I would like to begin by thanking Global Action on Aging and our other sponsors for arranging this timely discussion. Our topic is the prospect of growing insecurity in old age both in the developed world and in the emerging and developing nations. I am going to focus on the situation in the USA and the UK not because matters are worse there than elsewhere but because it gives us a good idea of the problems of old age provision even in rich countries where aging effects are comparatively moderate. The World Bank and other agencies have sometimes held up the market provision of pensions in these states as a model to be followed everywhere. For reasons I will explain I believe that this is a recipe for disaster.

Growing old age insecurity in the USA and the UK stems from a new risk environment ill-suited to commercial insurance and an ill-advised attempt to shift risk from corporations and the state to families and individuals.

Some risk has a statistical character well-adapted to insurance principles. The risk that your house will catch fire, or that you will die in any given year, or that your car will be stolen, are all reasonably well distributed. But the risk of losing your job, of needing care in old age, or of floods and storms in an age of climate change, are highly concentrated. Those who own ocean front properties in Florida find them difficult to insure; the same goes for 70 or 80 year olds looking for medical or elder care insurance. Jacob Hacker calls this 'systematic risk' in his book, and I call it the difference between distributed risk and a common shock in mine, hence the title 'Age Shock'.

In the past, finance houses had little objection to Social Security because they had no wish to supply universal social insurance themselves. More recently, aggressive sectors of the financial services industry abandoned such reserve and favoured part privatisation of the old age pension supplied by Social Security in the US. But attempts to sell this to the American public have all failed miserably. While many would like to see a wider safety margin – extra revenue or a larger trust fund - there is no support for benefit cuts or privatisation.

Tens of millions Americans have personal experience of private pension provision and it has not proved reassuring. Around 1980 just over half the full-time workforce had membership in employer-sponsored pension and healthcare schemes. The formula of tying future benefits to a single employer was unwise in a rapidly shifting industrial environment. The blue chip stocks of one decade became the basket cases of the next. In rising markets companies used to appreciate the rising value of their pension funds and use it as an excuse to skip their own contributions. They now fight shy of the burden of increasingly mature 'defined benefit' (or DB) schemes. When employee's contributions were flooding in everything was fine. But in a classic case of 'bait and switch' some corporations, having underfunded their schemes, now seek to dump their liabilities on the public insurer, the Pension Benefit Guaranty Corporation (PBGC). The beneficiaries receive a reduced benefit and the turnaround kings make a killing.

The Chapter 11 bankruptcy protection courts have been unhappy at this and have insisted that the reorganised corporation issue new stock to the PBGC trust fund to reimburse if for unpaid past contribution. This ad hoc remedy is fine as far as it goes but something more ambitious will be needed to tackle combined corporate under-funding of $350 billion and a PBGC deficit of $18 billion. What does not help is legislation such as the recent Pension Act which reduced the deficits by moving the airlines from the 'probable' to the 'possible' default column.

In their heyday DB schemes paid out good pensions, linked to salary and years of employment. Still today 50 million present or past members would like to see them better insured because the alternatives are even more risky. Employers, having frozen or closed their DB schemes, now offer Defined Contribution (or DC) schemes, such as 401(k)s, where the employee takes on all the market risk - and to which the employer makes a much smaller contribution. Those on medium or low salaries are not well served by DC schemes. There is a vast information asymmetry between these who supply financial products and their customers. Charges typically reduce the yield of these saving pots by 30-40% or more. This reflects heavy marketing and admin, and exorbitant fund manager salaries and profits. The savings in the majority of such schemes are modest - one half of those aged 55 to 64 with a 401(k) have less than $50,000 in their account.

Yet this very inefficient industry enjoys a huge public subsidy – around $120 billion a year in the US and 20 billion pounds sterling a year in the UK. This subsidy arrives in the shape of tax relief that offers the greatest incentive to high earners – in fact one half of all tax relief goes to the wealthiest 10% of households. For these and perhaps for another fifth the pension regime has worked so far.

Today's mounting sense of insecurity stems more from the troubled outlook than from what today's retirees receive. The total income going to retirees is reasonable enough but too polarised in distribution. About a fifth of retirees are in poverty, though this proportion rises to 47 per cent for older, single women. Both the relative prosperity of some and the poverty of others stems from the uneven past coverage of defined benefit schemes. But, if nothing is done, the future will see a decline in the overall relative position of seniors, with even sharper inequalities. This is because of shrinking DB coverage - with only 17 million current workers still active members – and by the failure of DC schemes to fill the vacuum. The numbers of retirees in poverty can only rise.

One of the tasks facing policy analysts is to estimate what the likely effects will be in 20 or 30 years time of today's low levels of DB membership and of DC saving. When Roosevelt established Social Security he insisted on projections showing that the program could pay its way through to 1960 and 1970. Today the Trustees estimate that Social Security should supply 5 per cent of GDP by 2035 but that it may miss that target by 1 per cent. Why not hold the publicly-subsidised private-sector providers to a similar standard? Why not commission forecasts and evaluations of their likely future contribution?

In the UK representations from academics and activists concerned about failure to anticipate the future costs of aging persuaded the governments Pension Commission, headed by Lord Turner, to estimate the amount of GDP that would have to be dedicated to pensions of all types – private and public – if older people were not to fall further and further behind the advance of national prosperity. After taking account of increases in working years the first report of the commission found a need for pensions to come in at around 13.9 per cent of GDP. After careful assessment of the pensions which would be furnished by private and occupational pensions schemes the commission found a shortfall of about 4 per cent of GDP.

In my new book *Age Shock* I furnish reasons to believe that the situation is just as bad in the United States as in the UK. Social Security may need some supplementary funding but that is only a small part of the problem. Social Security old age pensions are scheduled to furnish 5 per cent of GDP around 2035. But what would be needed if the ratio between average income and average pensioner incomes is to be maintained in around 14 per cent of GDP. The earnings of the over=65s and the public sector pension schemes can help to fill the gap but the real problem is the weak performance of private pensions. If we scrutinise the projections made by the trustees of Social Security we find that they do include a projection of the tax that will be raised on the pay-out of private pensions. From this figure we can extrapolate the overall size of those pensions and it transpires that they will probably never supply more than 2.5 per cent of GDP in the US, hitting that mark in 2018, after which there will be a steep decline to 1.5 per cent of GDP. I also show that all sources of senior income taken together will fall short of maintaining the present relative position of senior incomes by around 3 to 4 per cent of GDP. These figures spell out a warning just as surely as do the estimates of declining pension wealth by Edward Wolff of NYU.

The UK and the US share a mixed, public-private pension arrangement. They also have aging populations. Here in America the numbers of over-65s are forecast to rise from 34 million now to 70 million by 2035, or from 12 to 20 per cent of the total population. It should not surprise that a group of this size will need a chunk of GDP. And it makes sense for a public authority to evaluate the likely contribution of all programmes.

I would like to go into further detail about all this but we are here to address possible solutions.

Brief as it is, the account I have given already hints at an alternative approach. Pension promises and health benefits should no longer be tied to the fate of a single employer, or to a badly-designed and under-resourced insurer. A publicly-organised second pension for all, could replace badly-targeted tax relief and costly savings schemes. Above all future shocks should be hedged by building up reserves, not aggravated by mounting deficits.

We need action on at many different levels to tackled future aging costs – which will, of course, include medical expenditures as well as pensions. At the moment these problems arise at a national level and certainly they must be addressed in that setting. But I believe that regional and global bodies will eventually have to be drawn into the effort – indeed I understand that this is one of the tasks before us today.

The existing model of pension provision is under tremendous pressure from globalisation and tax avoidance by the rich and the corporations. Ultimately, fiscal duties that apply everywhere in the world will have to be part of the answer. In my view the emphasis should be on very modest taxes that apply to assets wherever they are held, whether in a state or a tax haven, and on all financial transactions whether within or between states. The celebrated Tobin tax is one example of such an impost. In the UK we have stamp duty payable on dealings in all types of securities and it has not at all prevented London from remaining a major financial center. I believe that there would be a case for dedicating a significant proportion of the revenue from such imposts to a modest global pensions. The aim might be to furnish a pension of one or two dollars a day to every person in the world over 65 years of age. This would be a small sum to those in rich countries but still welcome to many. And to those in poorer regions it would be a considerable help. This really would be ‘global action on aging’.

However I would like to return to action that can be taken on a national and regional level since this is urgent too.

In my view Rudolf Meidner, the architect of the Swedish welfare state, was on the right track when he urged that corporations should be obliged collectively to contribute to a reserve social fund, that would then be administered by an accountable regional network. He believed that the state was already shouldering enough welfare burdens and that a de-centralised social fund network would strengthen Swedish democracy. His key innovation was to propose that the corporate contributions should be paid in kind not in cash. They should issue new corporate stock each year, equivalent in value to a proportion of profits. While standard corporate taxation subtracts from the cash flow, and thus potentially harms investments and jobs, the Meidner share levy dilutes the value of share-holding but does not weaken operational finances. The levy means that in the future a portion of dividends will go to the social fund network instead of the existing shareholders.

I have deliberately plumped for an innovatory tax because the existing tax system rests on familiar devices that are widely evaded by wealthy individuals and corporations. One of the advantages of the share levy is that it modestly dilutes all shares, those hiding in tax havens no less than those in domestic portfolios.

If a share levy was set at 10% of profits- as I advocate in 'Age Shock' – then it would represent a dilution of share value around 0.7% a year. In my book I am able to calculate that a 10% levy would have raised $142 billion last year and that over 27 years, such a reserve fund would accumulate to a value of $10.9 trillion. The fund network would be banned from selling the shares it received and would re-invest earnings for an initial period. By 2035 it would generate income of $400 billion annually, or 2% of future GDP and could begin to apply them where most needed.

It is, of course, not difficult to anticipate what some of these needs might be. They could include using the fund revenue to mend any holes that appear in Social Security, or

Medicare, or the insurance activities of the PBGC. Or it could be that the income would be best used to set up a new second pension, to furnish to all something on top of the bare social security pension. As an incentive to save extra, the scheme could offer matching contributions up to a threshold of, say, $3000 a year; such an approach gives the best incentive to the low income saver.

But before going any further, I should address an objection that will no doubt have occurred to many. The very existence of the reserve fund, assumes that a share levy is remotely feasible - when in fact it’s off the political map.

Tax policy is a little like a fairy story: The real treasure is guarded by a scary monster. In my story the treasure is the ability to tax the major concentration of financial wealth but the scary monster is the hue and cry that would be provoked by any hint of a tax on securities. Surely most Americans have – or aspire to – shareholding wealth. They might allow their homes to be taxed but never their shares. This is a serious objection but not a conclusive one.

Shareholding is in fact highly concentrated. The richest 1% hold one half of all shares and a majority own none or almost none. Pension funds hold only one fifth of all securities. All genuine pension funds could be offered a rebate such that their holdings would be fully compensated for any dilution.

Beyond such measures the fund network could itself be encouraged to recruit a small expert staff and to operate as the champion of responsible corporate governance. They could combat insider abuse – such as back-dated stock options. The fund network would be the ally of the small investor. Indeed, the annual share dilution resulting from executive options, and from needless mergers and acquisitions, is often above the level proposed for the share levy.

There is a mood of ‘economic populism’ abroad in the United States as evidenced by some of the results in last years mid-term elections. I believe that the measures I have advocated could help that economic populism hit the right target.

The risks we face are novel and systematic. These likely shocks are best met by anticipation, by harbouring reserves rather than stoking deficits. They require public management and accountability, universal coverage and well-judged incentives. Finally, they need boldness and novelty.

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