desultory performance of Chile’s retirement income safety-net, including the intensified redistributive effort that followed the 2008 reform of the first pillar. Reflecting the imposition of very stringent contribution requirements, many low income retirees have been unable to qualify for financial assistance under the aegis of Chile’s MPG (Hyde and Borzutzky 2016). This is compounded by the coverage exemptions that are typical of mandatory second pillar pensions, generating a substantial reservoir of retirees without entitlement to guarantees. Even in the unlikely event of universal employment coverage, high levels of informal working and contribution evasion disqualify entitlement to transfers from the MPG. While the characteristic design of guarantees is able to eliminate non-take-up for designated groups of retirees, it cannot eliminate the need for TSA. We should also acknowledge convincing evidence of parsimonious MPG supplements, reflecting a lack of popular support for selective social security safety-nets (Leiva 2006; Hyde and Borzutzky 2016).

While the rhetoric of selectivism around efficiency of targeting can be seductive to those of us who regard need as integral to justice, then, its reality is plagued by problems of non-take-up and benefit inadequacy, highlighting the need for a more inclusive approach to the design of the retirement income safety-net.

### *A Universal Welfare State?*

Exponents of universalism would address these concerns by dispensing with targeting entirely, giving all retirees access to the same basic

entitlements (Esping-Andersen 1990; Schokkaert and Van Parijs 2003; Rothstein and Uslaner 2005). For one prominent variant, financial impoverishment in old age should be addressed by extending access to statutory social insurance, an arrangement that was originally created for those in “work”, and which excluded the “economically inactive”. For much of the late twentieth century, scholars of social policy characteristically responded to this marginality by endorsing *universal social insurance* (USI), a model of statutory social security that integrates the redistributive impetus of the needs-focussed safety-net with the savings function of self-provisioning—or vertical and horizontal redistribution. In effect, the USI model posits a single retirement pillar to address two very different moral imperatives—the legitimacy of differentials in savings effort, and adverse variation in the intensity of need. Its principal design attributes might suggest two distinctive advantages over selectivism.

- *Access.* Where government relies on USI to address financial impoverishment in old age, everyone qualifies automatically for income transfers when they reach retirement. According to its exponents, the absence of means-testing and other substantive bureaucratic hurdles accentuates “ease of access” to the retirement income safety-net, and higher take-up (Hills 2003; Ginn 2004).
- *Adequacy.* One of the most compelling reasons for embracing universalism concerns the generosity of publicly managed services and benefits. Paradoxically, the beneficial involvement of the non-poor increases popular support for the welfare state, translating into higher benefits for those who need them the most (Esping-Andersen 1990; Kangas 2000).

These benefits are very compelling indeed, and suggest that USI is preferable to social security safety-nets that rely on targeting. But its characteristic design is suffused with internal contradictions, reflecting the juxtaposition of very different normative principles. A defining feature of statutory social insurance, the contributory principle serves “politically, morally, and psychologically to vest the person’s subsequent entitlements to benefits” (Goodin 1990, p. 536), embedding eligibility in the moral repertoire of desert. This emphasis on the importance of self-provisioning suggests that workers should expect to take financial responsibility for their own retirement futures. And yet its reliance on universal coverage to augment the flow of income to the least advantaged makes entitlement

an artefact of collective responsibility, mediated by compulsory redistributive transfers. The evidence of empirical research around the efficacy of social insurance suggests that this ambivalence has generated substantive negative impacts.

- *Impaired responsibility.* The possibility of entitlement without effort can create perverse incentives that diminish the force of the contributory principle. Why bother saving when the same outcome could be realised by depending on the “goodwill” of taxpayers (World Bank 1994).
- *Impaired sustainability.* The failure to graduate entitlements according to differentials of savings effort could stifle the willingness of taxpayers to finance the system. In articulating a trenchant critique of the United Kingdom’s first pillar basic pension, Hills is clear that there is little, if any, “connection between contributions and benefits, either at the individual or the aggregate level, and the links that exist are incomprehensible to most”. If taxpayers are “less unhappy about paying national insurance, that is more a product of folk memory than of current reality” (2003, p. 12).
- *Impaired legitimacy.* Above all perhaps, this juxtaposition of these very different principles gives transfers to the least advantaged a spurious and fragile legitimacy. If individual contributions are insufficient to finance benefits, in what meaningful “sense are benefits claimed as a right because they have been paid for? And in what sense are [ . . . ] contributions any more than part of general taxation for social security expenditure?” (Alcock 1985, p. 38).

We could conclude from these developments that the contributory principle has “outlived its usefulness and should be swept away” (Hills 2003, p. 12), by converting existing social insurance schemes to programmes of vertical income redistribution, financed from general taxation, but universal in scope. Or, alternatively, we might re-affirm the importance of the contributory principle, and take steps to differentiate the retirement income safety-net from the desert-prioritising savings function of the second pillar (see Chapter 3). If benefits in the first pillar are to be claimed as of right, then surely that right should be linked in some way to need, not “mythical contribution conditions” (Alcock 1985).

This brings us conveniently to a second variant of universalism, the *universal citizens pension* (UCP), a form of basic income scheme for

retirees only (Van Parijs 1995; Schokkaert and Van Parijs 2003). Financed from general taxation, the UCP is unconditional, giving all retirees an entitlement to benefits irrespective of any variation in need, and prior work or savings effort. When evaluated as a means of addressing financial impoverishment in old age, the advantages of the UCP model are twofold.

- *Access.* Its emphasis on universal coverage eliminates any requirement for degrading means-tests. Benefits are paid to people automatically when they reach retirement, which makes it unnecessary for them to take action to advance a claim. According to exponents of basic income, these features optimise access to transfers, and maximise take-up (Van Parijs 1995).
- *Adequacy.* Because they are universal, political support for UCP schemes should be widespread, reducing the possibility of parsimonious benefit entitlements, and the risk of income inadequacy.

Inevitably, some will object to the UCP model on the grounds that there is no legitimate moral justification for the beneficial involvement of the non-poor in a retirement income safety-net, which should prioritise the circumstances of the least advantaged. Compared to social security safety-nets that exclude the vast majority from eligibility, however, the UCP model is technically proficient at delivering retirement income to the financially impoverished. It might also be argued that the absence of strict eligibility conditions in the UCP model condones “free-riding”, enabling the worst-off to exploit the labour of taxpayers (White 2004). Some insist that entitlement to state support during periods of disengagement from economic activity should be grounded in a “minimum work requirement”, which could manifest in two ways; “strict reciprocity”—the requirement that entitlements should be determined in accordance with prior contributions, as reflected in the second pillar pension arrangement; or “baseline reciprocity”—the requirement for a “decent minimum” of lifetime engagement with work (White 2004). But while such proposals may have intuitive appeal, work testing is clearly incompatible with the moral impetus of needs satisfaction. Crucially, the disqualification from entitlement of those who fail to satisfy work tests would convert UCP to a form of selective social insurance, where retirement income is allocated in accordance with prior work or savings effort. Those who fail to qualify for transfers under this arrangement would be forced to rely on social assistance, which is characterised by uneven take-up and benefit inadequacy.

Ultimately, the adequacy of the first pillar retirement income safety-net should be evaluated only in terms of its capacity to address unmet need, suggesting that reciprocity is an irrelevant concern.

### *Evaluating Alternative Designs for the Retirement Income Safety-Net*

This speculative appraisal of different approaches to the design of the retirement income safety-net is given considerable support by empirical research around the prevalence of retiree poverty. We can start by noting that TSA is widely acknowledged to be the worst-performing model, reflecting substantial evidence of non-take-up, and benefit inadequacy (Esping-Andersen 1990; Walker 1993; Gilbert 2004; Hyde and Borzutzky 2016). This indictment is reinforced by cross-national comparative research around the performance of statutory social security. Drawing on empirical evidence of the prevalence of retiree poverty<sup>2</sup> from the mid to late 1980s, Korpi and Palme's seminal and highly influential analysis (1998) found that financial impoverishment was highest in countries that relied on TSA (the "targeted model") to deliver the retirement income safety-net (for example, Australia—5.2 percent of retirees in poverty). Universal social insurance (the "encompassing model") performed significantly better, generating some of the lowest rates of retiree poverty among the countries selected for comparison (e.g., Sweden—1.4 percent; Norway—2.6 percent). Echoing our analysis above, the UCP model proved to be the most effective approach to the design of the retirement income safety-net. According to their own ranking, but contrary to their narrative, Korpi and Palme found that the Netherlands achieved the lowest incidence of retiree poverty (0.2 percent). Even more recently, Meyer and her colleagues (2007) compared the performance of six pension systems with distinctive configurations of first and second pillar provision.<sup>3</sup> All were evaluated by simulating the living standards<sup>4</sup> of different groups of the working age population deemed to be at risk of poverty in old age. Again, the lowest incidence of estimated retiree poverty<sup>5</sup> was realised by the Netherlands—the only country in the study with a UCP scheme—followed closely by retirement systems with USI.

At this point, it could be argued that the force of this evidence is diminished by a failure to consider an adequate sample of countries with a UCP, and sampling that is biased in favour of high income countries.<sup>6</sup> In addressing this objection, Willmore's analysis (2006) compared two models of first pillar provision—TSA and UCP—focussing on a range of

low and high income countries, including 11 with a UCP. The most striking difference concerned “ease of access”, as suggested by column one in [Table 2.1](#), which reports the percentage of retirees in each country in receipt of safety-net transfers. As we shall see, the consistently higher “realised” coverage of UCP schemes reduces the probability of income deprivation arising from non-take-up. A casual observer might object to this unfavourable comparison by highlighting the wide coverage achieved in South Africa and Australia, but both are highly untypical of the TSA model, which endorses targeting as a means of restricting access to benefits. In both countries, means-testing has been designed to exclude members of the richest stratum from what is, in most essentials, a universal retirement income safety-net. We should also highlight evidence of inefficient targeting, where transfers are directed towards affluent households, but withheld from the most impoverished.<sup>7</sup> Turning to benefit adequacy, column two in [Table 2.1](#) permits comparisons of the generosity of transfers in the retirement income safety-net—expressed as a percentage of GDP per capita. Even a cursory inspection of these differences would suggest that first pillar transfers have been consistently higher in countries that rely on a UCP to address financial impoverishment in old age. New Zealand and Kosovo stand out as the most successful, delivering benefits equivalent to around half of per capita GDP. Echoing our discussion of idiosyncratic design above, the generosity of the first pillar safety-nets of South Africa and Australia should be regarded as an artefact of their inclusiveness, not the parsimonious emphasis of targeting that is characteristic of the TSA model. On balance, the evidence of cross-national comparative research supports our endorsement of the UCP model.

### *Designing a Just Universal Citizen’s Pension*

Given this evidence, how might the design of a UCP be optimised to address financial impoverishment in old age? Any consideration of standard work on social security design would highlight several challenges (Hyde et al. 2006; Willmore 2006).

First, how should access to needs-focussed transfers be determined? Our emphasis on inclusiveness as a means of optimising the flow of income to the least advantaged suggests that eligibility for transfers under the aegis of the UCP should involve as few restrictions as possible. In particular, such design would emphasise:

**Table 2.1** “Ease of access” and “benefit adequacy” in the first pillar retirement income safety-net, 2003

<i>Country</i>	<i>Access<sup>a</sup></i>	<i>Benefits<sup>b</sup></i>
<i>Universal citizens pension</i>		
New Zealand	93	46 <sup>c</sup>
Mauritius	103	16 <sup>d</sup>
Namibia	93	16
Botswana	96	10
Bolivia	105	26
Nepal	77	10
Samoa	100	22
Brunei	87	10
Kosovo	100	50
Mexico City	94	5.5
<i>Social assistance</i>		
South Africa	87	29
Australia	67	29 <sup>e</sup>
Chile	15	14
Costa Rica	21	10
United States	6	17 <sup>f</sup>
India	4	5

<sup>a</sup> Beneficiaries as a percentage of the age-qualified population.

<sup>b</sup> Benefit entitlements as a percentage of per capita GDP.

<sup>c</sup> Single person only.

<sup>d</sup> For those aged 60–89.

<sup>e</sup> Single person only.

<sup>f</sup> Single person only.

*Sources:* Selected government departments responsible for managing the first pillar retirement income safety-net; United States Social Security Administration; Hyde et al. 2006; Willmore 2006.

- *Age* (2A, Table 2.2)—to differentiate retirees from other population groups. All citizens would be eligible for the UCP at the normal retirement age (NRA)—the retirement age designated by the state (see also Chapter 4).
- *Residence* (2B)—to differentiate “citizens” from “others”. We should note that stringent residence requirements will diminish ease-of-access, which could divert resources away from the least advantaged (Meyer et al. 2007). And yet policy-makers would not be thanked for introducing a first pillar retirement income safety-net that ultimately proved to be financially unsustainable.<sup>8</sup>

**Table 2.2** Need and just pension design

<i>Design feature</i>	<i>Justice imperative</i>
<i>Ease of access</i>	
2A. Age. Eligibility for the UCP given at the normal retirement age (NRA).	Differentiates retirees from other population groups, ensuring that transfers are appropriately targeted.
2B. Residence. Eligibility is a function of citizenship, defined in terms of residence within the geographical boundaries of the nation state.	Ensures that financial resources are transferred to all citizens.
<i>Adequacy of entitlement</i>	
2C. Periodic payments. Payments made at regular intervals.	Addresses the possibility of unsatisfied need by maintaining purchasing power across the span of each agents' retirement.
2D. Flat-rate benefits. Benefit entitlements the same for all recipients, but see 2F.	Protects the basic liberties of all citizens in an equivalent way.
2E. As generous as possible.	As a general rule, insures against the risk of insufficient income.
2F. Variable, needs-focussed supplements. A needs-focussed supplement to the general scheme.	Addresses the circumstances of those with exceptional needs, but within a framework of universality.
2G. Appropriate benefit indexation. Uprating in accordance with earnings or inflation, whichever is deemed appropriate.	Preserves purchasing power across the span of each agents' retirement.
<i>Sustainability</i>	
2H. Stringency of residence requirements. Graduate eligibility in accordance with duration of residence.	Augments sustainability, but could result in insufficient income.
2I. Progressivity of tax treatment of UCP income.	Maintains the principle of universality, but graduates entitlement according to the intensity of need.
2J. Inclusive TSA. A social assistance programme that excludes the most wealthy, not the vast majority.	A possible substitute should the UCP prove to be unsustainable.

Second, what is the appropriate form of benefits? This question arises in part because several of those who endorse the liberal discourses from which the UCP model is derived insist that transfers should be distributed as one-off grants or, in the language of social security analysis, "lump-sum payments" (Hyde et al. 2006). Van Parijs (1995) rejects this argument on the grounds that it might result in the creation of a "crowd of elderly destitutes who are paying a heavy price for squandering their one-off endowments"



(p. 31). “Periodic payments” ensure that purchasing power is spread evenly across the span of each persons’ retirement, and should be the characteristic benefit modality in the first pillar pension arrangement (2C).

Third, how should policy-makers determine the value of income transfers in a UCP? For its egalitarian liberal exponents (Van Parijs 1995), the primacy of liberty requires a foundation of equivalent treatment, manifesting as a legal right to *flat-rate benefits* (2D) (see also Chapter 4), and yet it is clear that unmet need is experienced with variable intensity. In this respect, we might note that the case for first pillar transfers was initially developed in terms of the income that is necessary to ameliorate “absolute poverty”—a lack of resources that are required for basic subsistence, such as shelter and food. Not surprisingly, egalitarian liberals object that this emphasis does not take account of the importance of individual capacities to function in socially desirable ways. Policy-makers are confronted by an uneasy tension between ease-of-access and benefit adequacy, for universality distributes available resources among a larger pool of recipients. One solution to this dilemma is to insist that universal entitlements should be at least sufficient to facilitate subsistence, and as *generous as possible* above this threshold (2E). A second possibility is highlighted by a prominent liberal exponent of universalism (Van Parijs 1995), who argues that the “basic” entitlements of the UCP should be supplemented by *variable transfers* to address acute disadvantage (2F). Van Parijs insists that additional needs-focussed benefits should be graduated in order to rectify disproportionate financial impoverishment. When pursued under the auspices of a universal social security scheme, such targeting minimises the possibility of regulatory-induced stigma and, ultimately, the income deprivation that is generated by non-take-up. Given the emphasis of the first pillar retirement income safety-net on the satisfaction of unmet need, the value of all UCP transfers should be preserved across time by appropriate *benefit indexation* (2G)—pegged, for example, to average earnings or price inflation, whichever proves to optimise the circumstances of the least advantaged.

As might be anticipated, any proposal for a social security reform on this scale is likely to raise legitimate concerns regarding sustainability. The fact that a social institution is “well-ordered” in the sense that its design corresponds to the requirements of a normative principle such as justice does not mean that it has the capacity to endure over the long-term. Following Rawls (1971), we might regard social institutions as sustainable if their design generates forces that support their endurance. As we have

noted, a UCP is likely to generate an enormous reservoir of electoral support, augmenting its political sustainability. But any approach to social security that confers unconditional entitlements is likely to generate enormous financial costs, raising serious questions about the capacity of the state to sustain transfers over the long-term.

The sustainability of the UCP model in high income countries can be illustrated with reference to the Netherlands' retirement income safety-net, which has conferred a universal entitlement to transfers for more than half a century (Meyer et al. 2007). The value of the full UCP is linked to the state-designated "social minimum", an income deemed sufficient to eliminate retiree poverty. However, this juxtaposition of benefit adequacy and stability is realised, in large measure, by the imposition of stringent residence requirements. Inevitably, the entitlements of "partial residents" fall short of the statutory poverty threshold, increasing the probability of dependence on TSA, and exposure to the risk of non-take-up. Governmental action to address this—perhaps by relaxing residence requirements—could impair the stability of the UCP.

The sustainability of the UCP model in low income countries could be indicated by its adoption and endurance in handful of countries—Mauritius, Bolivia, Namibia, Botswana, Nepal, Samoa—and Mexico City. But, as we have noted in our analysis above, the realised coverage of these schemes has been uneven, ranging from 77 percent in Nepal to a recorded 105 percent in Bolivia (Willmore 2006). Furthermore, our analysis suggests that their capacity to address unmet need satisfactorily is variable. Looking back to Table 2.1, it is clear that few of these arrangements could be thought of as "extravagant", but entitlements in Mauritius and Namibia—16 percent of per capita GDP in 2003—have been sufficient "to ensure that few experience extreme poverty or deprivation in old age". In contrast, UCP entitlements in Nepal and Mexico City—around 10 percent of per capita GDP in 2003—were "clearly inadequate" (p. 11). Again, this highlights the possibility of a trade-off between design that is able to optimise needs-satisfaction, and sustainability.

Not surprisingly, several exponents of the UCP model have expressed considerable optimism about the possibility of realising both aims, even in low income countries. In particular, Willmore (2006) argues that a UCP arrangement could be sustained by redistributing the considerable public resources that currently subsidise second pillar retirement schemes to transfers for the least advantaged (2H). Alternatively, the fiscal sustainability of an adequate needs-focussed UCP arrangement could be

augmented by introducing a degree of progressivity in the tax treatment of retirement income (a form of *ex post* means-testing), so that each citizen is entitled to a flat pension upon reaching the age of eligibility, but is also required to return part or all of it (2I). The advantage of this approach is that the taxation of retirement income is voluntary, since it can be legally avoided by choosing not to take-up UCP entitlements. Nevertheless, if the UCP model ultimately proved to be fiscally unsustainable in any particular national jurisdiction, it could be worth considering more inclusive forms of targeting, as realised by South Africa and Australia (2J). While these alternatives do not eliminate the problem of non-take-up, or the possibility of parsimonious benefit entitlements, they could be preferable to the Poor Law heritage of less eligibility.

## CONCLUSION

Under any serious reckoning, need is a vitally important principle of justice, designating the minimally satisfactory conditions that must be satisfied if people are to function optimally in their day-to-day lives (Plant et al. 1980; Doyal and Gough 1991). Considered in terms of retirement, the possibility of unsatisfied need takes on an added urgency, reflecting disproportionately high rates of poverty among older people (Hyde et al. 2006; Willmore 2006).

While its importance has been acknowledged across the ideological spectrum of political philosophy, the concept of need has a special significance for liberals. Where many other perspectives embed need in some wider conception of “the good”—as shaped by shared norms and values (Esping-Andersen 1990; Etzioni and Brodbeck 2010), for example—liberals tie need to the possibility of sovereign decision making (Kelly 1998; Kymlicka 2002). Extremes of economic disadvantage are morally unacceptable because they impair individual capacities for conscious deliberation, and purposive engagement with the external environment. But while this antipathy towards financial impoverishment is shared, liberals disagree about the causation of unsatisfied need, and the legitimate scope of governmental action to address it. In emphasising the over-riding importance of voluntary exchange, classical liberal scholars of social security neglect its role in circumscribing individual sovereignty. Egalitarian liberals have taken issue with this endorsement of *laissez faire*, though some have failed to articulate a determinate, policy-relevant concept of need (Rawls 1971, 2003). Unlike classical liberals, they endorse highly redistributive statutory measures to

augment the circumstances of those whose liberty is impaired by financial impoverishment. On balance, our analysis accepts this judgement, which has informed our account of liberal justice.

The importance of need has also been acknowledged by the vast majority of retirement systems, which have instituted a variety of measures to ameliorate poverty. Yet their success in achieving this goal has been highly uneven, reflecting very different approaches to the design of the retirement income safety-net (Hyde et al. 2006; Hyde and Dixon 2009). Although highly prevalent in the real world of retirement provision, targeting is rendered problematic by its lack of inclusiveness, which ultimately generates low take-up, and inadequate benefit entitlements. Our survey of the field is clear that countries which rely predominantly on means-tested social assistance to protect the least advantaged have the highest rates of retiree poverty. Social insurance systems perform better, but are blighted by internal incoherence, reflecting the juxtaposition of very different values. For a variety of reasons, our evaluation of several reform options finds in favour of a distinctive variant of compulsory collective responsibility for addressing unsatisfied need in old age, though several challenges remain to be addressed.

## NOTES

1. Echoing Doyal and Gough's "thick" conception of need (1991), the term "primary goods" refers to a range of assets and opportunities that are vital to autonomy: "natural primary goods"—physical and psychological capacities; and "social primary goods"—resources and opportunities, including designated liberties, income, and wealth (Rawls 2003).
2. Defined as household income below 50 percent of the median income for each country included in the study (Korpi and Palme 1998).
3. This means of course that Meyer and her colleagues are concerned with the performance of the retirement system as a whole, which includes, but is not exhausted by the first pillar retirement income safety-net.
4. On the basis of entitlements conferred by different elements of the retirement system (Meyer et al. 2007).
5. The poverty threshold was defined as 40 percent of average earnings.
6. See Hyde and Borzutzky (2016, Chapter 5) for a more detailed exploration of these methodological issues.
7. A 1994 study of Chile's "Welfare Pension" (Valdés-Prieto 2002) found that around 60 percent of beneficiaries did not belong to households in the bottom quintile of the income distribution; while many recipients were in the top two quintiles. It has similarly been estimated that 40 percent of

beneficiaries in Costa Rica's social assistance safety-net belonged to households classified as "non-poor"; while 32 percent of the financially impoverished failed to qualify at all (Durán Valverde 2002).

8. It may well be, as some have suggested (Williams 1990), that the nation state is an outmoded unit of political sovereignty, and that publicly managed services and income transfers should be accessible to citizens of "the world". But for the time being, the nation state remains the most prevalent form of political organisation.

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## Desert and Just Pension Design

**Abstract** Inevitably, there has been considerable disagreement around the substance of the laws and institutional arrangements that are compatible with desert. To the limited extent that they endorse the desert principle, classical liberals insist that voluntary exchange is sufficient to ensure that market actors are appropriately remunerated for their contribution to production. Egalitarian liberals reject this assertion, insisting that the market is suffused with asymmetries of power and opportunity that diminish individual capacities to be deserving. Acting on this perception, our analysis evaluates several models for the design of the second pillar pension arrangement. Only defined benefit pensions have the capacity to ensure a consistent relationship between work and savings effort, and flows of retirement income.

**Keywords** Desert · Agent-responsibility · Second pillar pensions · Social insurance · Defined contribution pensions · Defined benefit pensions

### INTRODUCTION

While the financially impoverished circumstances of the least-advantaged are a vitally important issue, need does not exhaust the moral repertoire of justice, or the concerns that have shaped the design of retirement systems. An inspection of existing pension arrangements would suggest that their institutional architecture is much wider in scope and purpose than the

retirement income safety-net, giving expression to diverse aims, financing methods, and regulatory requirements (Dixon 1999; Hyde et al. 2006; Bode 2008; Hyde and Borzutzky 2016). We can simplify this bewildering programmatic diversity here by emphasising the core theme of this monograph—the normative foundations of pension scheme design. As a principle of justice, desert generally requires us to evaluate and respond to other agents—positively or negatively—in terms their performance in socially valued activities (Miller 1999; Olsaretti 2004; Hyde and Dixon 2009). Our focus here on the distribution of retirement “income” necessarily means that we are concerned with *economic desert*—the degree of correspondence between the distribution of financial rewards, and differentials of performance at work. For one prominent exponent of the desert principle, justice is served when each agent receives “back by way of reward an equivalent to the contribution he [sic] makes” (Miller 1999, p. 28). Where desert is the relevant principle of justice, pensions should be regarded as an extension of the world of work, redistributing each agents’ earnings horizontally across the lifecourse—not to others. While need is integral to the design of the first pillar retirement income safety-net, desert takes priority in the second pillar, providing a moral point of reference for its architects, and serving as a means of justifying inequalities in the distribution of retirement income.

Building on insights from relevant works of political philosophy, Chapter 3 addresses the yawning gap in the literature that has been created by a failure to address desert, satisfactorily. As well as articulating a defence of the desert principle, we explore and articulate its requirements for the design of pensions. This is approached in two ways.

1. First, we highlight the normative foundations of appropriate pension scheme design in the second pillar. A review of the burgeoning literature suggests that there has been considerable disagreement around the substance and importance of desert, particularly the notion of *agent-responsibility*—the requirement that agents should be sufficiently responsible for the performance that generates their own earnings (Olsaretti 2004, 2007; Hyde and Dixon 2009). Even where they accept the importance of desert, classical liberals typically fail to acknowledge the range of conditions that can give legitimacy to income inequalities (Friedman 1962; Nozick 1974). As we shall see, prioritariness deny that agent-responsibility is even possible, leading some to reject the desert principle entirely (Rawls 1971,

- 2003). Reflecting several of the insights of luck egalitarianism (Dworkin 2000; Vallentyne 2007), our analysis accepts the premise that agents can be regarded as sufficiently responsible, and appropriately rewarded, for differentials of performance at work.
2. Second, and by extension, our analysis deliberates around the requirements of justice in second pillar retirement schemes. It identifies a range of measures to ensure that worker's pensions can operate in ways that are compatible with the requirements of the desert principle. This is developed against the requirements of three dimensions of pension design: (1) *security*—the probability that workers will receive as retirement benefits the earnings they defer when economically active; (2) *inclusiveness*—the proportion of the labour force who are permitted to participate in the second pillar pension arrangement; and (3) *fittingness*—the degree of correspondence between worker's deserts, as indicated by attributes of their involvement in economic activity, and the distribution of second pillar retirement income.

It would be fair to say that the desert principle has been marginal to the scholarly debate around the design of pensions. Chapter 3 rectifies this omission in distinctive ways, drawing on the normative repertoire of liberal political philosophy. As well as reiterating the importance of desert, we articulate a concrete programme of pension design that is able to satisfy the requirements of justice.

### APPROPRIATE NORMATIVE FOUNDATIONS

Although the deployment of desert as a principle of justice involves a range of complex issues, its substance gives expression to a simple insight that has enduring appeal. People should be treated—appraised, rewarded, censured—according to what they have achieved through their actions (Miller 1999; Hyde and Dixon 2009). For much of the literature, the circumstances where desert is relevant are comprised of a three-place relationship involving an agent (the *deserving subject*), the grounds upon which she might be regarded as deserving (the *desert basis*), and the treatment she deserves (the *deserved good*) (Olsaretti 2004; Schmidt 2005). Beyond these general features, there has been much controversy around the importance and substance of desert, focussing on a range of issues (Friedman 1962; Rawls 1971; Smith 2006).

### *Classical Liberalism*

There is considerable disagreement among philosophers of classical liberalism about the nature and importance of desert as a principle of justice (Friedman 1962; Rand 1967; Nozick 1974; Smith 2006). A review of the burgeoning literature of *libertarianism* would highlight two salient perspectives on desert, particularly its relevance to economic activity in a free market. Some are highly sceptical of the assertion that diverse transactions under the aegis of voluntary exchange can be represented by a single normative principle (Nozick 1974; Schmidtz 2005). In practice, economic activity in the market gives rise to a range of distributive patterns, some remunerating performance at work, but others ignoring people's merits—"inheritance, gift-giving, and philanthropy [...] all conferring goods on recipients who may have done nothing to deserve" (Schmidtz 2005, p. 161). Where it is unimpeded by governmental action, the market distributes rewards to those who are able to satisfy consumer preferences—"successful and efficient producers of what consumer want" (Nozick 1986, p. 137)—and the "amount it distributes depends on how much is demanded and how great the alternative supply is" (Nozick 1986, p. 139). Alongside this irrelevance to diverse transactions, the libertarian insistence on the inviolability of individual rights rules out the possibility of coercive intrusion to satisfy any principle of distributive justice. The legitimacy of a distribution can only arise from a "just process of voluntary exchange of honestly acquired property and services. Whatever the outcome, it will be just, but there is no particular pattern the outcome must fit" (Nozick 1986, p. 139). In short, the libertarian analysis is permissive with regard to the moral impetus of voluntary exchange.

Yet some libertarians are troubled by the possibility of undeserved remuneration in the market. In this respect, a prominent variant of libertarianism (Rand 1967; Machan 2006) has articulated a formulation of justice that seems to cohere around salient attributes of the desert principle. For one exponent of objectivism, justice is:

the application of rationality to the evaluation and treatment of individuals [...] A portion of justice consists in acting on one's objective assessments and treating others as they deserve [...] Desert is becoming worthy of recompense, i.e., of reward or punishment according to the good or ill of character or conduct. A person does something, in other words, in order to deserve certain responses from others. (Smith 2006, p. 138)

Thus conceptualised, the importance of justice lies in its respect for the “law of causality”, a principle of association that enables agents to take action to survive and prosper. By evaluating and responding to others consistently in terms of the consequences of their actions, we increase the probability of realising our own conception of “the good”, including the development of our capacities. When a person responds justly, “by rewarding or punishing as a person’s actions deserve, he is recognising the positive or negative nature of actions and their likely effects on him” (Smith 2006, p. 140). Any failure to maximise performance could be equally troubling for those concerned, for they will “pay dearly” by becoming “less happy, less fulfilled [and] less excellent” as human beings (Machan 2006, p. 140). Yet even though desert is a vital element of personal conduct, it has no substantive implications for governmental action, and is regarded as subservient to the protection of liberty. As long as a person possesses rights, “he is entitled to have them respected, and his deserts are immaterial” (Smith 2006, p. 173). Although desert is a morally compelling principle of justice, it should be regarded as a matter of voluntary exchange, not public responsibility.

Taken together, these perspectives are rendered problematic by their refusal to acknowledge the range of conditions that make each agent’s sovereign pursuit of “the good” possible. The protection of negative rights, they say, enables us to live our lives in accordance with our voluntary choices, giving us ultimate responsibility for our actions. At the same time, it is clear that any reliance on voluntary exchange can involve transactions that are fundamentally coercive (Olsaretti 2004; Hyde and Dixon 2009). The dull compulsion of financial impoverishment may prevent the least advantaged from optimising action in pursuit of “the good”, impairing the possibility of sovereign choice by making their fortunes dependent on the blind play of market forces. Though it may involve “consent”, “voluntary” exchange can deprive people of the opportunity to exercise the responsibility that must ground desert claims. By extension, it could be argued that governmental action to diminish the intensity of such inequalities is one of several conditions that enable all agents to exercise sufficient responsibility for the performances that generate earnings differentials (Miller 1999; Olsaretti 2004). If desert is so important, why doesn’t it command the same priority as the protection of negative rights?

An examination of the literature of *utilitarianism* would highlight similar disagreement among consequentialist exponents of *laissez faire*

(Hayek 1960; Friedman 1962). For much of the utilitarian mainstream, the desert principle is irrelevant to the production of goods and services in a free market. If nothing else, we should acknowledge the possibility of insurmountable epistemological barriers to reliable judgements about differences in individual deserts. Like others, Hayek (1960) accepts the argument that merit requires appropriate motivational foundations—“acting from good motives” and “overcoming difficulties” (p. 93). But, in the decentralised economic environment of a free market, it is virtually impossible to infer people’s motives from what is known about their performance. This would require perceptual skills that are sufficiently acute to discount the impact of native endowments, and to take account of circumstantial luck. People do not typically have such skills, or the information that makes such judgements possible. By extension, Hayek rejects the belief that market valuations reflect performance differentials among market actors. At best, prices convey information about elasticities of supply and demand, and relative scarcities of different factors of production. While we should embrace liberty as a means of optimising economic development, we will struggle to legitimate voluntary exchange on the grounds of desert, and we should not be overly concerned with its role in evaluating economic transactions.

While this antipathy towards the desert principle has been influential, it has not been universally accepted by classical liberal economists. Most prominently perhaps, exponents of Austrian economics insist that free markets reward economic actors in direct proportion to the value of their productive contribution, which carries more weight than concerns about effort and responsibility (Hayek 1960; Mises 1936). In this respect, the value of each factor-suppliers’ marginal product is a:

measure of its contribution to production; thus each individual factor-supplier receives an income strictly equivalent to the value of the productive contribution that he makes (where “his” contribution includes the contribution of the non-labour factors that he happens to own). (White 2004, p. 52)

The key to understanding this proportionality is market competition, which ensures that realised incomes cannot depart substantially from what is merited by performance. In free labour markets, employers must:

bid competitively for the services of workers, just as they must bid competitively for all other factors of production. If an employer attempts to pay

wages that are lower than his workers can obtain elsewhere, he will lose his workers and thus be compelled to change his policy, or go out of business. (Branden 1967, p. 84)

This characterisation of market-driven transfers as meritorious is echoed by Friedman (1962), who insists that voluntary exchange gives practical expression to the principle, “to each according to what he and the instruments he owns produces” (p. 166). This delivers two important benefits. One is concerned with economic efficiency, for the proportionality that characterises transfers in a free market optimises the supply of goods and services, including labour. Unless a worker receives the:

whole of what he adds to the product, he will enter into exchanges on the basis of what he can receive rather than what he can produce. Exchanges will not take place that would have been mutually beneficial if each party received what he contributed to the marginal product. Payment in accordance with product is therefore necessary in order that resources be used most effectively. (Friedman 1962, p. 166)

Or, to put it another way, desert is integral to the incentives that drive economic activity, for the purpose of earnings differentials is to “give people the reason and the opportunity to race for the finish line” (Schmidtz 1998, p. 85). A second benefit is concerned with the sustainability of human association, which requires adherence to organising norms and principles. No society can be “stable unless there is a basic core of value judgements that are unthinkingly accepted by the great bulk of its members” (p. 167). Friedman believes that “payment in accordance with product” is one of these accepted principles.

Though it provides a convenient justification for intense income inequalities, this analysis of desert is rendered problematic by its failure to acknowledge the importance of agent responsibility. For several influential critiques of the market (Rawls 1971; Dworkin 2000), the willingness and opportunity to participate in economic activity, and the capacity to deliver performance, are shaped in large measure by highly asymmetric patterns of inherited advantage. Though differentials in performance must be regarded as integral to desert, its utilitarian exponents have failed to discriminate between outcomes for which agents are genuinely responsible—which are the proper focus of desert—and those that reflect arbitrary contingencies, such as circumstantial luck. Recognising that effortless achievement and useless

effort are both possible and problematic, an adequate account of desert must acknowledge the importance of performance and responsibility.

### *Egalitarian Liberalism*

Any consideration of the corpus of egalitarian liberalism would suggest a similarly mixed response to the desert principle (Rawls 1971; Dworkin 2000; Olsaretti 2007; Vallentyne 2007), highlighting two distinctive perceptions. The *prioritarian* view rejects the desert principle outright—at least for the purposes of distributing resources and opportunities. This is exemplified by the seminal work of John Rawls (1971), whose acceptance of desert is highly conditional. Reflecting our “settled and considered judgements” (Rawls 1971, p. 103), any disparities of remuneration must be grounded in “agent- responsibility” for the circumstances that generate performance at work. Where people cannot be regarded as sufficiently responsible for such actions—in the sense implied by notions of sovereignty and autonomy—their differential circumstances must be regarded as “arbitrary from a moral point of view” (Rawls 1971, p. 104) and therefore, unacceptable. *A Theory of Justice* illustrates the “argument from moral arbitrariness” with reference to resource allocation under different socio-economic systems, demonstrating that inequalities of income and wealth, resources and assets—indeed, well-being and life-chances—can never be regarded as meritorious, for agents can never be regarded as fully responsible for their actions.

- *Arbitrary social contingencies.* In *feudal* (and caste) societies, access to privileges and other significant opportunities is restricted to members of the self-perpetuating “nobility”. The industrial system of *laissez faire* that replaced feudalism—relying on voluntary exchange, and formal equality of opportunity—addressed this injustice by giving people the formal right to take action to compete for economic resources and opportunities. But, in practice, the free market system has continued to bias remuneration in favour of those from “good family backgrounds”—the middle classes (Rawls 1971, 2003).
- *Arbitrary native endowments.* But can everyone be in a position to compete for opportunities on equal terms? Rawls thinks not. While it might work to perfection in “eliminating the influence of social contingencies”, a fair meritocracy would continue to allow “the distribution of income and wealth to be determined by the natural



distribution of abilities and talents” (Rawls 1971, p. 24)—or native endowments. Short of inducing a levelling-down equality by taking steps to disable people with natural advantages, the influence of morally arbitrary contingencies on the remuneration of economic activity would seem to be inevitable.

The implications of this analysis are clear, suggesting that “no-one deserves his place in the distribution of native endowments, any more than one deserves one’s initial starting place in society [...] The notion of desert seems not to apply to these cases” (Rawls 1971, p. 104). Yet this does not mean that agents cannot be remunerated in accordance with some notion of performance. In this respect, Rawls draws our attention to the vital, if subtle, distinction between “moral desert” and “entitlements to legitimate expectations”—echoing the distinction between pre-institutional and institutional desert (Olsaretti 2004, 2007).<sup>1</sup> Unlike the former, which Rawls rejects, entitlements to legitimate expectations can arise only after the relevant principles of justice have been instituted by the state—that is, principles 1 to 2b, as highlighted in Chapter 2. Once justice is in place, people are entitled to the remuneration that is specified by its rules, which permit income inequalities. But, at the same time, the terms of social cooperation demanded by justice require workers to pay taxes to finance redistributive income transfers, particularly those that serve to augment the absolute position of the least well-off (Rawls 1971, 2003).

Libertarians have responded to Rawls’ apparent determinism by dismissing it out of hand, insisting that human agents routinely exercise responsibility for their actions, including those that generate work performance (Machan 2006). Others (Miller 1999; Schmidtz 2005) have responded by asserting the importance of desert, but denying any requirement for agent-responsibility. Irrespective of the degree to which people can be regarded as the sovereign authors of their actions, differential rewards are integral to the incentives that drive labour force participation. On a different note, but with a similar emphasis, Miller (1999) observes that people can and do assign attributions of desert without any regard for agent-responsibility. When we “admire the superlative skill of a musician”, for example, “we do not ask about the conduct which led to its acquisition before granting our admiration” (p. 96). While these are important arguments, their neglect of agent responsibility suggests that they are incapable of sustaining the legitimacy of desert claims. A more satisfactory response might lead us

to question the significance of native endowments as a source of work performance and remuneration. The reality of variation of native endowments does not represent an absolute barrier to acknowledging and remunerating people's deserts, reflecting differentials of agent-responsibility. Equally, it could be argued that Rawls has neglected the important role of public policy in rectifying the influence of arbitrary contingencies on earnings differentials. As well as compensating the least advantaged for their misfortune, governmental action should be directed towards the creation of circumstances that enable agents to exercise responsibility for performance at work.

Perhaps the most convincing response to Rawls' is represented by *luck egalitarianism* which also presumes that outcome-inequality is morally unacceptable in the absence of agent-responsibility (Dworkin 2000; Olsaretti 2004). While they acknowledge the veracity of the insight that informs Rawls' objection to desert, luck egalitarians insist on the possibility of a substantial degree of sovereign engagement with economic activity. Rawls' main error, they say, lies in his presumption that outcomes of reward are always morally arbitrary, just because some are. Unlike the liberal philosophers of the Enlightenment, Rawls appears to neglect the special features that differentiate human agents from all other known species—namely, that they are able to deliberate and exercise responsibility for their choices. Dworkin (2000) develops this insight by distinguishing two very different forms of luck, as highlighted in Chapter 1. *Brute luck* refers to contingencies that are beyond people's conscious control, but may still shape their lives in significant ways, including any involvement in economic activity. Brute luck can manifest as “desert hierarchies in which certain individuals are held to be more deserving simply because of their birth status” (Vallentyne 2007, p. 173). It also describes events that people are unable to influence, and which diminish the link between agent-responsibility and outcomes—prejudice and discrimination in education and employment, for example, or the unexpected shocks of economic development. Because it is involuntary, brute luck is regarded as morally unacceptable, and incompatible with justice. In contrast, *option luck* refers to distributive outcomes that arise from people's voluntary choices—the calculated gambles that people take in their daily lives. Echoing our emphasis on the importance of agent-responsibility, luck egalitarians accept the legitimacy of any earnings differentials that are generated by option luck.

Though not accepted by all liberals, it could be argued that liberty and desert are linked in a common project that requires agents to determine their own conception of “the good”. While people's values and moral

principles should be regarded as a private matter, there is substantial evidence to suggest that a majority of national publics endorse desert on matters of work and pay (Miller 1999; Kangas 2007). This should not be surprising, since the desert principle focusses on action that is fundamental to anyone's conception of "the good", whatever its particular substance—that is, the means by which people choose to sustain themselves, economically. Desert simplifies this challenge by facilitating a rational basis for engaging with economic activity. As a source of self-motivation, desert holds out the promise of reward for differentials of agent-responsibility. And, as a principle of association, desert requires us to appraise others in terms of expected utility, which is a function of their performance. This suggests that desert and liberty should be regarded as complementary. The rights that secure each individual's freedom acknowledge our status as "separate" agents, but the desert principle recognises that we are "active" agents. A free society cannot "work without a 'rule of law' system that secures people's savings and earnings, thereby enabling them to plan their lives. [But] neither can a rule of law function properly in the absence of an ethos that deeply respects what people can do to be deserving" (Schmidtz 2005, p. 70). Luck egalitarians maintain that this symmetry has compelling implications for the scope of governmental action to realise justice.

Unlike classical liberalism, they reject the assertion that the "voluntary" exchange of *laissez faire* is sufficient to optimise agent-responsibility for distributive outcomes. Unfettered markets perpetuate asymmetries of power and opportunity that stifle voluntary choice. Economic development under *laissez faire* is inherently unstable, exposing people to the possibility of "unexpected shocks" that may impair their financial well-being (Schokkaert and Van Parijs 2003). And the minimal state gives people the freedom to treat others in a morally arbitrary way, irrespective of their deserts. Agent-responsibility requires appropriate governmental action, not to impose any particular conception of "the good", but to enable people to realise a substantive element of their own. This requirement translates into three priorities for the design of justice.

1. *Neutralising brute luck.* A defensible principle of desert "that can justify differential rewards recognises that individuals should have fair opportunity to deserve more or less than others" (Olsaretti 2004, p. 165). Inherited economic advantages can be tackled through the tax-system, while bad brute luck can be compensated by the provision of welfare

state programmes such as universal compulsory education, or redistributive income transfers (Dworkin 2000).

2. *Optimising option luck.* Agents can be regarded as sufficiently responsible for their income shares when their actions are “neither tainted by force nor when their choices are wholly outside of their control” (Olsaretti 2004, p. 166). This could be facilitated by statutory measures that make outcomes sensitive to people’s voluntary choices, such as pension market deregulation, which augments consumer sovereignty (Hyde and Borzutzky 2016).
3. *Ensuring consistency of treatment.* A robust principle of desert requires consistency of reward for the economically active—that is, remuneration that “people of a similar kind could have [...] expected under similar circumstances” (Kristjánsson 2006, p. 61). Such consistency incentivises agent-responsibility by ensuring that all economic actors get their due, as indicated by their performance.

### APPROPRIATE PENSION DESIGN

The question is, how can the moral repertoire of desert be relevant to the determination of income in retirement, a period when people are not working? One answer might suggest that desert is irrelevant to retirement because the market rewards “scarce skills only insofar as they are actually employed” (Goodin 1990, p. 546). But, contrary to these superficial appearances, the characteristic design of second pillar pensions suggests that they should be regarded as an extension of the work-based system of remuneration (Hyde et al. 2006; Hyde and Borzutzky 2016). While the desert principle doesn’t “require” workers to affiliate to a second pillar pension, it does require them to save for their own retirement. This commodifying impetus has been instantiated by the *contributory principle*, deployed by the state and pension plan operators to determine benefit entitlements. In the language of insurance, the “larger the premiums you have paid (or the greater the contributions you have made more generally), the more you are entitled to receive” (Goodin 1990, p. 536). Underlying the argument that “benefits should be *earnings-related* because contributions have been is the deeper claim that people should get all that they pay for and only what they pay for” (p. 536, our emphasis). In the language of economic theory, pensions should be regarded as one element of “total compensation package”. This means

that incomes during the individual's working life should be "adjusted to compensate for the value of pension benefits" (World Bank 1994, p. 186). So retirement benefits "would affect the mix of wage and non-wage components of the total compensation package. But they would not affect the individual's total income or the distribution of income overall" (p. 186). Rather than characterising it as a flow of financial resources that is separate from the economic activity of its recipients, retirement income should be regarded as deferred earnings for the work that they have already done. Fundamentally, desert is the relevant principle of justice where pension schemes are designed as an extension of the labour market, because they redistribute workers' earnings horizontally across the lifecycle.

In practice, any evaluation of second pillar pensions against the requirements of the desert principle may be complicated by the range of revenue streams that can generate each worker's retirement assets or entitlements, and the different sources from which they are derived. Briefly this can include:

- *Normal contribution revenue.* The main source of revenue, this is represented by each person's regular savings. This emphasis on income deferral means that the relevant desert base is unambiguous—the work-performances for which agents can be regarded as responsible.
- *Investment income.* Savings in a funded pension scheme are invested in financial securities, and any interest is credited to each member. Since investment income is generated by savings effort (rather than work-performance), the relevant desert base may be unclear.
- *Exceptional contribution revenue.* This is relevant to the exceptional circumstances of pension schemes that are in deficit, unable to meet all financial liabilities (Blake 2006).<sup>2</sup> Who should be regarded as responsible for arranging "deficiency payments" to rectify such shortfalls, given the emphasis of entitlement on income deferral?

The logic of the desert principle requires all flows of income to be grounded unambiguously in relevant attributes of each beneficiaries' economic activity, as argued in our discussion of appropriate normative foundations. If they cannot be so grounded, there can be no entitlement.

The importance of desert is also derivative of its historically prominent role as a justification for pension reform (Freeden 1991; Bode 2008;

Kangas 2007). In this respect, we may note that second pillar retirement schemes have been regarded by their architects as a “reward for services rendered to society by its members over their lifetimes” (Freeden 1991, p. 33). Their introduction signalled that “some rights could be earned, and by implication, could fail to be earned” (p. 33). Several other historical surveys of pension reform have highlighted the salience of desert as the unifying principle of second pillar pension arrangements, linking entitlement to aspects of prior economic activity, thereby instantiating “to everybody according to his/her merits’ thinking” (Kangas 2007, p. 3). In spite of significant differences of programmatic architecture (Hyde et al. 2006; Hyde and Borzutzky 2016), it is clear that the design of the vast majority of second pillar pensions has given expression to the moral repertoire of desert, emphasising the importance of individual responsibility and self-provisioning.

Our distinctive emphasis on desert as appropriate remuneration for economic activity has relevance to the design and evaluation of pension institutions to the extent that they are responsible for distributing deferred earnings. The following analysis expands on this core theme by developing arguments for appropriate design in terms of three benchmarks. From this we derive a set of appropriate design features that could be used to inform the design or evaluation of second pillar pensions.

### *Security*

The first benchmark is *security*, which may be defined generally as a “condition of stability or permanency, where individuals have reliable expectations of continuity in their surroundings and relationships” (Vail 1999, p. 7). The object of security in second pillar pensions is the relationship between savings effort and entitlements, which must be consistent (Hyde et al. 2007). Given the long period of gestation between initial affiliation to a pension and the point at which workers typically cease their economic activity,<sup>3</sup> security must be regarded as a vitally important concern. Can workers be confident that they will receive as retirement benefits the earnings that they have deferred while working? Considered only in terms of desert, a “secure” retirement scheme is one that converts each worker’s savings to retirement income in a reliable and consistent way.

Not surprisingly, in view of its deep attachment to paternalist intrusion, social policy analysis characteristically endorses *statutory social insurance* as

a means of optimising retirement income security in the second pillar (Esping-Andersen 1990; Korpi and Palme 1998; Kangas 2000; Trampusch 2007). Its reliance on payroll taxes<sup>4</sup> to finance benefits eliminates the possibility of “investment risk”, an artefact of financial services industry involvement in the management of pensions, and a salient source of retirement income insecurity (see below). Only the state has the power and authority to impose the binding directives around social security design that can make the “inter-generational contract” a reality (Esping-Andersen 1990; Trampusch 2007). Looking beneath the rhetoric of its exponents, however, it is clear that the modal design and management of existing social insurance arrangements generate considerable insecurity for workers. The absence of legally enforceable property rights<sup>5</sup> gives governmental actors unacceptable discretionary authority around contributions and entitlements, as highlighted by historical research on the evolution of social security pensions—particularly Shapiro’s seminal contribution, which highlighted a “typical universal life-cycle” that is defined by its arbitrary treatment of successive cohorts of retirees (Shapiro 2007). The “early stage” is made distinctive by its juxtaposition of generous benefits for retirees—“much higher than they would have received had they invested their contributions in the market” (Shapiro 2007, p. 156)—and low payroll taxes. In direct contrast, the “mature stage”—where we are today—is marked by the juxtaposition of diminishing benefits and escalating payroll taxes, as governments adjust to increasingly adverse demographics. Where the substance of entitlements is shaped only by the vicissitudes of electioneering, or economic expedience, we can have little confidence that it is able to track people’s deserts.

The alternative to social insurance is to rely on a *funded* pension to deliver the second pillar, an arrangement that has been dominant in several national jurisdictions (Hyde et al. 2006; Hyde and Borzutzky 2016). Considered in terms of retirement income security, funded pensions have several advantages over statutory income transfer programmes. In principle, the requirement for workers to save for their own retirement should eliminate any epistemological constraints on the determination of benefit entitlements. Each workers’ accumulated assets are protected by legally enforceable property rights and—in theory at least—cannot be eroded by predatory intrusion (Impávido et al. 2010; Hyde and Borzutzky 2016). Funding presumes a consistent relationship between savings effort and entitlements, ensuring that workers receive as retirement benefits the assets that they have accumulated during the active stage.

Though they share these attributes, *defined contribution* (DC) pensions seem to be the least satisfactory approach to funding. Much of the reported uncertainty around DC pensions is an artefact of their distinctive method of determining entitlements, which are enumerated at the point when workers disengage from economic activity, and are graduated according to the financial assets that have been realised (Blake 2006; Hyde and Borzutzky 2016). Inevitably, accumulation is impaired by poor investment returns, a consequence of sub-optimal portfolio selection, and market adversity. At the same time, entitlements can be eroded by the imposition of excessive management charges, an increasingly prevalent feature of the DC sector, reflecting intense pension fund management industry concentration (Hyde and Borzutzky 2015). Not surprisingly, such contingencies—so “arbitrary from a moral point of view” (Rawls 1971, p. 103)—have diminished the intensity of the relationship between savings effort and entitlement. Instead of giving them security, DC pensions give workers a “lottery ticket” which makes “average final wealth for given contributions a function of conception date and date of birth” (Modigliani and Muralidhar 2005, p. 58). What is required is an approach to pension design that is able to mitigate the impact of morally arbitrary contingencies.

This challenge is arguably addressed by *defined benefit* (DB) pensions, which specify a legally enforceable promise of entitlements at the start of the accumulation process (Blake 2006; Hyde and Borzutzky 2016). In principle, its capacity to generate predictable horizons around the relationship between savings effort and entitlements suggests that the DB principle must be a foundational element of just pension design (3A, Table 3.1). And yet several characteristics of existing DB schemes seem to detract from this stability.

Reflecting substantial shortfalls of scheme assets to meet the DB promise, “under-funding” has become an increasingly prevalent source of retirement income insecurity (Hyde and Dixon 2004; Ghilarducci 2008; Maurer et al. 2012). Our emphasis here on the importance of desert—particularly concerns around “agent-responsibility” (Rawls 1971)—could suggest several responses. Where it is clear that they have neglected their own responsibilities (eg., by taking “contribution holidays”, or permitting sub-optimal administration), sponsoring employers should be required to take appropriate ameliorative action, such as “deficiency payments” (3B) (Blake 2006). But in circumstances where it is difficult to assign blame or credit for outcomes,<sup>6</sup> we should adopt a default rule of “equality” (Miller 1999),<sup>7</sup> where the costs of



**Table 3.1** Desert and just pension design

<i>Design feature</i>	<i>Justice imperative</i>
<i>Security</i>	
3A. Defined benefit principle. The benefit is defined at the start of the accumulation process, serving as a promise of entitlement.	Generally protects the accumulation of entitlements against adverse contingencies, such as investment and longevity risk.
3B. Employers should be held responsible for deficits that reflect their own negligence.	Desert requires the distribution of benefits and burdens to track agent-responsibility. Scheme sponsors should be given responsibility for rectifying any deficits that they have created.
3C. An appropriate risk-sharing mechanism that permits appropriate adjustments to the affiliated individual's contributions in the event of scheme underfunding, as indicated by unanticipated increases in life-expectancy or sub-optimal investment performance.	Where it is difficult to determine who is responsible for under-funding, we should adopt a default rule of "equality"—which means shared responsibility.
3D. Shared responsibility for financing insurance against scheme insolvency.	The locus of responsibility for unanticipated contingencies cannot be known in advance. In such circumstances, the costs of insurance should be shared.
3E. Obligation on employers to arrange DB coverage for all employees who want it.	This ensures that all workers are given the opportunity to defer their earnings, if they want to.
<i>Inclusiveness</i>	
3F. Universal right to participate a DB scheme.	Giving all workers a meaningful option to save for their retirement
3G. State subsidised contributions for those in unpaid domestic care work.	Where domestic workers are delivering benefits to society, their remuneration should be financed by tax-payers—at least to some degree.
3H. Uniform NCR based on an index of remuneration for salaried care workers.	Where it is difficult to assign responsibility for the benefits that are generated by domestic labour, the default rule of equality requires uniformity of entitlement.
<i>Fittingness</i>	
3I. Unit of entitlement: the affiliated individual only.	Desert is concerned with the performance of individuals. This means that remuneration—whether immediate or deferred—should track differentials of individual performance.

*(continued)*

**Table 3.1** (continued)

<i>Design feature</i>	<i>Justice imperative</i>
3J. A requirement imposed on pension funds to demonstrate, periodically, how investment activity generates societal benefits.	Reflecting the requirement that remuneration should track differentials in the creation of value.
3K. Progressive taxation of interest income to ensure that it tracks individual sacrifice.	The degree of sacrifice involved in saving and investing varies in inverse proportion to income and wealth.

remedial action to address under-funding are shared by employers and workers. The design of an appropriate “risk-sharing mechanism” (3C) should provide for the imposition of upper and lower limits for the “realised funded ratio” (RFR)—the ratio of scheme assets to liabilities. If the RFR at yearend falls within the acceptable range of values, no action is taken. But if the RFR falls short of the “lower trigger, the [shared] contribution of the next year will be increased” (Modigliani and Muralidhar 2005, p. 211), such that the scheme is “fully funded”. This emphasis on risk-sharing could be extended to meet the costs of payment protection insurance (3D), which protects workers’ entitlements in the event of scheme insolvency. While some might regard this emphasis on the importance of “shared” responsibility with dismay,<sup>8</sup> it is clear that such arrangements are compliant with the DB principle which, while fixing entitlements at the start, allows for variable contributions.<sup>9</sup>

Staying with security, we might also be sceptical about pension design that permits inconsistent treatment with regard to the opportunity to accumulate entitlements. This applies with particular force to the growing prevalence of “healthy terminations”, where solvent DB schemes are “frozen” (closed to new employees, with the cessation of accruals for existing members) and replaced with workplace DC arrangements, which are typically less generous, and expose scheme members to considerable investment risk (Maurer et al. 2012; Hyde and Borzutzky 2016). As well as diminishing security, this involves an arbitrary adjustment of entitlements, for the retirement prospects of later cohorts of workers are substantially impaired relative to those who were able to rely entirely on the DB arrangement—irrespective of underlying contribution profiles. One way to address this potential anomaly is to make the responsibility to provide a workplace DB scheme, or to facilitate participation in a wider DB arrangement such as an occupational or industry scheme, compulsory

for employers—as is accepted in several continental European countries (3E). The burden of compliance with this requirement could be a legitimate concern, but would certainly be eased by the risk-sharing mechanism that we have endorsed.

### *Inclusiveness*

A second benchmark to inform the design of second pillar pensions is *inclusiveness*—the proportion of active workers who are permitted to participate in the DB arrangement. As a matter of distributive justice, the desert principle does not require workers to defer their earnings by affiliating to a second pillar retirement scheme. What matters is the degree of correspondence between the distribution of earnings and appropriate desert bases. Even so, feminist scholars of income transfer programmes such as pensions have asserted a pivotal role for the second pillar in addressing the deserts of women, who are disproportionately involved in unpaid domestic labour. Ginn reminds us that this work is of vital importance to society because it “brings a double contribution to welfare systems: it increases the availability of men for paid work; and it relieves the state of its obligation to children, the elderly and the sick” (Ginn 2004, p. 15). In spite of the considerable value-to-society that is delivered by women through their involvement in unpaid domestic work, their deserts are not satisfactorily addressed by supplementary pensions, which exclude those who are deemed to be “economically inactive”.

Nancy Fraser’s seminal work (1996) around this problem illustrates the potential importance of inclusiveness as a desert-relevant issue. As a matter of principle, we could insist that the central focus for policy-makers should be the injustice of the work-based system of remuneration that is failing to distribute income in accordance with desert. In terms of developing an appropriate policy response, this would require a programme of “transformative redistribution” to ensure that all who are engaged in work in the informal, private and public sectors, are remunerated according to their deserts.<sup>10</sup> According to this analysis, it is the work-based system of remuneration that should be made inclusive, not the second pillar pension arrangement. But feminist writers such as Ginn are troubled by this approach, not because they deem it undesirable, but because it seems to postpone the immediate task of addressing women’s diminutive entitlements as retirees. They seem to concur with the central thrust of Fraser’s second response which seeks to “redress mal-distribution by altering end-state

patterns of allocation without disturbing the underlying mechanisms that generate them” (Fraser 1996, p. 45). Where second pillar pensions are regarded as a prominent means by which the deserts of unpaid care workers are addressed, the degree of inclusiveness becomes a vitally important issue.

The problem of access to a scheme could be approached by giving all workers a right to participate in a DB pension arrangement, regardless of the form their work takes, its sectoral locus, or the number of hours it involves (3F). The only condition that must be satisfied is the definitional requirement that an activity can count as “work” only if it results in the production of goods or services that have value to others, either because they are demanded by consumers, or because they are deemed by the public authority to contribute to the common good (Millar 1999; White 2004). If there is no employer, or if it is otherwise impossible for such workers to arrange affiliation to an DB scheme, the state could act as the provider-of-last-resort.

The importance of women’s work in the home to “societal” well-being could suggest that the state should be involved in some way in its remuneration. As far as the deferral of earnings in the DB pension arrangement is concerned, this could manifest as tax-payer-financed contributions for all who are engaged in such work (3G). But how can the value of such contributions be determined when there are no earnings from which they can be derived? To the extent that this has been addressed by existing retirement systems, the most prevalent approach is to derive a notional contribution rate (NCR) from an index of earnings in formal employment, such as the affiliated individual’s earnings prior to their involvement in domestic labour (Gillion et al. 2000). This could be justified in terms of opportunity cost, or the sacrifice involved in giving up the advantages of paid employment, but is vulnerable to the objection that earnings at earlier points in people’s working lives are irrelevant to any appraisal of their current involvement in unpaid work (Ginn 2004). And what happens if there has been no prior economic activity?

Recall that our conceptualisation of economic desert requires remuneration to track the work-performance for which individuals are responsible. In principle, this might require us to determine a NCR in terms of some index of performance differentials that are realised through unpaid domestic labour, but such an enterprise could be hampered by intractable epistemic difficulties. There are potentially enormous problems in distinguishing domestic labour that counts only as “private” activity from work that may properly be regarded as delivering value-to-society: “depending

on what view the community has [if it has one], having and raising children does become, beyond a point, a purely private good” (White 2004, p. 111). Furthermore, the performance that is realised through unpaid domestic labour may not be knowable until a substantial period of time has elapsed—when for example children make the transition to adulthood and become the next generation of citizens. If the productive achievements that are generated by such work cannot be known with any degree of precision, on what basis can they be legitimately remunerated, at least for the purposes of generating an appropriate schedule of state-financed contributions? Recall Miller’s default rule of “equality” to address circumstances where it is difficult to assign blame or credit for outcomes, since this is likely to minimise the degree of injustice (Miller 1999). If this is accepted, the fairest approach would be to apply a uniform NCR to workers who are involved in unpaid caring responsibilities, linked perhaps to some index of the remuneration of salaried care workers (3H).

### *Fittingness*

The third benchmark is the degree of *fittingness* that is likely to be generated by DB pensions (Olsaretti 2004, 2007). Does the achieved distribution of retirement income correspond to the deserts of beneficiaries, or is retirement income allocated irrespective of differentials in their work-performance? As we have suggested, the desert principle requires the elimination of transfers that cannot be grounded unambiguously in the individual’s own economic activity.

Fundamentally, this means that individuals should be rewarded for their own performance, not the performances of other agents. This requirement could give rise to serious doubts about the legitimacy of “derived benefits” such as survivors’ pensions, which are commonly provided for the spouses of deceased DB scheme members. This arrangement has hitherto been justified on the grounds that the labour force participation of married women is impaired by their responsibilities for unpaid domestic labour, and this should be acknowledged financially through entitlements under their partner’s pension. But entitlements to a derived pension apply irrespective of any prior involvement in unpaid domestic labour, which means that they cannot be justified unambiguously—if at all—in terms of the beneficiary’s own work-performance. Following one prominent analysis, we question whether derived benefits remain “justifiable, given the social changes of the twentieth century. Instead, it would be simpler and fairer to

‘individualise’ pensions—phasing out derived benefits and replacing them with improved pension protection for those with caring commitments” (Ginn 2004, p. 5) (3I), as highlighted by our discussion of inclusiveness. But the legitimacy of derived benefits does not exhaust the issue of fittingness with regard to work-related pensions.

Recall that retirement assets in a funded pension scheme are generated in two salient ways; normal contribution revenue is represented by the deferral of earnings from work; while investment income manifests as the interest that tracks capital ownership. Up to this point, Chapter 3 has largely been concerned with the deserts of plan participants as “workers”, but now we turn to their role as “savers”, investing their accumulated assets in financial instruments—such as corporate equities, bonds, and derivatives. Can the distribution of investment income ever be regarded as just, because it corresponds to the deserts of beneficiaries? For a prominent critique of financial markets in the corporate economy,<sup>11</sup> the answer to this question must be negative because capital-ownership does not contribute directly to the production or distribution of goods or services, and fails to generate the value that could ground legitimate claims to remunerative transfers. The owners of financial securities sit there enjoying a life of opulence that was ultimately generated by the productive labour of others, and thus have a parasitical relationship to the “real” economy. Although this critique of financial markets has gained considerable traction in recent years, desert theorists insist on the possibility of an appropriate justification for interest income, but only where certain conditions are in place. This can be illustrated in two ways.

Looking first at outcomes, interest income may be considered legitimate where investment generates value-to-society in some recognisable form. In a recent contribution to the debate, White (2004) defines this “generative contribution” as investment activity that augments society’s production possibilities and horizons beyond what they would otherwise have been. Inevitably, there is considerable disagreement regarding the value of the outcomes that are generated by investment activity in existing financial markets. On the one hand, it has been argued by critics of the financial services industry that investment activity typically gives rise to adverse economic consequences for workers and the communities in which they live, reflecting the myopic investment horizons of professional asset managers, as well as excessive greed (Baker and Fung 1999). On the other hand, those who endorse minimally regulated financial markets insist that free enterprise delivers value-to-society over the long term by generating and diffusing the benefits of economic prosperity. In this

context, the role of pension funds in facilitating economic development is virtuous because they ensure that financial resources flow to efficient and competitive firms, rather than companies whose market performance is sub-optimal. This highlights the possibility that capital ownership can generate benefits for others, a prerequisite for justifying interest income against the requirements of the desert principle. In a DB scheme that is desert-prioritising, pension fund managers should be required to demonstrate the positive economic impact of their investment decisions and strategies at periodic intervals (3J) (Hebb 2008). While the realisation of such benefits is a necessary condition for regarding remunerative transfers as just, however, it cannot be sufficient.

Turning to effort, it could be argued that interest income is not justifiable in terms of the desert principle because individual investors are not responsible for the societal benefits that arise from investment activity. As owners of capital, they act only as gatekeepers to a particular productive asset, not as producers of goods or services. This means that interest should be regarded only as “the price that others pay him to open the gate and let them use the asset” (White 2004, p. 120), not as legitimate remuneration for productive activity. While this is an important concern, we should acknowledge the argument that direct involvement in the work that produces goods or services does not exhaust the possibilities for contributing to beneficial economic activity. For White, an appropriate justification for returns to “earnings-derived saving” could be developed in terms of the “sacrifice” that is involved in postponing immediate consumption. Following the logic of the desert principle, which requires earnings’ differentials to track individual performance, the level of return to savings should be proportional to the degree of sacrifice that is made in deferring immediate consumption. The problem with existing arrangements for generating such returns is their failure to “discriminate between savers making a genuine sacrifice and those not: in a perfectly competitive market, all get the same rate of interest”.<sup>12</sup> This failure to track differentials in sacrifice might in turn suggest that it falls to the state to take appropriate action, if justice is to be served. This could be addressed through the imposition of a regime of progressive taxation for interest income (3K).<sup>13</sup>

## CONCLUSION

While it is not universally endorsed, the desert principle has been salient in recent debates about the substance of distributive justice, and for very compelling reasons. As reported elsewhere (Miller 1999; Bode 2008), the

notion that people should be rewarded in accordance with their merits is widely endorsed by the people, and is deeply embedded in the culture of the market. While this much is clear, there has been substantial disagreement among scholars of political philosophy around the meaning and importance of desert, as well as its implications for the legitimate scope of governmental action. Many reject the desert principle outright, arguing that agents can never be responsible for the circumstances that generate inequalities of reward (Rawls 1971, 2003). In contrast, a small but growing band of political philosophers insist that people are able to exercise such responsibility, and should be rewarded for their efforts (Olsaretti 2004; Hyde and Dixon 2009). Our analysis of liberalism ultimately accepts this endorsement of desert, though its implications for the design of income transfer programmes are not immediately obvious.

While need has been central to the design of the retirement income safety-net, the desert principle has figured prominently in debates about the institutional architecture of supplementary work-based pensions. Where the first pillar redistributes financial resources vertically from the economically active to the least advantaged, the retirement schemes of the second pillar redistribute each worker's earnings horizontally across the lifecourse (Blake 2006). And, although the social security safety-net emphasises compulsory collective responsibility for retirement, the second pillar requires individual responsibility and self-provisioning. And yet a careful appraisal of existing second pillar pensions would highlight variable capacities to address people's deserts. Publicly managed pensions have been influenced by the moral repertoire of desert, but distribute benefits in accordance with economic and political expedience (Shapiro 2007; Hyde and Dixon 2009). Increasingly prevalent in the world of pension reform, fully funded retirement schemes are subject to morally arbitrary contingencies such as predatory charging, and investment risk (Hyde and Borzutzky 2016). In principle, we find that the security conferred by the DB "promise" is able to sustain a consistent relationship between earnings deferral and benefit entitlements. Unusually for the literature of pension design, our analysis has given considerable substance to the measures that are able to sustain compliance with the demands of desert.

## NOTES

1. "Pre-institutional desert" refers to desert claims that are based on some prior normative imperative, independently of the institutional arrangements in which desert claims arise. By contrast, and as the designation suggests,



“institutional desert” is an artefact of institutional arrangements (Olsaretti 2004, 2007).

2. This may be because a scheme has been improperly managed by its sponsors, or any other authorised decision makers, or because managers have acted in a fraudulent way (Blake 2006).
3. Which could be more than 45 years, given evidence of increased life-expectancy (Macnicol 2015).
4. Under “pay-as-you-go” (PAYG) financed retirement schemes, benefits are paid for by imposing a social security tax on workers, with the expectation that they will be similarly supported when they reach retirement (Hyde and Borzutzky 2016).
5. When legal scholars discuss “property”, they are referring to a bundle of rights defined by law, not physical objects. If there are no rights, there is no property (Rounds 2004).
6. It may be difficult to assign responsibility for deficiencies that result from market-driven fluctuations of investment income, or growing life-expectancy.
7. Under conditions of uncertainty, where an array of causes are equally probable (or difficult to disentangle), a default rule of “equality” minimises “the maximum possible injustice done to any one individual” (Miller 1999, p. 235).
8. Socialist-collectivists regard DB pensions as a means of vertical income redistribution, transferring financial resources from employers to workers, and statutory measures to share the costs of pension financing are dismissed as “regressive” (Minns 2001; Blackburn 2002). Yet when their institutional architecture is shaped in accordance with desert, DB pensions should be regarded as a means of horizontal income redistribution, giving workers the opportunity to save for their own retirement.
9. Given the characteristic design of DB pensions, this emphasis on risk-sharing represents a substantial departure from the status quo. Across a range of national jurisdictions, employers are given disproportionate responsibility for rectifying under-funding (Hyde et al. 2006; Maurer et al. 2012).
10. This would of course empower workers, financially, to affiliate to a second pillar pension.
11. Tawney dismisses share ownership as “functionless property”, generating income for shareholders without augmenting societal wealth. See R.H. Tawney, *The Acquisitive Society* (1921). This has been echoed by more recent contributions to the debate (for example see Baker and Fung 1999).
12. In a DB pension scheme, contributions are invested on behalf of its members as a group, not individually, which means that realised rates of return are applied uniformly.

13. Since the “discrepancy between interest and sacrifice is likely to be greatest for high-income, wealthy savers, we can assume as a general matter people are entitled to a greater proportion of the interest income they receive, the less income and wealth they have” (White 2004, p. 123).

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## Citizenship and Just Pension Design

**Abstract** As a principle of justice, Citizenship designates the universal rights and obligations that are required to protect liberty. While all liberals assert the importance of individual sovereignty, there has been substantial disagreement around the legitimate scope and substance of citizenship. Classical liberals maintain that liberty is optimised only where governmental action is directed towards the possibility of coercive intrusion by other people. While accepting the requirement for an appropriate regime of negative rights, egalitarian liberals insist that liberty requires access to external resources, such as those made possible by redistributive income transfers. Considered only in terms of citizenship, a just retirement system must address the reality of financial insecurity, as well as the possibility of coercion.

**Keywords** Citizenship · Negative rights · Positive rights · Right to retirement · Right to work · Non-specific freedom

### INTRODUCTION

A salient characteristic of the normative principles examined in the previous chapters is their focus on the circumstances of particular groups of retirees. Need is premised on the notion of a minimally acceptable standard of living, and demands appropriate governmental action to ameliorate financial impoverishment (Doyal and Gough 1991; Schmidtz 2005). Desert gives

expression to the conviction that earnings should track performance at work, and requires state intervention to ensure that markets reward success, reliably and consistently (Olsaretti 2004, 2007). Citizenship departs from these concerns in two important respects. Justice requires *equality of entitlement* to designated resources and opportunities, such as protection against coercive intrusion, the possibility of involvement in collective decision making, or financial security (Marshall 1950; Kelly 1998). Reflecting this emphasis on inclusiveness, citizenship demands *universality of access* to goods, services, or income transfers. By whatever legal or institutional means are deemed appropriate to the task, justice gives designated legal rights to all citizens (Carter 1999; Machan 2006). The question is, what do these characteristics imply for the design of retirement systems, or any constitutive elements?

Even a cursory glance at the literature of social security would highlight the salience of concerns around citizenship in shaping the evolution of existing retirement systems. A broad commitment to *laissez faire* during the eighteenth and nineteenth centuries signified an endorsement of the Enlightenment project, particularly its emphasis on the importance of *negative rights*—in terms of retirement, the right to take action to participate in economic activity, and to accumulate property in an environment that is free of predatory intrusion (Kelly 1998; Machan 2006). For much of the twentieth century, retirement systems were shaped by a dirigiste mode of governance that conferred *positive rights* of citizenship—essentially, a right to redistributive income transfers and other benefits (Marshall 1950; Armstrong 2006). Even more recently, social security policy has embraced a concern with citizenship as *obligation*, particularly individual responsibilities around work and self-provisioning (Hyde et al. 1999; Etzioni and Brodbeck 2010). In a variety of ways, citizenship has been an enduring ideal in the world of pension reform.

Characteristically, social policy analysis has been highly critical of the “liberal” welfare state, particularly its emphasis on individualism, the cash nexus, and free market competition (Esping-Andersen 1990; Armstrong 2006). Although privately managed pension arrangements give consumers a degree of choice around the means of self-provisioning, their commodifying impetus is incompatible with retirement income security, a cornerstone of the universal welfare state (Titmuss 1974, Layard 2005; Rothstein and Uslanner 2005). While we are sceptical about this characterisation of “liberal” retirement provision—and liberalism more generally—its critique of the market usefully highlights the possibility of economic barriers to liberty, because sovereign decision making invariably requires the financial means to act (Rawls 1971; Dworkin 2000). In amplifying these concerns, our analysis

here in Chapter 4 articulates a distinctive variant of egalitarian liberal citizenship as equal regard for the basic liberties of all, with particular reference to the design of pensions. This is approached in two ways.

1. First, we develop an appropriate normative foundation for pension design by engaging with liberal discourses around the substance of citizenship entitlements, as well as their underlying philosophical rationale. While all liberals assert the importance of statutory protection against coercion, only some regard inequalities of income, wealth, and power as salient barriers to liberty. Classical liberalism is characterised by a narrow focus on entitlements to protection against involuntary interference by other people. In highlighting the adverse consequences of economic and political inequalities for liberty, egalitarian liberals articulate a more comprehensive account of the statutory measures that are necessary to sustain citizenship.
2. Second, and reflecting this normative foundation, we explore the requirements of justice as citizenship for the design of retirement income protection. Our analysis finds that citizenship requires a range of statutory measures to protect individual capacities for sovereign decision making around salient aspects of “the good”, particularly the balance between work and leisure. Significantly, this includes the right to statutory income transfers, and state involvement in shaping the design of the retirement system.

### APPROPRIATE NORMATIVE FOUNDATIONS

For much of the relevant literature (Marshall 1950; Kelly 1998; Carter 1999; Armstrong 2006), citizenship refers to the shared status of societal membership. In a seminal contribution to the debate, Duhamel and Mény (1992) regard “citizens” as members of a wider “territorial political community, independently of belonging to particular collectives” (p. 46), or day-to-day associations. García-Inda (2008) emphasises citizenship as a political relationship, conferring societal membership by means of governmental action to enforce shared rights and responsibilities. Thinking about this in terms of our emphasis on the primacy of liberty, a “free citizen” is a “member of a free society [ . . . ] who shares the rights in this society, and enjoys its privileges” (p. 26). In a classic formulation that has considerable relevance to our analysis of just pension design, TH Marshall (1950)

defines citizenship as a relationship of equality within the nation-state, requiring protection against coercion, as well as statutory rights to services, income transfers and opportunities.

Inevitably, the argument that public laws and institutions should be deployed as means of sustaining equality of status can be unpacked in very different ways, reflecting substantial disagreement around the ends of justice. Many public philosophies define citizenship with reference to some specific conception of “the good”, giving expression to the primacy of shared norms and values (Titmuss 1974; Rothstein and Uslaner 2005; Etzioni and Brodbeck 2010). Crucially, liberalism differs from these approaches in its refusal to endorse a role for the state in articulating and taking action to realise any vision of “the good”. To the very significant extent that they endorse citizenship, liberals define its underlying normative impetus as equal regard for each agent’s liberty. Not surprisingly, in view of our understanding of liberalism (Chapter 1), freedom is necessary to enable them to realise their own conception of “the good”—“to do what they want to do” (Carter 1999, p. 4)—requiring the absence of illegitimate constraints on the scope of individual action. According to its liberal exponents, justice consists in a “distribution of freedom that is either maximal [...] or a ‘minimal freedom for all’” (Carter 1999, p. 4). In conferring rights to protect individual freedom, citizenship is the public means by which justice can be realised. Beyond these general features, there has been considerable disagreement around the legitimate scope of governmental action to protect basic liberties.

### *Classical Liberalism*

Unlike several influential perspectives on citizenship (Rawls 1971; Anderson 1999; Armstrong 2006), classical liberalism has demonstrated a remarkable disregard for political rights, democratic decision making, and the political process more generally. Fundamentally, this reflects the foundational belief in the priority of individual over collective decision making (Hayek 1960; Nozick 1974; Machan 2006). Liberty is given primacy because it gives all agents the opportunity to determine and pursue their own conception of “the good” as a private matter, not an as an object of public concern. The minimal state is endorsed across the spectrum of classical liberal political philosophy, though its normative foundations have been articulated in very different ways, with very different implications for the design of income transfer programmes.



As the designation might suggest, the *natural rights libertarian* conception of citizenship rests on a distinctive understanding of human nature, emphasising salient capacities for sovereign engagement with the external environment in pursuit of “the good”. Some libertarians emphasise the importance of universal capacities for conscious choice, irrespective of its substance (Kant 1965; Nozick 1974). Unlike all other known species, “human” agents are able to deliberate, and take action to shape their circumstances in accordance with their sovereign preferences. For the intellectual architects of the Enlightenment, a “person”—unlike a “thing”—has the capacity to choose on the basis of “reasons”. Kant (1965) extends this characterisation by linking these capacities to notions of dignity and respect, for the only entity that has “absolute worth” is that which is capable of deliberative action. By refraining from coercive interference in other people’s affairs, we regard them as an end in their own right, not merely as a means to our own ends. Thus conceived, liberty has *intrinsic* value, and our plans and projects would have little internal resonance unless we chose them, and had some substantial role in shaping them. Alternatively, some libertarian accounts of justice assign *instrumental* value to freedom, emphasising the importance of universal human capacities for self-sustaining engagement with the external environment (Rand 1967; Smith 2006). Unlike other species, it is clear that human agents cannot survive and prosper by relying solely on instinctive action. Everything that “man needs has to be discovered by his mind and produced by his effort” (Rand 1967, p. 8), but people do not “come with a book of instructions. Though biology and culture give us various ends, we need to order these ends, figure out the best way to pursue them, evaluate whether that are really worth pursuing, and—since we are all quite fallible—very likely revise some of them” (Shapiro 2010, p. 49). People are born naked into the world, and must use their minds to take and adapt resources from the external environment. Liberty is regarded as important by both accounts because it gives agents the opportunity to deploy their capacities for sovereign decision making.

Given our focus here on citizenship, it is important to emphasise the conceptual distinction between “moral” and “political” rights (Kelly 1998). Foundationally, the legitimacy of self-ownership and property rights is derived from distinctly human capacities for conscious deliberation and self-sustaining action. Given what is known about fallibilities of perception and decision making (Long and Machan 2008), however, there can be no guarantees that these moral rights will be taken for granted and respected.

For much of the academic mainstream of libertarianism, the legal and institutional repertoire of citizenship is exhausted by a statutory regime of *negative rights* to protect individuals against coercive intrusion—not *positive rights*, which give people access to designated goods, services, or income transfers (Kelly 1998; Machan 2006). In the words of one prominent exponent of *laissez faire*, negative rights “guarantee freedom from interference by others”, while positive rights “guarantee freedom to have various things that are regarded as necessities” (Kelly 1998, p. 22). This means of course that they differ with regard to any obligations that are imposed on citizens. Negative rights impose a duty of forbearance—a moral duty to refrain from interfering with others—but positive rights require the economically active to finance the redistributive transfers that would instantiate citizenship. Rather than presenting policy-makers with a list of designated rights—a prevalent feature of the field (Marshall 1950; Doyal and Gough 1991)—libertarians simplify the task of designing and administering citizenship by prohibiting any action that is coercive. It follows that they are highly critical of designs for public policy that extend beyond this role.

Above all perhaps, the welfare state violates self-ownership by institutionalising paternalistic intrusion in our lives (Skoble 2005). Social insurance systems have responded to demographic ageing by forcing older workers to disengage from economic activity, with financial support guaranteed by tax-payers. But public pensions violate liberty by compelling people to work for the benefit of others. In his controversial assertion of the case for the minimal state, Nozick (1974) regards payroll taxes as a mechanism for inducing “forced labour”, reflecting the time and effort required to finance social security benefits. In mandating redistributive income transfers, the characteristic design of the welfare state gives expression to altruism, a principle of association which regards service to others as society’s highest ideal (Rand 1967). In effect, it treats each workers’ talents, “initiative, intelligence, dedication to his goals, and all other qualities that make success possible” as personal liabilities, giving them compulsory obligations to “those with less ability, initiative, less intelligence, or dedication” (Kelly 1998, p. 99). Reflecting its unwavering commitment to the primacy of liberty, libertarianism insists that the legitimate scope of governmental action is indicated by its role in enforcing the negative rights of citizenship. Though these arguments have been articulated cogently and persuasively, libertarianism is limited by a failure to acknowledge the importance of a range of barriers to liberty (Dworkin 2000; Rawls 2003) (Chapter 2).

While utilitarians endorse the role of the minimal state in protecting negative rights (Hayek 1960; Friedman 1962), their reasons for doing so rest on intense scepticism about its foundation in attributes of human nature. Some insist that the notion of “natural rights” is vacuous, and unable to supply determinate criteria by which to evaluate economic and political institutions (Bentham 1781; Friedman 1989). Others maintain that the requirement to limit governmental action to the protection of negative rights can generate sub-optimal distributive outcomes, such as intensified poverty (Hayek 1960; Shapiro 2007). Naturally, libertarians question the possibility of incompatibilities between liberty and welfare, because each agents’ sovereign preferences are best satisfied where the state refrains from coercive intrusion. Thus, if utility is “the general goal of legislation, natural rights are the standard, or rule, which must be followed if this goal is to be achieved” (Smith 2012, p. 3). But utilitarians insist that the efficacy of economic and political institutions is an empirical question, requiring a careful appraisal of appropriate indicators of welfare, rather than simple statements of moral principle.

Even a cursory glance at the literature of neo-classical economics would reveal an overwhelming endorsement of liberty, highlighting its role in generating and diffusing the benefits of economic prosperity (Hayek 1960; Friedman 1962; Friedman 1989; Conway 1995; Pennington 2010). The relentless momentum of intense competition on the supply-side of the market induces action to contain operating costs, including any expenses that are passed on to workers as management charges (Hyde and Borzutzky 2016). Reflecting its inherent dynamism, a fully funded retirement system requires “lower contribution rates than a pay-as-you-go system to achieve the same pension benefits” (World Bank 1994, p. 302). Utilitarian scholars of social security regard the enviable prosperity of retirees in privately managed pension arrangements as an artefact of financial market deregulation. Freed from stultifying regulatory intrusion, pension fund managers characteristically respond to market forces by optimising portfolio selection and diversification, generating the highest possible returns for given levels of risk (Tanner 2004). Moreover, some have formally embraced the egalitarian concerns of social policy analysis, highlighting the efficacy of the free market system as a means of sustaining income equality (Kelly 1998; Shapiro 2007). As well as optimising flows of retirement income to the least-advantaged, fully funded pensions create a sense of inter-generational justice by giving successive cohorts of workers the same opportunities for self-reliance and provisioning. Looking beneath the highly polarised rhetoric of the public debate around privatisation, it is clear that liberty is vital to economic and social welfare.

At first glance, these arguments might suggest that both strands of classical liberalism share a common vision of citizenship—one that points in the direction of free markets and voluntary exchange, with governmental action confined to the protection of negative rights. Yet the centrality of outcomes to the utilitarian variant gives rise to the possibility of public responsibility to address “market failure”. Looking at the demand-side of the pensions market, “myopia” designates a highly prevalent tendency to deliberate in the present, to pay insufficient attention to the risk of economic adversity in the future (Hayek 1960). Retirement planning requires immediate and ongoing savings’ effort, but its consequences cannot be known until many years have passed, when it may be too late to take remedial action (Thompson 1998). Utilitarianism manages to swerve the charge of paternalism by insisting that mandatory pensions are intended to protect the interests of tax-payers, not to impose a lifestyle choice on the least advantaged. The justification for governmental action, “in this case, is not that people should be coerced into doing what is in their individual interest but that, by neglecting to make such provision they would become a charge to the public” (Hayek 1960, p. 249). Turning to the supply-side of the pensions market, utilitarian scholars of social security question the belief that voluntary exchange consistently optimises the design and delivery of retirement income protection. Even if workers could be relied on to act prudently with regard to their own retirement futures, the pension fund managers responsible for administering their accumulated financial assets could not—at least not consistently. Where capital markets are under-developed, the government can minimise investment risk by imposing quantitative limits on designated financial securities (Impávido et al. 2010). The possibility of excessive charging in DC pension markets could justify draconian regulation to control fees and commissions. And, for some, the prospect of sub-optimal investment returns could give legitimacy to the imposition of statutory performance minima. Since it is “the action of the state which makes necessary the speeding up of developments that would otherwise have proceeded more slowly, the cost of experimenting with and developing new types of institutions may be regarded as no less the responsibility of the public” (Hayek 1960, p. 249). But utilitarian exponents of privatisation are clear that draconian regulation can only ever be a temporary expedient to facilitate economic development under exceptional circumstances, and should be withdrawn once pension markets are able to function in the beneficial ways that are typical of voluntary exchange.

These arguments suggest that utilitarianism is highly ambivalent with regard to citizenship. On the one hand, it is clear that there is a degree of convergence between both variants of classical liberalism around the importance of negative rights, since each endorses economic arrangements that rely on voluntary exchange to produce goods, services, and income transfers. While quite different in principle, both “frequently lead to the same conclusion” (Friedman 1989, p. 178). On the other hand, there are very substantial differences. Each posits a distinctive justification for the primacy of liberty, with characteristic implications for the nature and scope of governmental action. For libertarians, negative rights are required to protect the possibility of sovereign decision making; but for utilitarians, negative rights are conducive to economic development and prosperity. To the extent that justice can be regarded as important, it is merely one of several concerns that direct us towards a “new social security system based on individually owned, and privately invested retirement accounts” (Shapiro 2007, p. 2). Libertarians insist that negative rights must always be protected, irrespective of any other concerns. But utilitarians are clear that negative rights are important only in-so-far as the liberty that they protect is able to optimise welfare. Under some “circumstances, rights violations must be evaluated on their merits rather than conventional natural rights grounds” (Friedman 1989, p. 173). The utilitarian endorsement of citizenship is clear but highly conditional. While it highlights concerns that are neglected by libertarians, utilitarianism is limited by its failure to acknowledge the devastating consequences of untrammelled markets for the financial well-being of the least advantaged (Hyde and Borzutzky 2016) (Chapter 2).

### *Egalitarian Liberalism*

Much like scholars of classical liberalism, egalitarian liberals regard the legal and institutional architecture of citizenship as the means by which the primacy of liberty can be put into effect. What distinguishes egalitarian from classical liberal political philosophy is its intense scepticism of *laissez faire*, and the capacity of the minimal state to protect individual freedom—at least equitably and consistently (Rawls 1971; Dworkin 2000; Vallentyne 2007). As well as giving expression to voluntary exchange, the market generates enormous reservoirs of economic disadvantage, curtailing choice for those at the bottom of society, and diminishing liberty. Seen against the background of these possibilities, citizenship

requires governmental action to arrange a more symmetrical distribution of resources and opportunities.

As indicated previously, the prioritarian variant of egalitarian liberalism is exemplified by Rawlsian justice, which requires a highly dirigiste mode of governance to generate an egalitarian distribution of resources and opportunities (Shapiro 2007, 2010). To the limited extent that they have deployed insights from Rawls' seminal contribution (1971, 2003), scholars of social policy have focussed disproportionately on the difference principle (Korpi and Palme 1998; Kangas 2000) and, less prominently, his rebuttal of desert. Far less attention has been directed towards Rawls' account as a theory of citizenship, and yet this emphasis could not be less ambiguous. First and foremost, justice as fairness was intended to specify the "principles that should govern relations between free and equal citizens in a democratic polity" (Armstrong 2006, p. 27). Citizenship requires an egalitarian distribution of "primary goods", which are defined as the "things needed and required by [...] citizens who are fully cooperating members of society" (Rawls 2003, p. 58)—including "rights and liberties, powers and responsibilities, income and wealth", and the "social bases of self-respect" (Rawls 1971, p. 62). For some, Rawls' distinctive emphasis on constitutional citizenship rights confirms his status as the "legitimate heir to the classical liberal tradition running from John Locke and, especially, Immanuel Kant, for which the defining feature is the primacy of liberty" (Lomasky 2005, p. 180). But appearances can be deceptive, and a close inspection of justice as fairness reveals measures which, while instantiating its egalitarian mission, are likely to circumscribe individual freedom.

Most prominently, *principle 1* gives each agent an equal right to the most extensive system of equal basic liberties for everyone. Unlike classical liberalism, which defines freedom broadly in terms of individual sovereignty, Rawls analysis of justice generates a "list" of designated liberties that the state is morally bound to prioritise. While the rationale for this approach is unclear, its consequences are not. Rawls demonstrates salient biases that come into view if we disaggregate principle 1.

- *Political rights.* In Rawls account of citizenship, political rights are intended to ensure that no-one is arbitrarily prevented from participating in collective decision making, requiring the right to vote, and

to be eligible for public office. Framed in this way, political freedom is arguably the most prominent element of principle 1, and for good reasons. Without these measures, collective decision making will be dominated by the wealthy elite.<sup>1</sup>

- *Civil rights.* Regarded by Rawls as a subsidiary element of collective decision making in a democratic society, civil rights—“freedom of speech and assembly; liberty of conscience and thought; freedom from arbitrary arrest—are necessary to ensure that people are able to express their political interests and preferences without persecution.
- *Property rights.* Libertarians endorse an unqualified right to exercise discretionary control over external objects that have been acquired by legitimate means (Nozick 1974). Rawls, in contrast, gives citizens the right to hold “personal property” (1971, p. 61). No explanation of the substance of “personal” is provided, though we may assume that it is narrower in scope than the libertarian conception.<sup>2</sup> On this note, we should highlight Rawls’ self-affirmed neutrality between private enterprise (with untrammelled private ownership) and “democratic socialism” (with extensive public ownership).

All rights listed under principle 1 are regarded by Rawls as “constitutional essentials”, and are assigned lexical priority over all other principles of justice as fairness. Reflecting a trenchant critique of distribution according to arbitrary social contingencies, *principle 2a* requires material advantages—income, socio-economic status—to “be attached to offices and positions open to all” (Rawls 2003, p. 42). While some principle of equality of opportunity is a constitutional essential—for example, “a principle requiring an open society, one with careers open to talents [ . . . ]—fair equality of opportunity requires more than this, and is not counted as a constitutional essential” (Rawls 2003, p. 49). And reflecting an uncompromising critique of distribution in accordance with arbitrary native endowments, justice as fairness would impose *principle 2b*—the difference principle—which requires inequalities of material advantage to “be to the greatest benefit of the least advantaged” (Rawls 2003, p. 43). But while a “social minimum providing for the basic needs of all citizens is also a constitutional essential” (Rawls 2003, p. 48), the difference principle is not.

When appraised in terms of the frame of reference set out in [Chapter 1](#), the strength of Rawlsian citizenship is the priority that is assigned to individual liberty, and Rawls’ insistence that citizenship requires access to material resources, for doing anything requires the use of external

objects. *Luck egalitarianism* is highly critical of his tendency to prioritise collective over individual decision making, arguing that it is incompatible with a maximally free society, where “the good” is shaped only by the sovereign preferences of free agents (Van Parijs 1995; Dworkin 2000). Considered as an ideal, any system of justice that prioritises collective decision making over the private life of people detracts from individual freedom,<sup>3</sup> and for two reasons.

- *Self-ownership*. As we have noted, any political system that routinely subjects acts of voluntary exchange to collective approval is likely to erode self-ownership, the principle that each agent has absolute discretionary control around the self—limited only by the equivalent sovereignty of other agents. In principle, a society of free people is “one which leaves each of its members to decide what does and does not happen to herself. However democratic, a “society cannot be free if it does not grant each of its members something like self-ownership” (Van Parijs 1995, p. 8). People may of course get some re-assurance that their private plans matter by Rawls’ insistence on the importance of civil rights.
- *Property rights*. By extension, collective decision making around the production and distribution of goods and services could be regarded as detrimental to liberty, since property rights are integral to voluntary exchange. How can any of us “possibly be said to be free if she cannot breath, eat, move, let alone preach or demonstrate without the approval of the political community which owns everything in the world around us except ourselves [ . . . ] It is [ . . . ] not just private ownership of oneself, but also private ownership of external objects that is required in a free society” (Van Parijs 1995, p. 10). People may not find sufficient reassurance in Rawls’ insistence that they will be permitted to own “personal property”, or his indifference between the market and collectivism.<sup>4</sup>

These issues become even more problematic when we turn to consider the practice of collective decision making that is characteristic of existing liberal democracies, the context that comes closest to realising the Rawlsian vision of justice. Lomasky (2005) articulates the dilemma of asymmetrical distributional conflicts in the public arena as follows.

To be in possession of a full range of political freedoms renders one well-provisioned in a democratic environment to campaign actively on their behalf. However, the assurance thereby provided is slim. One’s potential



opponents are equally graced with democratic freedoms, and if at the end of the contest they should command a majority, then it will not necessarily be much consolation to have had one's day at the polls. If the subjectively measured costs of the required sacrifice are high, then even those who possess a firm sense of justice may find themselves reluctant to go along (p. 185).

Our main issue with Rawlsian citizenship, then, is its tendency to prioritise collective over individual decision making. What is required is an approach to justice that, while recognising the importance of governmental action to protect liberty, leaves decisions about the nature of "the good" to sovereign individuals.

### APPROPRIATE PENSION SCHEME DESIGN

In [Chapters 2](#) and [3](#), it was argued that the pillars of retirement systems are each associated with a distinctive principle of justice. The first pillar retirement income protection safety-net is intended to satisfy unmet need, however defined (Millar [1999](#); Hyde and Dixon [2009](#)); while the second pillar should be regarded as a means of redistributing each person's earnings across the lifecycle, acknowledging people's deserts in retirement (Bode [2008](#); Hyde and Dixon [2009](#)). In contrast, justice as citizenship is concerned with the design and impact of the retirement system as a whole. Does it afford universality of protection against coercive intrusion, or are some treated as second class citizens? Going forward, which forms of state intervention in the retirement system are conducive to first class travel for all passengers at the end of life's journey?

In a variety of ways, these questions have been at the heart of the evolution of existing retirement systems. For much of the eighteenth and nineteenth centuries, the deep attachment of political elites to *laissez faire* gave expression to the philosophy of the Enlightenment, particularly its insistence on the protection of negative liberty (Esping-Andersen [1990](#); Bode [2008](#)). "Retirement" was not a salient and universal expectation, yet citizens all were given the right to save and accumulate assets to disengage from work. A more familiar conception of citizenship came to prominence over the course of the twentieth century, emphasising the importance of statutory income transfers to sustain a minimum standard of living. Historical narratives suggest that the norm of "social citizenship" became a prominent feature of European welfare states (Marshall [1950](#); Blackburn [2002](#)). "Old age" in Western societies was conceived of as a "social

condition affecting each citizen, and requiring uniform treatment by society” (Bode 2007, p. 699). Moving on, the late twentieth century witnessed a substantive shift in the official narrative of citizenship in favour of designated duties and obligations. According to its neoconservative authors, the core rationale of governmental action is the protection of society’s deepest and most cherished customs and values—such as the family, social order, and the authority of economic and political elites (Hyde 2014; Hyde and Borzutzky 2016). In national jurisdictions where the rhetoric of communitarianism became influential, social security systems were recalibrated to emphasise the vital importance of work effort and self-provisioning (Hyde et al. 1999).

While the direction of travel in retirement policy has been shaped by a range of perspectives on citizenship, our concerns around pension design here are more focussed. Reflecting the liberal affirmation of the primacy of liberty, we confine our attention to the role of retirement systems in enabling individuals to pursue their own conception of “the good”. Which particular entitlements are sufficient to protect basic liberties, such that all agents are treated as first class citizens?

### *The Right to Retirement*

On close inspection, it is difficult to sustain the argument that retirement is an inherent feature of the good life. Though culturally embedded, and widely accepted across a range of national jurisdictions, retirement should be regarded as a social construct—an artefact of state action that has characteristically forced workers to disengage from economic activity once they reach some arbitrarily imposed age (Walker 1981; Phillipson 1982). As presently constituted, retirement is profoundly coercive, but this does not mean that the “possibility” of retirement should be eliminated, or that people should be forced to “work until they drop”—a recurring theme of recent discourses around pension reform (Littlewood 1998). At a normative level, the balance between work and leisure should be regarded as a private matter, subject only to each agents’ sovereign preferences. Fundamentally, no one should be coerced into economic activity, and everyone should be free to choose disengagement from work, provided that this does not violate the liberty of other citizens. And yet a consideration of existing retirement systems would suggest that this possibility has been circumscribed in significant ways.

### *A Universal Retirement Age?*

Perhaps the most obvious is where differentials in the “normal retirement age” (NRA)<sup>5</sup> are permitted and justified in terms of moral criteria that are irrelevant to citizenship. Given its emphasis on universality of entitlement, how can it be fair that the NRA in at least half of existing retirement systems continues to be lower for women, in spite of their greater average life expectancy? This arrangement has been justified in two ways. One argument asserts that women are typically expected to shoulder the “double burden” of domestic labour and low paid employment, and have thus “earned” an earlier retirement (Gillion et al. 2000). Similarly, Schokkaert and Van Parijs (2003) highlight the belief that the persistence of gender inequalities in the distribution of retirement income easily earns women “the modest privilege of enjoying their pensions for a longer time” (p. 257). For both arguments, the preferential treatment of women is regarded as just compensation for their disproportionate involvement in reproductive labour.

Although these are important concerns, their relevance to citizenship is highly questionable. As we have suggested, entitlements that arise from appropriate desert bases should properly be regarded as the responsibility of the contributory second pillar pension arrangement. But our focus here is the universal entitlements that give adequate expression to the principle of equal regard for the basic liberties of all, not the differential entitlements that arise from desert claims. Is there anything about the particular circumstances of women which suggests that their basic liberties can only be equivalent to those of men if they are permitted to take an earlier retirement? If the answer is negative, the gendered differentials in the NRA that are prevalent in retirement systems cannot be justified in terms of citizenship *per se*. Indeed, when this is considered in terms of the “temporal autonomy” that is permitted by retirement, the reversal of these differentials appears to acquire a greater moral force, as highlighted by Schokkaert and Van Parijs: “as long as men can expect to live less long, or less long in reasonably good health, would it not be fair to allow them to retire earlier than women?” (2003, p. 257). At the very least, the principle of equal regard for the basic liberties of all requires a uniform NRA (4A, Table 4.1).

This should be distinguished from the moral arguments that have been deployed to justify differentials in the age at which individuals can access entitlements from a supplementary retirement scheme (Freeden 1991; Blackburn 2002). It has been asserted that public “servants” are disadvantaged with regard to other aspects of their employment, particularly their

earnings, reflecting electoral constraints on public expenditure, and preferential treatment regarding the age at which they are permitted to retire is a means of making their total compensation package equivalent to that of employees in the private sector. This is given added impetus by the contention that public sector employment has as its prime objective the service that it can render to the community (Wilding 1982). It involves a moral commitment over and above the pecuniary motivations that typify individual engagement with private sector employment, justifying some form of recognition, which has been instantiated through the right to an early retirement. These arguments could have direct relevance to decisions regarding the distribution of entitlements under the auspices of the desert focussed second pillar, and could justify sectoral differences in the contractual retirement age (CRA),<sup>6</sup> but they do not contradict our core intuition that citizenship requires universality of entitlement, including a uniform NRA.<sup>7</sup>

*A Universal Retirement Income?*

A second way that retirement policy may undermine the capacity of agents to disengage from economic activity concerns the entitlements to

**Table 4.1** Citizenship and just pension design

<i>Design feature</i>	<i>Justice imperative</i>
4A. Universal Normal Retirement Age (NRA)	Ensures that all citizens are treated in an equivalent way with regard to the opportunity to take retirement.
4B. Universal citizens pension	Ensures that all citizens are treated in an equivalent way with regard to the basic income that can facilitate individual sovereignty
4C. Voluntary retirement. The NRA represents a minimum retirement age, not an obligation to cease economic activity.	Maintains voluntariness of choice regarding the decision to disengage from economic activity.
4D. Wider anti-discrimination legislation, to prevent workers from being forced out of their work for arbitrary reasons.	Ensures that the decision to sustain economic activity, or to disengage, is voluntary.
4E. Pension design should be neutral regarding the choice between work and retirement.	This ensures that individual sovereignty is not circumscribed by governmental action, preserving the principle of institutional neutrality.

statutory income transfers that are tied to the NRA. In a variety of ways, a reliance on social assistance may be incompatible with the basic liberties of the least advantaged. Reflecting a lack of popular support, means-tested benefits are likely to be parsimonious, deterring those who have the “choice” from ceasing their employment. Indeed, it is widely acknowledged that the maintenance of incentives to engage with economic activity is the primary rationale of social assistance programmes, giving expression to “less eligibility”—“the principle that relief by the state should always be less attractive than independent wage labour” (Novak 1988, p. 46). Even where workers may wish to disengage from economic activity, their diminutive benefit entitlements may translate into financial impoverishment, discouraging retirement.

The administration of social assistance may also give rise to differentials in entitlements that impact adversely on the liberties of particular segments of the least advantaged. Where the unit of entitlement is the family, benefits are typically paid to the “head of household”, reinforcing economic dependence on a partner, and reducing financial autonomy in retirement. For many women, the formal right to retirement is contradicted by the expectation that they will continue to shoulder the burden of responsibility for domestic labour. Novak (1988) contends that such discrimination has reflected the centrality of patriarchal assumptions regarding the role and status of women in the household: the proper role of women “is as wives and mothers rather than workers; and [...] the economic status of women should be that of dependent upon men”. Their maintenance should “be provided either through their husband’s wage or through his benefit” (p. 153). Although these assumptions are increasingly at variance with the growing prevalence of women’s labour force participation, they continue to inform the administration of social assistance programmes. The principle of equal regard for the basic liberties of all thus adds weight to the case for a universal citizens’ pension (4B)—the unit of entitlement is the individual, giving all retirees a degree of financial independence; while wide population coverage should contain the possibility of parsimonious benefit entitlements, augmenting the capacity of older workers to disengage from economic activity (Van Parijs 1995) (see Chapter 2).

### *The Right to Work*

Yet such entitlements become problematic when they give rise to, or are associated with, the obligation to cease economic activity. Recall that the

broad aim of liberal justice is individual sovereignty, where people are able to pursue their own conception of “the good”, which may include work participation. This is reinforced by the evidence of cross-national comparative research which suggests that a substantial minority of employees prefer to continue working beyond the NRA (Sargeant 2004). Their capacity to do so may be impaired by retirement systems in at least three ways.

### *Voluntary Retirement?*

The most obvious is mandatory retirement, where individuals are forced by the state to cease their economic activity at some arbitrarily designated age. In practice, social security and employment law across a range of national jurisdictions have converged, giving employers the right to dismiss workers when they reach the NRA (Sargeant 2004). A conspicuous exception is the United States which, since 1986, has effectively prohibited mandatory retirement. At the very least, the principle of equal regard for the basic liberties of all requires the generalisation of this approach to all national jurisdictions. The NRA should represent an entitlement to cease economic activity at a defined age, if people want to, not an obligation to withdraw from work (4C).

Even where retirement is not compulsory, the capacity of individuals to participate in economic activity may be impaired by the prejudicial attitudes of employers. Sargeant (2004) defines age discrimination as “the rejection of an older worker because of assumptions about the effect of age on the worker’s ability to perform, regardless of whether there was any factual basis for the assumption” (p. 5). There is considerable evidence to suggest that the negative attitudes that give rise to age discrimination are widespread. One survey of senior executives in 500 companies sought to gauge the prevalence of prejudice against older workers by asking respondents to specify the age at which they would dismiss a job applicant as being “too old” to employ. More than one third regarded applicants aged 50 and over as being unsuitable for employment, while around two thirds expressed a reluctance to employ applicants who had reached the age of 60 (Sargeant 2004). These attitudes manifest as age discrimination in a variety of ways, including the misuse of early retirement provisions to dismiss older workers from their employment. Although early retirement is legally “voluntary”, corporate restructuring often gives rise to the creation of pressures for older workers to disengage from their employment before they reach the NRA, prompting serious questions regarding the

degree to which the decision to take early retirement is an expression of sovereign preferences (Walker 1981; Phillipson 1982). Where justice requires institutions to enable agents to pursue their own conception of “the good”, including participation in economic activity, these pressures must be regarded as morally unacceptable. A genuine concern with the basic liberties of all requires institutional neutrality regarding competing conceptions of “the good”, highlighting the importance of anti-discrimination legislation (4D).

### *Social Security Design*

Persisting in our assumption that retirement should be voluntary, the capacity of agents to participate in economic activity may be further impaired by perverse incentives created by the social security system. This impacts on different groups of older people in distinctive ways, depending on the purpose and design of income transfer programmes. Where social assistance benefits are parsimonious, the least advantaged may be discouraged from ceasing their economic activity, as we have acknowledged. But where it is sufficiently “generous”, social assistance may deter the least advantaged from seeking and maintaining work, because eligibility requires the absence of alternative sources of income, which means that benefits are withdrawn as earnings from employment rise. This is highlighted by Fitzpatrick (1999), who regards the “unemployment trap” as a “consequence of wage levels which are close enough to benefit levels to not make it worthwhile for someone to stop claiming benefits” (p. 57), even if he or she would prefer to do so. This reinforces the moral case for a universal citizens pension which, because it is unconditional, confers entitlements irrespective of other income.

Looking beyond the retirement income safety-net, an inspection of existing second pillar pension arrangements would highlight the possibility of restrictions on entitlement that incentivise disengagement from economic activity (Hyde et al. 2006). For example, “abatement provisions” discourage labour force participation by arbitrarily reducing pension income for workers who continue in their employment beyond the NRA. According to one United Kingdom survey (Sargeant 2004), the impact of such disincentives has been very substantial indeed. In 2001, more than half of a sample of workers who were subject to abatement provisions chose to restrict their own hours of work, or withdrew from economic activity entirely, when they reached the NRA. If pensions are concerned to facilitate individual sovereignty around work and retirement, entitlement must be neutral with regard to labour force participation (4E).

*Non-specific Freedom?*

While vitally important, decisions around work and retirement do not exhaust the scope of individual sovereignty. As well as focussing on specific ends, liberty is relevant to the “(as yet) unidentified purposes” that people will pursue across the entire span of their retirement (Carter 1999). Since agents cannot know all of their future needs and preferences with any degree of certainty, the scope of individual freedom must be as broad as possible to permit appropriate action as and when circumstances dictate. The question is, how and to what extent should we regard the distribution of material resources as being relevant to non-specific freedom?

Libertarians insist that we should not, for liberty can only be impaired by coercive intrusion. Where negative rights are adequately enforced, the scope of non-specific freedom is as wide as it can be—the absence of coercive restrictions on labour force participation gives retirees the flexibility to engage with economic activity in the future, if they wish to do so; the protection of property rights allows people to save with confidence to address future contingencies, whatever they might be; while the absence of coercive prohibitions on freedom of association augments the range of possibilities for agents to engage with meaningful roles and social activities (Nozick 1974; Skoble 2005). Yet libertarian justice is flawed by its tendency to equate voluntariness of choice with consent, since people may “choose” to participate in transactions that are fundamentally coercive. As understood by libertarians, “voluntary” exchange fails to guarantee an acceptable range of options for all.

Egalitarian liberals attach considerable importance to the notion of sovereignty, reflecting the foundational assumption that agents are ultimately responsible for the consequences of their actions, and the success or failure of their lives (Dworkin 2000; Vallentyne 2007). The key role for the public authority, as far as justice is concerned, is to design economic and political institutions so that the circumstances of individuals—including those that manifest over the course of their retirement—are consistently responsive to their sovereign decisions. While this requires statutory protection against coercion, freedom is meaningful only if agents are able to access the external objects that make sovereign decision making and action possible. Agents are “really free, as opposed to just formally free, to the extent that one possesses the means, not just the right, to do whatever one might want to do” (Van Parijs 1995, p. 33). The exchange value of the financial resources



that individuals have at their disposal indicates the actions that are possible for those who own them. To simplify matters, financial resources may be thought of as an appropriate metric of freedom, since they represent a license to perform actions. This means that “any gift of money (including welfare benefits) increases the available set of sets of compossible actions, and any confiscation of money (including taxation) reduces it” (Carter 1999, p. 235). A genuine concern with the basic liberties of all retirees requires an egalitarian distribution of retirement income, such as might be achieved by a universal tax-financed income transfer programme (Van Parijs 1995). Individual sovereignty during old age requires both formal freedom and autonomy, suggesting that the protection of non-specific freedom (as well as specific freedoms) requires a combination of negative and positive rights.

## CONCLUSION

While the substance and importance of citizenship have been articulated in very different ways, its emphasis on equality has been embraced by political philosophers across the ideological spectrum (Marshall 1950; Doyal and Gough 1991; Miller 1999). As with need, citizenship has a special significance for liberalism, reflecting its attachment to the principle of “institutional neutrality” (Kymlicka 2002). Where a wide range of perspectives regard citizenship as the legal and institutional means of realising some preferred conception of “the good”, liberals highlight its role in expediting sovereign decision making (Kelly 1998; Dworkin 2000). The commitment to universal rights reflects their role in sustaining freedom of choice around the substance of “the good”, not in shaping it. Looking beneath the veneer of this apparent consensus, however, there has been enormous disagreement around the nature of the rights that would protect liberty, as well as the role of the state in enforcing them. By focussing exclusively on protection against coercion, classical liberals neglect the impact of a range of impediments to sovereignty. In embracing this challenge, egalitarian liberals regard citizenship as a means of extending access to a range of goods and services. While accepting the case for negative rights to protect people against coercion, they insist on protection against contingencies which, while impersonal, would serve to diminish liberty. Our analysis of pension design is premised on this assumption, endorsing a substantial role for the state in universalising access to financial resources and opportunities.

The importance of citizenship has been acknowledged by a growing number of retirement systems, though their success in realising its ideals has been variable, reflecting a range of issues (Novak 1988; Sargeant 2004; Schokkaert and Van Parijs 2003). Many continue to tie eligibility for social security transfers to inequalities in the NRA. Where there is no adequate justification for such disparities, however, they should be eliminated as a matter of urgency. Most retirement systems have relied substantially on means-tested social assistance to deliver the retirement income safety-net, which could deter workers from taking retirement. But a universal citizen's pension has the potential to eliminate perverse incentives that might impact on the decision to disengage from economic activity. Many retirement systems continue to impose mandatory retirement—where workers are forced to cease work at some arbitrarily designated age. Even systems where retirement is “voluntary” include measures that actively discourage workers from disengaging with economic activity. And yet the message of this chapter is unambiguous. When considered as a means of expediting individual sovereignty, citizenship requires freedom of choice on matters of work and retirement.

## NOTES

1. The liberties specified under principle 1 have implications for distributive justice independently of principle 2. The worth of political liberties can be augmented by imposing a minimum set of conditions including universal education and health care, and a role for the state as employer of last resort (Armstrong 2006).
2. At this point, we should highlight a fundamental distinction regarding the means by which property rights are given legitimacy. For libertarians, property rights should be regarded as “pre-institutional”, in that their legitimacy is generated independently of the legal and institutional arrangements created to protect them—reflecting, for example, “facts” of human nature (Nozick 1974; Machan 2006). As libertarians, they start by taking property rights as given. Rawlsian critics of the market reject this proposition, arguing that property rights should be regarded as “institutional”—their legitimacy is an artefact of the public discourses, laws and institutional arrangements that shape justice as fairness. A distribution of property is just only because the state says that it is.
3. At the very least, we might object that the “agreement” that is generated by aggregating people's political preferences does not, in itself, carry any moral significance. While people are best placed—intellectually and emotionally—

to determine their own conception of “the good”, they might struggle to articulate a coherent account of justice.

4. Conspicuously absent from Rawls list are important economic liberties—for example, “freedom of contract to buy and sell, to employ and be employed, or to accumulate and invest” (Lomasky 2005, p. 180). Why should such liberties be regarded as less important than the opportunity to participate in collective decision making, as realised by Western liberal democracies?
5. The NRA is the statutory retirement age that is characteristically applied to the population as a whole, triggering eligibility for social security benefits (Hyde et al. 2006).
6. The CRA is the retirement age that applies in second pillar retirement schemes, and is subject to contractual agreement between workers and their employers, not concerns around citizenship.
7. An exception to this general principle concerns employees in hazardous occupations. Their higher prevalence of ill-health and diminished longevity could mean that preferential treatment with regard to the NRA is a necessary corollary of their basic liberties.

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## Conclusion

**Abstract** Any consideration of the literature of social policy analysis would highlight a tendency to mischaracterise liberalism as a close analogue to “neoliberalism”, which endorses *laissez faire*. This portrayal stands in stark contrast to the substance of our analysis of liberal pensions, which highlights a deep concern for the plight of the least advantaged, a reservoir of antipathy towards inherited economic and social advantages, and equal respect for the basic liberties of all citizens. Alongside these virtues, we note that the critics of liberalism invariably endorse perspectives that are deeply flawed. Social policy analysis characteristically demonstrates an unacceptable degree of paternalism, premised on an unjustifiable faith in the capacity of government to act in the best interests of citizens.

**Keywords** Liberalism · Neoliberalism · Social policy analysis · Paternalism · Institutional neutrality

## INTRODUCTION

Having considered the legal and institutional architecture of liberal retirement provision at some length, we can return to the themes that were highlighted in our introduction. In particular, we described how liberalism has been mischaracterised—indeed, some might say, negatively stereotyped—as a close analogue to “neoliberalism”, endorsing free market

competition as a means of buttressing the wealth, power, and authority of corporate elites (Esping-Andersen 1990; Minns 2001; Armstrong 2006). We noted that this portrayal has been applied to all variants of liberalism, not only classical liberalism. As a philosophical framework, egalitarian liberalism provides a powerful but misleading justification for the intense economic inequalities that arise from the operation of unfettered markets (Anderson 1999; Armstrong 2006). This is the inevitable consequence of its characteristic individualism—involving the false assertion that income disparities in a capitalist society arise only from individual differences of effort and ability. In deploying these arguments, liberals perpetuate social injustice by diverting attention away from its causes, particularly the vested interests of political and economic elites. And yet there are considerable discrepancies between this characterisation of liberalism, and our account of liberal pensions in previous chapters. Our analysis has highlighted a deep concern with the adverse circumstances of the least advantaged, and considerable support for highly redistributive income transfers (Van Parijs 1995; Rawls 2003; Vallentyne 2007). It suggested considerable antipathy towards inherited economic and social advantages, and support for work-based systems of income distribution that reward effort and ability (Olsaretti 2004, 2007). And it brought into view the core belief that all members of society should be treated with equal dignity and respect, sustained by universal citizenship entitlements (Rawls 1971; Van Parijs 1995). Alongside the virtues of liberalism, we should note that its critics characteristically endorse philosophical perspectives that are flawed by a marked disregard for liberty. Unlike the liberal endorsement of individual sovereignty, scholars of social policy are highly sceptical about our capacities for rational deliberation and self-provisioning (Rowlison 2002; Layard 2005). This translates into support for an unacceptable degree of paternalism, where decisions around work and retirement are made on behalf of the governed by “enlightened” public servants (Goodin 1982; Kymlicka 2002). In hindsight, this reflects an unjustifiable faith in the capacity of government to act in the best interests of citizens, reliably and consistently (Taylor-Gooby and Dale 1981; Taylor-Gooby 1986). Chapter 4 addresses these concerns in two ways.

1. First, we articulate a formal response to the mischaracterisation of liberalism that was highlighted in Chapter 1. On each of their substantive arguments, we find that the critics have failed to demonstrate an adequate understanding of liberal political philosophy.



2. Second, we highlight some of the characteristic flaws of social policy analysis, a *de facto* rival to liberalism. We find that its failure to take individual freedom seriously reinforces our presumption in favour of “institutional neutrality”, requiring public indifference between competing conceptions of “the good”.

Overall, [Chapter 4](#) affirms the importance of a core and universal liberal conviction—the primacy of liberty. Like all other forms of governmental action, state intrusion in pension markets should aim only to protect individual capacities for sovereign decision making around “the good”, including matters of work and retirement (Kelly [1998](#); Dworkin [2000](#); Shapiro [2007](#); Hyde and Borzutzky [2016](#)).

### MISCHARACTERISING LIBERALISM

It should be clear from our analysis elsewhere in this monograph that liberal political philosophy has been marginal to the scholarly field of pension analysis, as well as deliberation around the design of just retirement systems. Both have been influenced disproportionately by the social democratic concerns of social policy analysis (Titmuss [1974](#); Esping-Andersen [1990](#); Korpi and Palme [1998](#); Kangas [2000](#); Trampusch [2007](#)). An important part of the reason for this marginality has been the way that liberalism has been mischaracterised by its rivals. “Liberalism” is equated with a highly stylised notion of “neoliberalism”—an ideological handmaiden to the corporate sector that is profoundly hostile to egalitarian concerns.<sup>1</sup> We can address this mischaracterisation of liberalism by responding to each of the arguments that were highlighted by our introduction.

#### *Reinforcing Individualism*

Liberals would not deny the main thrust of this particular characterisation, but neither do they regard it as problematic. Where it is possible, because political institutions have been arranged appropriately, individual sovereignty is preferable to paternalism. At this point it would be helpful to distinguish this normative ideal from resource allocation under conditions of injustice, which does not characteristically track differentials in sovereign decision making. The egalitarian liberal emphasis on individualism is not intended to generate a justification for income inequalities under the corporate capitalist status quo, as the critics seem

to imply. The belief that it does, so prevalent in the literature of socialist-collectivism (Armstrong 2003, 2006), merely shows that the critics have failed to grasp the essence of egalitarian liberal arguments around the legitimacy of distributive outcomes. The idea of desert suggests that resource allocation is morally acceptable only to the extent that it tracks performance for which agents can be regarded as responsible—that is to say, actions that are not influenced by arbitrarily distributed contingencies, such as the “structural” properties of social arrangements. This emphasis is suffused with an egalitarian impetus that is rarely acknowledged by the critics, if at all. Where it isn’t possible to determine which particular agent is responsible for performances that generate remuneration, the default distribution rule could be one of equality (Miller 1999). Egalitarian liberals are suspicious of the argument that intense concentrations of income and wealth reflect the deserts of beneficiaries, rather than inherited economic and social advantages. Many explicitly endorse statutory measures to neutralise the unfair advantages that are conferred by the class system, including substantial income redistribution through tax-financed transfers. For one prominent critic of *laissez faire*, desert cannot be based solely on the unadjusted value of “what one contributes since this depends on one’s initial (brute luck) opportunities to contribute. Nor can desert be based on the unadjusted value of what effort one has made, if one’s ability to make effort depends in part on one’s initial (brute luck) capacity to make an effort” (Vallentyne 2007, p. 174). For egalitarian liberals, the term “individual responsibility” denotes a particular means by which income distribution is generated, requiring self-directed performance in the market. It is not regarded as an ideological device to legitimate inequalities of income and wealth in an unjust society.

### *Disparaging the Least-Advantaged*

Because it is neutral between different conceptions of the good, egalitarian liberalism does not rank the differential circumstances that arise from people’s sovereign decisions against any particular set of normative values. Nevertheless, this particular criticism is given a degree of credibility by egalitarian liberal discourses around the design of statutory income transfer programmes. Even if liberals do not feel contempt for the financially impoverished, some have endorsed social assistance schemes which target particular groups of the least-advantaged for income transfers. Understandably, this approach is intended to expedite vertical income redistribution, but

could foster negative social attitudes towards “beneficiaries” by highlighting their dependence on the economically active. Where possible, policy decision makers should try to ensure that the design of statutory income transfers is non-stigmatising.

### *Diverting Attention Away from “Social” Injustice*

Any explanation of distributive outcomes that focusses on a narrow set of variables could be regarded as insufficiently comprehensive. Yet the characterisation of liberalism as focussing exclusively on failures of individual responsibility is unsustainable, for an even-handed exploration of its corpus would reveal a complex and multi-layered account of poverty causation. While liberals do not deploy the socialist-collectivist analysis of capitalist exploitation that is common among their critics (Williams 1990; Armstrong 2003), it is clear that they have not ignored the “structural” determinants of resource allocation, though this term is not universally accepted. In a seminal contribution, Sen (2002) regards human destitution and misery an artefacts of the failure of capability development caused by the malfunctioning of economic systems. Van Parijs (1995) has similarly highlighted several attributes of capitalist economic development that generate unjust asymmetries in the distribution of material resources. The capacity of professional and unionised workers to restrict labour market entry can result in excessive remuneration, and artificially high unemployment, reinforcing economic and social inequalities. Liberty can be circumscribed by the manipulation of preferences, where the least-advantaged are encouraged to adjust their aspirations to the reality of financial impoverishment. In a more recent contribution, Hyde and Borzutzky (2016) highlight the role of political rent-seeking in enabling pension fund managers to exploit consumers, performing sub-optimally, but imposing monopoly prices. Considered in this light, it could be argued that egalitarian liberal accounts of income inequality are more comprehensive than those of socialist-collectivism.<sup>2</sup> Where they focus only on the “structural” properties of the capitalist political economy, liberals emphasise the importance of the external *and* internal contingencies that shape distributive outcomes. While they emphasise market failure, egalitarian liberals allow for the possibility of action that is in some way deficient at the level of the individual. An “undeniable reality of life is that private agents are not equally favoured by nature. Some may be handicapped by birth, whereas some others may be born with favourable natural assets” (Suzumura 1999, p. 133). And, of course, liberals have drawn our attention to the possibility of “government

failure". It would be remiss of any theory of social injustice to ignore the full range of contingencies that may impact adversely on liberty.

### *Imposing a Narrow Conception of Human Nature*

In reality, a close inspection of the liberal corpus reveals a wide range of assumptions about the "nature" of human agents—that is, their salient behavioural and motivational characteristics. This is clear, for example, if we consider differences in the deliberative method that is deployed to determine the legitimacy of legal and political arrangements. As we have noted, liberal accounts of justice that are premised on "natural rights" typically define human nature in terms of individual capacities for conscious deliberation and choice, the salient characteristic that distinguishes us from other species. For some, the substance of each agent's engagement with liberty—including its normative properties—is a private matter and should be expected to manifest in diverse ways (Kymlicka 2002). What counts is that all agents are given the opportunity to determine their own conception of "the good", without intruding on the liberty of others. This means of course that moral principles such as *fraternité*, or individualism, are irrelevant as universal descriptors of human nature. Others have refined this focus on the capacity for conscious deliberation by emphasising the importance of rational decision making—where "rational" is defined objectively as cognition that is consistent with flourishing. It is vital, "from an objective point of view that human lives be successful rather than wasted" (Dworkin 2000, p. 5). Liberty gives all human agents the opportunity to realise a salient attribute of their nature—the potential for rational sovereignty. Naturally, this contradicts the argument that egalitarian liberalism draws substantially on the repertoire of neoclassical economics, an approach which defines rationality only in terms of the satisfaction of subjective preferences (Armstrong 2006).

Contractarians reject notions of natural law and rights, arguing the case for liberty by emulating the decisions of people under conditions of anarchy (Rawls 1971; Van Parijs 1995; Dworkin 2000). Participants in a state of nature are generally understood to be risk-averse, giving assent to legal and political arrangements that will optimise the mix of security and liberty. In some formulations (Rawls 1971; Dworkin 2000), each agent is required to deliberate around justice from behind a "veil of ignorance" in order to neutralise biases arising from personal and sectional interests. As a real world analogue, Dworkin invites us to

“look at life through the eyes of a prudent and rational 25-year old individual” (2000, p. 313). Most likely s/he would endorse a welfare state safety-net that would reduce exposure to economic misfortune, but without eliminating choice. Defined as an actively deliberating concern with liberty and security then, rationality is presumed to be a salient characteristic of human nature.

A shift in focus from the deliberative method deployed to articulate justice to its substance would make the argument that liberalism endorses a distinctive conception of human nature look even weaker. Predominantly, liberals have endorsed a permissive approach to the norms and values that are compatible with justice. This is particularly evident in the work of Nozick (1974), which highlights the opportunities that *laissez faire* creates for the emergence of diverse forms of human association. Egalitarian liberals have similarly advised that people use their freedom wisely to better their own lives, not to embrace any particular creed, such as values that cohere around social solidarity. In this respect, Sen (2002) cautions that it is better to “think and act wisely and judiciously rather than stupidly or impulsively” (p. 23). This is a far cry from the model of human nature that is endorsed by neoclassical economics, which regards people as isolated and “atomistic”, narrowly focussed on the pursuit of pecuniary self-interest, egoism and competition (Dixon 1999). It would be unwise to read the characteristics of liberalism from the pronouncements of neoclassical economists, as some scholars seem to have done.

### THE PATERNALIST ALTERNATIVE

In view of these arguments, it is clear that liberalism should not be regarded as a close analogue to “neoliberalism”, a highly stylised model of free market economics that seeks to buttress the wealth, power and authority of corporate elites (Esping-Andersen 1990; Minns 2001; Armstrong 2006). In reality, our analysis of pension design in Chapters 2 to 4 suggests that its endorsement of the primacy of liberty is compatible with a range of egalitarian concerns.

- *Need.* In Chapter 2, we reported how liberal political philosophers at various points on the ideological spectrum share a deep concern with the plight of the least advantaged, endorsing collective action to ameliorate poverty. Egalitarian liberals endorse “compulsory” collective action to address unsatisfied need by transferring financial

resources to those at the bottom of society (Rawls 1971; Dworkin 2000). Some reject the Poor Law emphasis on targeting in favour of a universal retirement income safety-net (Van Parijs 1995). The evidence of comparative cross-national research suggests that this model has been highly successful at ameliorating financial impoverishment (Korpi and Palme 1998; Meyer et al. 2007).

- *Desert.* Chapter 3 highlighted the widespread acceptance by liberals that earnings differentials should track performance at work, not inherited economic and social advantages (Friedman 1962; Rand 1967; Dworkin 2000). Egalitarian liberals endorse state intrusion in labour markets to ensure that they distribute remuneration in accordance with individual merits (Olsaretti 2004, 2007). Everyone should have a fair opportunity to participate in work-based systems of reward, which should acknowledge differentials of ability and effort. Considered in terms of retirement, the desert principle requires second pillar pensions that can ensure a consistent relationship between savings' effort and benefit entitlements. On reflection, what could be more egalitarian than measures to eliminate morally arbitrary influences on the distribution of income and wealth?
- *Citizenship.* Chapter 4 drew on the liberal conviction that members of society stand in a relationship of equality with regard to their shared "human" characteristics. All liberals endorse citizenship as a means of ensuring access to the resources that would protect individual capacities for conscious deliberation, and purposive engagement with the external environment (Nozick 1974; Machan 2006; Dworkin 2000). Egalitarian liberals endorse governmental action to equalise the distribution of designated financial resources and opportunities, such that all citizens are able to frame and pursue their own conception of "the good" (Rawls 1971, 2003; Van Parijs 1995).

Alongside these egalitarian virtues, it is clear that the critics of liberal political philosophy characteristically endorse perspectives that seek to impose some conception of "the good", rather than permitting people to determine this for themselves (Kymlicka 2002; Hyde 2014). This applies with particular force to social policy analysis, the disciplinary field that has been concerned with the adequacy and legitimacy of retirement systems (Titmuss 1974; Esping-Andersen 1990; Korpi and Palme 1998;

Kangas 2000; Trampusch 2007). While there have been some prominent exceptions, the field of social policy is characterised by three salient flaws that limit its efficacy as a rival to liberalism.

### *Diminutive Agents?*

As emphasised throughout the monograph, liberals of all ideological hues converge around the principle that state intrusion in the market should be restricted to the measures that protect liberty. This ultimately rests on particular assumptions about the capacity of human agents to act in pursuit of their own interests, reliably and consistently. Where liberty is adequately protected, all should be able to determine and act in accordance with their own conception of “the good”. Scholars of social policy have characteristically expressed scepticism about this proposition, arguing that the scope of individual autonomy is limited by contingencies that are beyond people’s conscious control (Titmuss 1974; Williams 1990; Rowlingson 2002; Ginn 2004).

Most importantly, they maintain that the capacity to act in ways that are self-sustaining is constrained by attributes of the external environment. This might include, for example, the binding legal requirements and distributive flows that are created by policy decision making; the vicissitudes of economic development—such as the peaks and troughs of the business cycle; or the “oppressive” social relations that shape people’s lives (Williams 1990; Rowlingson 2002; Ginn 2004). While all are important, scholars of social policy have paid particular attention to variation in the design of welfare state services and transfers. For a prominent architect of social policy’s mainstream (Titmuss 1973), any reliance on the market to deliver welfare should be expected to intensify economic disadvantage, because its emphasis on the cash nexus and pecuniary self-interest stifles the willingness of the economically active to support redistributive income transfers. This rests on the assumption that the “ways in which society organises and structures its social institutions [...] can encourage or discourage the altruistic in man [sic]” (Titmuss 1973, p. 255).

Alongside the growing prominence of privatisation, scholars of social policy have highlighted the means by which the public/private mix in retirement systems can impact on the financial well-being of older people. As we have noted, privatisation is intensely commodifying, undermining the possibility of collective action in pursuit of shared interests. The compulsory private element of multi-pillar retirement systems typically carries

enormous public costs, diverting scarce resources away from income transfer programmes for the least-advantaged. Private pensions require plan participants to save for their own retirement, and are “intrinsically unable to achieve inter-generational risk-sharing” (Schokkaert and Van Parijs 2003, p. 131), leaving people vulnerable to “economic shocks”. The transition costs of privatisation fall on the economically active, who are expected to pay for “existing state pension liabilities and their own funded private pensions” (Ginn 2004, p. 131). This creates pressures to retrench the publicly administered retirement income safety-net, intensifying the risk of poverty for those who depend on it (Hyde and Borzutzky 2016).

Fundamentally, for the mainstream of social policy analysis, the scope of individual sovereignty with regard to retirement is circumscribed by salient attributes of the external environment, particularly the design of pension systems. At the same time, it accepts that people’s engagement with retirement planning may be hampered by defective decision making capacities. In an important contribution to this debate, Rowlingson (2002) notes how retirement policy in a range of national jurisdictions is increasingly premised on the assumption that people are able to direct their own retirement futures, and must be given the opportunity to do so. Yet this emphasis on “do it yourself” social policy is contradicted by the reality of deficient cognitive capacities, which are incapable of addressing the challenge of retirement planning. This analysis suggests that people are unable to contemplate their lives beyond the immediate future, and tend to regard ageing as a negative prospect. Lacking the skills that are necessary for long-term financial decision making, they deploy irrelevant heuristics (inaction because of the possibility of “tempting fate”), and are vulnerable to peer pressure. Rather than acting as autonomous agents, each person bases “their aspirations, expectations, and behaviour on the people closest to them [...] They do not necessarily have to think actively about what they might do in the future if they simply follow the general path laid out for them” (Rowlingson 2002, p. 636). Although internal, each agent’s decision making capacities should be regarded as a direct corollary of their socio-economic status.

These arguments highlight a considerable degree of scepticism about the capacity of human agents to exercise liberty. Even in the unlikely event that they could be relied upon to articulate reliable and coherent preferences about the action that is necessary to optimise financial well-being in retirement, people are confronted by a range of compelling external obstacles that are beyond their conscious control. As far as retirement is



concerned, liberty should be sacrificed in order to realise security. This requires “collective state planning” to engineer a “society working together for the good of the whole in a spirit which combines both altruism and self-interest”. In this alternate society, “individuals are taking collective responsibility for their welfare, rather than individual responsibility” (Rowlingson 2002, p. 637).

Like the mainstream of social policy analysis, egalitarian liberals endorse the deployment of state power to institute a degree of retirement income security, but why stop at the measures necessary for altruism or social solidarity? Why not take steps to eliminate a range of external barriers to sovereignty? Vallentyne (2007), for example, highlights several measures which could ensure that resource allocation is insensitive to arbitrary privileges and inherited advantages. Unlike social policy’s mainstream, egalitarian liberals also believe that the state can take action to foster internal capacities for rational decision making, such as those required for long-term financial planning. Fundamentally, this requires the freedom to learn from voluntary exchange, because people need to acquire skills and capacities through purposive engagement with the external environment. Rather than taking a dismissive view of human capacities, and seeking to engineer old age income security in a paternalistic way, egalitarian liberals emphasise the importance of public action that can augment people’s sovereignty with regard to “the good”, including their own preferences for work and retirement.

### *A Beneficent State?*

In spite of considerable evidence to the contrary, scholars of social policy tend to regard the state as a beneficent agent that serves primarily to care for the well-being of its citizens (Layard 2005; Marquand 2004). Governmental action, they contend, is concerned with the public interest, denoting the norms, challenges, and objectives that people share in common. Unrestrained by the public authority, market actors are selfish and egoistic, concerned only with the pursuit of immediate and narrow pecuniary self-interest (Titmuss 1974; Kohn 1986). But, in their enthusiasm to endorse the deployment of state power, some scholars of social policy seem oblivious to its potential to generate injustice. When pressed on Nozick’s warning about its capacity to suppress freedom of expression and association, for example, Armstrong merely says “so what?” (2003, p. 416), as if these liberties don’t matter. Perhaps they don’t when considered alongside social democratic principles of justice. While it may

be coercive, state intrusion is necessary to realise outcomes that can stand up to scrutiny against some cogently articulated notion of the public interest—one that gives priority to “other-regarding” norms, such as altruism and solidarity. In the words of several exponents of governmental restrictions on liberty, the “state has emerged as the World’s most effective means of organising society”, and “remains the ultimate guarantor of security, democracy, welfare, and the rule of law” (Hurrelman et al. 2011, p. *xi*). Unlike the market, the state is responsible for a multitude of virtues.

On closer inspection, this public interest-regarding conception of the state is rendered problematic by the stark discrepancy between its rhetoric, and consistent evidence of defective policy design and outcomes. Given that policy decision makers are confronted by imperfect information, and can deliberate in ways that are less than rational, we might expect the occasional departure from public interest ideals. Yet the evidence of policy evaluation suggests that such departures are routine. In applying the techniques and assumptions of economics to government, public choice theory is highly critical of models that portray the state as steward of the public interest (Gunning 2006; Evans 2010). Instead of pursuing the common good, as the mainstream of social policy analysis suggests, state intrusion in the market seems intent on satisfying the private interests of preferred individuals and groups. This analysis is developed with reference to “rent-seeking”—the pursuit of advantages and income streams by manipulating the economic environment, generating self-serving institutional biases. Rent-seeking results in the production of economic rents, as represented by above-market remuneration. Crucially for our analysis here, public choice theory acknowledges the central role of the state in shaping the distribution of economic rents, because rent-seeking involves the manipulation of political and legal processes with the objective of creating “wealth outside the normal processes of voluntary market exchange” (Evans 2010, p. 2). Political rent-seeking consists of actions “that are intended to change laws such that one individual and/or group gains at the same or greater expense to another individual or group” (Gunning 2006, p. 348). Rather than acting primarily to satisfy the requirements of the public interest, the state is involved in facilitating the distribution of economic rents to preferred participants in the political process.

Although this analysis of the state as arbiter of private privilege has been echoed within social policy analysis (Taylor-Gooby and Dale 1981; Williams 1990), it has not been characteristic of the discipline. Rather, scholars of social policy have characteristically expressed a sanguine appraisal of the

role of governmental actors in arranging social cohesion (Titmuss 1974; Esping-Andersen 1990; Rowlingson 2002, Marquand 2004). In their enthusiasm to legitimate the deployment of state power, they have arguably paid insufficient attention to its capacity to curtail liberty on behalf of powerful interest groups. One of the salient strengths of liberalism, in contrast, lies in its cautious but well-defined endorsement of state action to protect liberty.

### *Unacceptable Paternalism?*

Finally, as far as this critique is concerned, it is clear that social policy's mainstream endorses what others might regard as unacceptable paternalism (Van Parijs 1995; Dworkin 2000). Inevitably, individual freedom is abridged where the state chooses to prioritise any particular conception of "the good", including norms such as altruism and solidarity. This is explicitly acknowledged by Goodin (1982), who justifies egalitarian paternalism in terms of the distinction between "true" and "revealed" preferences, claiming a special insight into the former, and endorsing welfare state design that compels agents to act in an ethical manner. A rule of uniformity "prevents people's judgements on appropriate levels of public services from being influenced by particularistic considerations of how likely they are to have to rely on them" (Goodin 1982, p. 159). By partitioning our "higher" concerns off from the mundane world of economic self-interest in the market, the social democratic welfare state gives everyone the "freedom" to act on "seriously held moral principles".

## CONCLUSION

Though they do not object to the welfare state per se, egalitarian liberals regard such paternalism as deeply problematic, and for at least three reasons. First it fails to acknowledge that freedom manifests as self-directed activity, not compulsory adherence to particular ends. The importance of any value or mode of association is something that people should discover for themselves through voluntary exchange with others, rather than having it imposed on them by public officials.<sup>3</sup> Second, it presumes that government is a repository of wisdom, able to prescribe appropriate ends on behalf of the citizenry. There is strong evidence that public policy decision making is inherently flawed, reflecting problems of incomplete information, bounded rationality, and the disproportionate influence of

powerful interest groups (Hyde and Borzutzky 2016). Third, there are doubts about the capacity of the liberal democratic polity to convert any such wisdom to well-designed and effective policy outcomes, as highlighted by public choice theory (Gunning 2006). For these reasons, and the primacy of liberty, questions of “the good”—including work and retirement—should be left to the deliberative effort of free individuals. Anything else would violate justice.

## NOTES

1. Indeed, “neoliberalism” has become something of a term of abuse in recent decades, a bogeyman that is used to dismiss arguments and policies that socialist-collectivists disagree with.
2. Indeed, some have argued that it is social policy’s mainstream that lacks a satisfactory theory of injustice, as well as an adequate conception of the political transformations that are required to realise a fraternal society (Taylor-Gooby and Dale 1981; Taylor-Gooby 1986).
3. It might reasonably be suggested that the reality of state coercion in the socialist-collectivist polity contradicts the notion of “willing” mutual service (Kukathis 2003).

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