War and Pensions

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Introduction

- Although war has had substantial effects, both positive and negative, on pension systems, the topic has received relatively little attention.
- War has played a role in the development of pension systems in many countries.
- Yet, no previous analysis has examined the full range of its effects.

War

- By war we mean in a broad sense conflicts between countries or between groups within a country.
- We also mean the term to include cold wars, where conflicts are not fought with bullets and bombs but by nonviolent means.
- We also consider the use of pensions to reduce the likelihood of conflicts.

Pensions

- We consider both public pensions or social security and employer-provided pensions.
- We consider pensions for groups involved in conflicts, such as the military.

Economics of war and pensions

- Curiously, the JEL codes that classify economic literature, presumably classifying closely related topics with closely related classifications, give Social Security and Public Pensions the classification of H55 and National Security and War the classification H56.
- Perhaps, the classification is because both topics deal with aspects of individual security.

Pensions and modern warfare

- Because pensions are a relatively new development, the analysis of this paper is relevant for modern warfare.

This paper

- This paper first examines the effects of pensions on war, mainly as a source of financing.
- It then examines the effects of war on pensions. It does so within a demand-supply framework.

Demand for pensions

- Demand refers to the demand of workers for pensions.
- This demand is affected by the availability of other means for providing income in retirement.
- In a voluntary pension system, it is also affected by tax incentives for pensions.
- The existence of pensions for persons in the military may affect the demand for pensions as people become more familiar with the concept.

Supply of pensions

- The supply of pensions refers to the cost of providing pensions.
- In a pay-as-you-go system, Turner (1984) has shown that the old-age dependency ratio acts as a shadow price.
- In a funded system, the cost of providing pensions is affected by the availability of investment options and their rate of return and risk.
- It is also affected by the cost of collecting pension contributions.

When does war affect pensions?

- Not every war has an effect on pension systems.
- Highly destructive wars tend to affect pension systems.
- The pension systems of the losers of war tend to be affected.
- War has had an effect of encouraging the development of pension systems in countries without those systems.

Paying for war

- Because funded pensions can have accumulated substantial amounts of money, they can become a source of funding for war.

Russia—source of financing

- Because of the expense of the annexation of Crimea and other parts of the Ukraine in 2014 and 2015, and because of the effect of the resulting economic sanctions against Russia, Russia was experiencing serious budget shortfalls in 2014 and 2015. To help pay for its budget, Russia approved for 2014 and 2015, diverting funds workers contributed to privately managed pension accounts into the government's state pension fund. This policy in 2014 resulted in about $7 billion being transferred from pension funds to the state, with a larger amount anticipated in 2015.

Russia 2

- Russia also used pensions as a way to gain favor with Ukrainian refugees, offering pensions to Ukrainian refugees in Russia.

Military Pensions

- Military pensions generally precede social security pensions and pensions provided in the private sector.
- The official history of the U.S. Social Security program mentions the pensions for Civil War veterans as a precursor to Social Security.
- One of its effects is that it spread familiarity with the concept of pensions as a way of providing income in retirement.

US Civil War

- The US Civil War was fought between 1861-1865.
- The Civil War Pension Plan, started in 1862, was seen as a way of encouraging young men to join the Union Army (the army of the North).
- U.S. Social Security started in 1935, 70 years after the end of the Civil War. Nonetheless, the Civil War pensions are considered to have helped pave the way for Social Security.

Canada

- Following Canada’s involvement in World War I, survivor and disbility pensions were created for war veterans and their families with the Pension Act (1918).
- The issue of a national pension program in Canada for seniors gained prominence after the war, as social advocates and reform-minded politicians argued that the federal government should use its new power and financial capacities to extend the pension provisions offered to war veterans.

Canada 2

- Parliament appointed a special committee to study the question of pensions in 1924; and in 1927, the first Old Age Pension Act was passed.

Bismarck vs Beveridge

- The two main types of social security pensions are Bismarckian or earnings-related pensions and Beveridgian or flat-rate pensions.
- War affected the development of both types of pensions.

Germany—prevention of conflict

- Otto von Bismarck founded the world's first social security program in Germany through the Old Age and Disability Insurance Law of 1889.
- He was partly motivated by the desire to gain working class support that might otherwise have gone to Socialists, and that might have resulted in class warfare.

UK—national solidarity

- The *Beveridge Report* in Great Britain is the foundation of British social security programs. It was prepared during World War II and was debated in Parliament in 1943.
- Beveridge argued that the sense of national unity and readiness to sacrifice personal interests to the common cause during a time of war may make it possible to bring about changes which would be acceptable to all but which would have been difficult to make at other times.

UK (2)

- The report promised a reward for the wartime sacrifices of the nation, which was a more just society where the needs of citizens were better taken care of.

Central and Eastern Europe—Regime Change

- The end of World War II brought Communism to Central and Eastern Europe, which resulted in changes in social security systems.
- Social security was financed out of government general revenues.
- Fragmented systems were unified into one national system.

Central and Eastern Europe 2

- Regime change again occurred at the end of the Cold War, with many of the countries in Central and Eastern Europe adopting individual account systems.

France--hyperinflation

- Before World War II, France began a fully funded social insurance old-age benefits system on two occasions, first in 1910 and second in 1930.
- In each case the funding was depleted due to high wartime inflation—and in the end, the government converted them into means-tested support for the poor elderly.

France (2)

- In 1944, the Programme of the National Council of the Resistance declared it necessary to have "*a complete Social Security scheme aimed at guaranteeing means of subsistence for all citizens" including* a "*pension that will allow old workers to end their days with dignity*".
- In 1945, France abandoned the funded approach and adopted a pay-as-you-go system

Italy--hyperinflation

- The evolution of Italy's social insurance old-age benefit program is similar to that in many continental European countries.
- Originally established on a funded basis in 1919, after World War II, with its reserves depleted, Italy shifted the pension system to a purely pay-as you-go basis

Ireland—pensions and national unity

- Ireland gained independence from Great Britain in 1921, but had a Civil War from June 1922 to May 1923. Following the Civil War, pensions were granted to qualifying applicants who had fought in the War of Independence against Great Britain, regardless of which side they had fought on during the following Civil War.

Chile

- Chile's adoption of an individual account pension system in 1980, which became a model for many countries, followed a military coup in 1973 that replaced a democratically elected government with a dictatorship.
- The new system reflected the conservative ideology of the dictatorship.

Destruction of Social Security Systems

- War has resulted in the destruction of pension systems.
- For example, during the war in Kosovo, Serbia targeted the pension system, destroying pension system records.
- Following the war, an entirely new pension system was established.

Cyber Warfare

- The administrative records of pension systems have been hacked by foreign countries.
- For example, China has accessed the pension records of U.S. government employees.
- It is not yet known how or if China will use this information.

Summary

- The main effects of war on pensions in the 24 countries for which we have data are shown in Table 1. The most prevalent effect of wars in countries ranging from Argentina to Ukraine was to prevent contributions to the social security system and subsequently to a partial or total loss of social insurance pensions.
- The next most prevalent effect was the destruction or interference of administrative records, whether due to the breakdown of civil administration in Germany and Kosovo, or, in recent years, the development of cyber attacks on administrative records as part of an ongoing "cold war" between China and the US.

Table 1: Summary of Demand & Supply Effects of War on Pensions

	Demand Effects			Supply Effects					
	Tax reliefs encourages take-up by workers	Baby booms cut current cost & increase long-term cost	Expansion of social security fosters solidarity	Use funding to finance wars	Destruction of or cyber attacks on administrative records	Contributions stop & partial or total loss of social security	Hyperinflation destroys funded schemes	Attract/ reward military personnel	Military pensions as precursor to social security
Country	Germany, Japan, USA	Canada, UK, USA	Belgium, France, Italy, UK	Argentina, Russia	China, Germany, Kosovo, UK, USA	Argentina, Austria, Burundi, D. R. Congo, Ethiopia, Eritrea, Kosovo, Liberia, Rep. Congo, Somalia, South Sudan, Ukraine	France, Germany, Japan	Burundia, Croatia, Ireland, USA	Japan, USA

Conclusions

- This paper discusses the relationships between war and pensions.
- Pensions can be a source of financing for wars.
- Wars can effect pensions, both through demand and through supply side effects.
- War has played a role in the development of pension systems in many countries.

Conclusions 2

- Negative influences of war such as using pensions to finance wars and hyperinflation affected the supply of State pensions and in three countries in Europe (Belgium, France, Germany) hyperinflation resulted in complete loss of confidence in funded pensions and a strong commitment in the postwar period to pay-as-you-go financing or book reserve financing.

Conclusions 3

- The effects of war were more positive on the demand side. During and after World War II, Belgium, France, Italy and the United Kingdom developed plans in response to demands from resistance groups, trade unions, workers, employers and social reformers among others for universal social insurance pensions. These demands were based on the need to foster solidarity during wartime and to demonstrate that after the war people could count on a system which would prevent them falling into poverty in old age.