The Social Contract

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This book is dedicated to the next generations, to my daughters Julie and Cecilie, my son-in-law Morten, my grandson William, and my granddaughter Emma.

I would like to thank my wife Marianne, whose great support and encouragement made this book possible.

Especially I would like to thank Dane Age Association for the support to the English edition of "The Social Contract between the generations" – without this support this edition would not have been made.

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Bjarne Hastrup

The Social Contract

between the generations

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The Social Contract – between the Generations
By Bjarne Hastrup
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Preface

The social contract between the generations is the visible and invisible contract that binds the generations together in caring for children, educating the young and looking after the parents of adult children. But the balance between the generations is changing drastically, which has brought the contract into focus as a subject for debate and renegotiation.

In 1762, the French writer and philosopher Jean Jacques Rousseau published his *Contrat Sociale*, which made the will of the people the supreme law and heralded the French Revolution. Great social changes lie ahead of us now, since the 21st century will be the century of older people. The population of older people will grow at an increasing pace, while at the same time we can expect the new generations to continue to have increasing life expectancy. This will affect social conditions in every country in the world. Ageing will thus be one of the biggest global challenges, where every country will be dependent on the others.

We can expect to see many reforms in such areas as pensions, the labour market, care and the economy. I hope that *The Social Contract* will make a contribution by providing an overview and helping to inspire new political strategies that will be acceptable to all the generations, so that neither the elderly nor any other group will be impoverished.

This book was inspired by the teaching I have done on the economy of ageing and international policy towards the elderly. This is a new discipline which the University of Copenhagen asked me to establish at the Department of Economics from 1998.

The English edition has been brought up to date included the latest developement in demography, economy, and politic. One of my most dedicated students, Soray Sooman, has assisted me in this work for which I want to express my gratitudes.

Copenhagen, August 2007, Bjarne Hastrup

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Introduction

On 24 May 1904, my great-grandfather shot himself. Harald Sigurd Hastrup was 85 years old. He had supported himself for the last 16 years as a cigar roller in Copenhagen, but towards the end his hands could no longer do the work, which demanded dexterity, speed, and a craftsman's skill. His state of health destroyed his ability to work. Now you might well say that a man of 85 had done his bit and deserved to enjoy a period of retirement, but Harald wanted to provide for himself, without any outside help, even when he was an old man. No other option was acceptable. Life ended for him when he was no longer able to work. He had no wish to be a burden to his family or friends, let alone to society. This was his attitude, despite the fact that, 13 years previously, with the approval of all parties and classes of society, Denmark had decided to provide financial support for people of 60 and over. Around the year 1900, 10% of the Danish population were aged 60 and over, but not everyone in this group received an old age pension; many people regarded receiving help as socially demeaning. So Harald shot himself; death was more dignified than receiving handouts from society.

The point of this story, which has been passed on to three generations of the family, has always struck me as a suitable gateway to the history of welfare in the 20th century – and to my work for *Ældre Sagen* – the importance of dignity and respect for the elderly and the need to create secure, equal frameworks for the lives of older people. This can only come about, of course, if the younger generations also have secure, equal conditions. For that is the main thesis of this book: that *the social contract – between the generations* is about caring for one another.

This social contract has been forged between the generations, of course, because we only spend part of our lives in the labour market. You could say that children and young people draw on an unsecured bill of exchange that rests on family solidarity; those in the labour market discharge this bill via their daily activities and earned incomes, while at the same time "saving up" or paying taxes to cover the bill that they, in turn, will draw on when they are pensioners. This happens through payments to the oldest generation. The system builds on solidarity between the generations and within families as a practical, pragmatic solution to society's duty of care. The close ties and affectionate feelings between members of families and the different generations form the basis of the contract. The financial bases may vary widely from one society to another.

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The outlook for the future has sent shudders down some spines. Today, there are over half a billion people aged 60 or over in the world; in 50 years time, the latest prognosis from the UN predicts that this figure will grow to almost two billion, enough to populate one or two continents. But the anticipated state of health, resources and level of participation in society of the people who will be pensioners in the second half of the 21st century all form part of the picture.

The effects of the demographic phenomenon of ageing throughout the world that started to take off 200 years ago are now really making themselves felt. There is nowhere in the world that is not experiencing the age revolution. In Denmark, average life expectancy is now 76 years. In Japan, average life expectancy is expected to reach 88 years by the year 2050. The rest of the world, which today has an average life expectancy of between 50 and 75 years, although it is around 80 in countries with the best record, will soon follow suite. And contrary to what is commonly thought, this development is unlikely to stop. The centuries to come may well see an average life expectancy of around 120 years.

We must assume, therefore, that the ageing is a worldwide, ongoing process that will make its own particular mark on industry and society, social and cultural life, politics and the economy, and on ethics, philosophy and science.

Naturally, this raises a number of questions:

* Under what conditions can the task of caring for the increasing numbers of older people be performed?
* Which pension schemes are best suited to the changing situation? How big will the labour market need to be to support those outside the labour market: the young, the elderly and others unable to work?
* How should we recruit workers to fill the gaps: through longer hours, immigration or through a change of policy towards the employment of senior citizens?
* What will be the consequences of immigration and emigration between the continents?
* What will be the consequences of the large-scale movements of capital between the old world and the new?

It is these questions, among other things, that have sparked off the current debate about the social contract between the generations. We can expect many reforms in the fields of pensions, the labour market, health and social care,

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and finance. In this book, as a contribution to the debate, I want to present the results of my studies of the dynamic and challenge that ageing may entail and to give an overview of what to me appear to be the problem areas.

The book is divided into five chapters, each of which deals with a specific problem area, plus a final chapter summarising my findings and forming a conclusion.

In Chapter 1 the origins of social welfare systems and pension insurance schemes are examined in detail. It provides insight into the political and social interests that pressed reforms through. Solidarity, risks and insurance against these risks, via taxation or fund-based schemes, are systematised into *five sources of finance,* which together can give the breadth of protection that will be necessary in the future. Myths about the weak versus the strong elderly are also challenged and a more subtle picture is provided of the physical and emotional reality of getting older.

In Chapter 2, the long-term consequences of the present and future demography of different continents are presented. The size of the task of caring for older people differs widely from country to country. Every country in the world will have one problem in common, though: all continents will not just be confronted with ageing populations, but with the consequences this has for migration and for the movement of capital between continents.

Chapter 3 highlights the neglected, informal solutions, shrouded in myths, that take the form of care given by the family, friends and other networks, which are characteristic of most of the world outside the West. These solutions are often romanticised, however, and they may place too heavy a burden on individual members of a family when the elderly relative becomes frail, but family ties are nevertheless strong all over the world. The growth of voluntary work and the organisation of the elderly are also highlighted in this chapter.

Chapter 4 deals with the pension scheme of the future. Analyses of the consequences of ageing for Denmark and a number of other countries are presented. The social contract, which is based on solidarity and affection between the different generations of a family, is described. The many strategies open to Western countries for lightening the task of caring for older people are indicated, by keeping the elderly in the labour market or through increased immigration from such areas as Eastern Europe, for example, but ways in which pension reforms and the reduction of public and foreign debts may help are also put forward.

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Finally, Chapter 5 focuses mainly on the challenge of turning the task of caring for the elderly into an advantage, namely through the increased participation of older people in the labour market. It also includes suggestions for improvements in firms and the public sector and in the training offered to older people.

The conclusion, Chapter 6, contains suggestions of possible ways of coping with the great population changes anticipated in the next few decades.

Notes have been kept to a minimum, since the opinions and comments are my own. Wherever a reference is necessary, it is given directly in the text. A comprehensive bibliography, divided into chapters, is also provided at the back of the book.

A significant number of population forecasts from the whole world have been used in the text. It must be emphasised that forecasts that going much beyond 10 years are full of uncertainties. The UN, Denmark's Statistical Institute, the OECD, the World Bank and the present author, however, all employ forecasts that go as far as 2050 and beyond. Naturally, these can only be used as calculation examples that show the long-term consequences of an ongoing or anticipated development.

Who are the elderly? Not everyone reaches old age. Those who do are the section of the population that had the physical and emotional strength, energy and fighting spirit to cross the threshold. They are the agile ones or perhaps simply the lucky ones. What they all have in common is that they are *survivors*.

What they also have in common is the fact that they were born at about the same time. They grew up in the same kind of environment, although they may have experienced different social conditions. But wars, crises, national fortunes and misfortunes, and cultural and political events have all provided them with a common background. The various educational groups have a more or less common frame of reference and some of their attitudes and values have been marked by the time when they went to school together, were receiving further education or training, were doing military service or were in the labour market. They have also been affected by the living conditions that technology provided for them. Against all this, of course, is the influence on them and all other age groups of the spirit of the age. There are the same differences within this group as there are within all other age groups.

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The continuously increasing life expectancy will highlight how people have managed to cross the threshold – with varying financial circumstances, varying states of health and varying opportunities for self-expression. It is very important, therefore, how it is decided to support the older people who experienced most difficulties in crossing the threshold, while at the same time ensuring that children and young people receive an upbringing and subsequent career that will carry as many of them as possible safely into old age.
A common feature of the many publications concerned with the subject of older people in the future is the generation question. Will one generation be placing an unfair burden on the next one? This question is particularly relevant when applied to the baby-boom generation, born during and just after the Second World War. Have its size and its pension arrangements created an extra burden for the next generation?

I myself and many other members of my family and circle of friends want to work as long as possible. It is not just a question of lifestyle; it is undoubtedly a question of what is needed to live a meaningful, healthy life in old age. And it is also the best means of transferring resources from the big post-war generation to the next generations.

Outside my window in my retreat at Klitgaarden in Skagen, on the northernmost tip of Jutland, my paternal grandfather was rescued when his ship went down in 1885. At the time, he was 17 years old. He lived with a high level of risk. He experienced four shipwrecks in all. It was not until later in life that he insured himself against unemployment, illness and old age, insurance that was to be of great benefit to his wife. Ours and the next generations are covered in a very different way through national insurance schemes, state retirement pensions and private insurance schemes. We want security, not least for the next generations.

B.H.

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1. The Torpedo

"…Anyone who has defended something knows it.
And whoever fights, never suffers total defeat."
Morten Nielsen, Danish poet, freedom fighter, 1943.

Why are pensions a matter of public concern; not simply something that can be left to the market and families but a problem requiring a political solution? What interests lay behind the drawing-up of the first regulations providing for the care of the elderly? Can we learn anything from history? Why did Denmark get a system financed via taxation? Why cannot a pension system that is supported by one or a few sources of finance cover the risks associated with old age? According to what guidelines should we establish the pension system of the future? At what stage are the elderly no longer able to function properly?

The steamship "Bogatyr" left Sunderland, in England, on 9 August with a complete cargo of coal destined for the Århus lighting company in Denmark. But the voyage did not go entirely according to plan. The transportation occurred in 1917 in the final phase of the First World War, when imperial Germany was desperately trying to halt the Entente countries' march to victory on land with a push against their weakest point at sea, Britain's vital supplies. Danish ships delivered foodstuffs and returned with coal and raw materials. The German empire retaliated with an "all-out submarine war", which left a trail of wreckage and death in its wake in the North Sea and the Atlantic. Neutral ships, such as the Danish ones, were placed under British convoys but were sunk without warning by German U-boats. Altogether, almost 700 Danish seamen lost their lives and hundreds of ships were lost (the losses were to be three times greater during the Second World War). This Danish activity at sea meant placing lives at risk and taken as a whole formed the most significant Danish contribution to the victories of the Entente and later the Allies in the two world wars.

The British Admiralty ordered the "Bogatyr" to await a convoy. The ship was given the exposed position at the front of the convoy, in the row on the left behind the leading ship. This position was scrupulously adhered to during the voyage.

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The time was 01.45 "British summertime", the date was 12 August. The ship's master, the chief officer, was standing on the bridge. In view of the tense situation, the sailor on watch noted any unusual movements at sea. A gentle, south-easterly breeze was blowing and the ship was positioned 23 nautical miles from the coast of Scotland, just off Stonehaven. The British convoyed the ships north of the unrestricted German mine and U-boat field.

The sailor on watch saw, but was unable to give warning of, the wake of the torpedo. The "Bogatyr" was torpedoed on the port side of the forepart of the vessel and a huge explosion ripped a hole in the side of the ship from below the water line along the freeboard. The ship took a heavy list on the port side and the engine room telegraph immediately signalled a halt. As the documents of the maritime inquiry of 21 August 1917 reveal, calm prevailed and there was no panic, despite the fact that the crew evacuated the ship very quickly. Only a minute passed between the order to lower the boats into the water, and the crew being clear of the ship.

The entire crew of 18 men were rescued and to quote the official report nobody suffered any "appreciable harm", whatever that may mean. The "Bogatyr" sank five minutes after being hit by the torpedo and disappeared in a cloud of steam and smoke. Nothing much was said. This was not a Hollywood movie, it was Danish seamen on a very necessary voyage with a cargo of coal for the electricity company at Århus. Navigare necessare est. Sailing was necessary, even when it involved risking your life. But it was not necessary to make a fuss about it.

Soon afterwards, the crew were taken on board a British warship and according to the maritime inquiry records, were put ashore at Lerwick on 13 August. The crew were subsequently taken home to Denmark, in small groups across the dangerous North Sea in various neutral boats. They continued to make these dangerous crossings for the benefit of the Entente countries and of neutral Denmark.

A total of 324 ships belonging to the Danish merchant navy were sunk during the First World War, including some fishing vessels that shared the same fate. The "Bogatyr" belonged to the Gefion shipping company, run by the shipbrokers Holm and Wonsild. The S/S Gefion was especially badly hit. The sober one and a half page report of the Maritime and Trade Court tells us that four out of seven ships were hit and sunk by the German Navy.

We know who the chief officer on the bridge of the "Bogatyr" was. His name is on a crew list that was one of the documents at the inquiry. He was Aage Fri Hastrup. Fri (free) after his ancestor, Jens Pedersen Hastrup, who

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bought his way out of adscription in 1761 for 20 rix dollars. Free as a bird. As sailor, free as a whitetailed eagel. Aage Free, the whitetaled eagel. Aage Fri was my paternal grandfather.

Aage Fri went to sea at the age of 17 and was shipwrecked for the first time at Skagen, in a bark called the "Gorm of Vejle" on 12 January, in 1885, but was not rescued until two a.m. on the morning of 13 January. Several salvage attempts had to be made and the rescuers' report takes up several pages of the report. He spent three months in hospital with gangrene in his feet, after which he went back to sea and travelled to Greenland, the Pacific and the Atlantic. In 1902 he was shipwrecked at the Paternoster Intersections near Marstand north of Gothenburg when chief officer on the S/S Ekliptika. He was twice torpedoed during the First World War. Despite this he went back to sea, as did many other Danish seamen. The last time Aage Fri was torpedoed by the Germans probably occurred when aboard the "Bogatyr"; we have no details of the first sinking. We can be reasonably certain, however, that he would not have felt much goodwill towards the unrestricted imperial U-boats, as he rowed to Scotland after he and the rest of the crew had been so fortunately and speedily rescued from the rapidly sinking ship.

Aage Fri Hastrup finally went ashore in 1934, at the age of 68, after 51 years at sea in the service of his country, his family and his employer. He continued working for the shipping company on Langelinie until his death in 1942, at the age of 76. He outlived his male colleagues by almost 16 years, but he had learnt the lesson of history. He did not want to be left to an uncertain fate in old age, as his father had been. Along with other ships' masters, he had pressed hard for a pension that was to come in very useful for his wife, Laura Marie. Laura survived Aage Fri by several ships' lengths, so she was in real need of his privately saved pension and later of the state pension that her father-in-law had thought so shameful.

Aage Fri had four children between the four shipwrecks. When he died in 1942, he left a widow who was well-provided for by the standards of the day, four grown-up children and 2000 tons of coal at the bottom of the North Sea, lying at a latitude of 57.04 degrees N and a longitude of 1.04 degrees W, 75 kilometres off the coast of Scotland.

The Union of Ships' Officers' course towards a superannuation scheme

The seamen and ships' officers had an occupation that was marked by substantial human, social, health and financial risks. We can see that from the story of chief officer Aage Fri Hastrup.

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Aage's life would take a dramatic form in an actuary's calculation if an insurance policy were to be drawn up to cover the biggest risks in Aage Fri's life. After the first shipwreck, he was in danger of remaining an invalid for the rest of his life, but recovered after suffering from gangrene in his feet for three months. He lived through four major world economic crises in the 1880s, 1906, the 1920s and the 1930s, all accompanied by high unemployment, the last two periods by mass unemployment that got completely out of control. Aage Fri lived through two world wars and was active in one of them. He worked continuously but the threat of unemployment was a reality for long periods of his life. Finally, he came face to face with death on the oceans at least four times during his life. His family risked losing their sole provider and a substantial loss of income that would bring them down to subsistence level.

There were many reasons, therefore, why the ships' officers used a significant proportion of their increased wages on various kinds of insurance. In the first place, they risked unemployment because the major global economic crises in reality hit world trade harder than national trade and transport. This meant that ocean-going vessels were always hit much harder financially than other forms of transport. Secondly, there was a high risk of illness and mutilation connected with sailing in those days. Illness and invalidity meant the short-term or permanent loss of the ability to work and therefore also of the sole financial basis of support for an entire family. Thirdly, death lay in wait at sea, in storms, through grounding or via torpedoes. This circumstance put families at risk of losing their breadwinners and made the widows' pension necessary and later in the century many also discovered that it made a children's payment necessary to provide for their education. Finally, Aage Fri had to face up to the fact that one day he would be so weakened by old age that he would have to retire from his work as a ship's officer. Trying to find alternative work could be problematic. It would be fatal simply to leave things to chance. So he would have to establish a pension scheme himself.

It came about via the Union of Ships' Officers. This was certainly no social club. It obtained its first agreement with the shipping companies in 1911 and the results came thick and fast. In 1912 they were granted 14 days' holiday on half pay and before that there were pension schemes within the individual shipping companies, in which the shipping company paid between 4% and 7% into the pension fund, which was shortly afterwards administered by the PFA (The Institution for Pension Schemes). On the outbreak of war, wages were raised considerably and substantial insurance policies for war accidents

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were taken out for both crew and ships' masters. The war widows began to make their presence felt and hard bargaining took place once the unrestricted U-boat war started. Wages, accident insurance and compensation sums were all raised and a new concept was introduced: a "token of gratitude" to the surviving widows of 500 DKK per annum. There was no question of this being charity, therefore, it was the shipping company's material thank you for the loyal service of the widow's spouse in dangerous times.

The ships' masters, who as middle men formed part of the management of the shipping companies, had had to bear a considerable burden of risk themselves. After the end of the war, therefore, the issue of better social security provision was increasingly raised. Experience of the many torpedo attacks and of danger to life and limb on the high seas during the war made its mark. People were fully aware of the uncertainty that lay ahead of them and quantified it. In 1920, an unemployment fund was created which was unusual, in that contributions were made on a progressively rising scale according to income: 2% from those on very low incomes, 5% from those on the highest ones. In return, there were no political or social misgivings about the Treasury also helping out. The state would refund three fifths of the amount paid out by the unemployment fund. There was no debate about loss of dignity; what mattered was need.

By 1922, the officers had attained a pension scheme that was accepted by all the shipping companies and that formed part of the general employment agreement negotiated by their union. What was different about it was that it set the contribution to be paid by the shipping companies at 6% of the wage and that of each officer at 6% of their wage. Thus it was a 12% pension scheme, which is rather high, considering that relatively few people lived beyond retirement age. When the general labour market in Denmark in the 1980s, 60 years later, wanted to create a comparable system, they started at an extremely low rate of around 1% rising to 9% (3% from employees and 6% from employers), and many unions have still not reached the final rates.

It was also unusual in 1922 for both sides to contribute equal amounts. The "quid-pro-quo" principle was used, from which there was actually a significant departure in 1935, after which the shipping companies, as part of the collective agreement, were to continue paying their contributions in full during holidays. In 1956, the contributions were raised to 14% of wages, 8% of it to be paid by the employers, in addition to the full premium being paid during holidays and periods of unemployment, a principle that was only introduced

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in the 1990s with the ATP scheme (compulsory supplementary pension) for the unemployed and later for early retirees and recipients of income support. Today, a normal PFA scheme involves a contribution of 8% by employers and 4% by employees for white-collar workers in the public sector. You could say, therefore, that people in occupations that clearly involve great risks on a daily basis appear more eager than others to insure themselves through private or public insurance schemes.

Today, it is often said that public insurance schemes and private pension schemes are an expression of the modern person's exaggerated fear of life's natural risks and in its way is an unnecessary safeguard that simply serves the purpose of giving a false feeling of security in welfare states. But the example of the seamen reveals the real risks taken and the precise reason why people banded together to obtain important social improvements and better financial and social security for themselves and their families.

The Historical Consequences

It was certainly not without significance for the rest of society that Aage Fri Hastrup and his fellow seamen succeeded in obtaining unemployment insurance and pension schemes. As representatives of the middle ground between seamen and shipping companies they had to carry out the orders of the employers while simultaneously showing solidarity with the crews, not least in crisis situations. After the First World War it became very clear that all those on board were bound together by the same fate. Torpedoes do not distinguish between officers and men. When officers had to draw on the Treasury at the same time to receive unemployment benefits, a basis was created for solidarity with other sections of the population. Many roads led them to this particularly Danish view of welfare across the then prevailing class divisions. For ordinary workers, fishermen and farmers were also in occupations associated with a high level of risk, with physical debility, disabilities and fatal accidents.

But it was still felt that receiving welfare payments involved loss of dignity. The principle that you had to make a significant personal contribution that could be perceived as a concrete, individual contribution was of paramount importance. That is why the personal contribution was introduced into pension schemes. That is why funds were created into which each person saving towards a pension could pay his dues and thereby make his own personal significant financial contribution, to the unemployment insurance scheme, for example. They went even further by confirming that the seemingly inoffensive payment of 500 DKK per annum by the shipping companies to widows

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