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THE DEVELOPMENT VECTOR OF PENSION SYSTEMS AROUND THE WORLD

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Мақолада чет мамлакатлари пенсия тизимининг ривожланиш векторлари ҳамда дунё ва Ўзбекистон Республикасида пенсия таъминотининг ривожланиш эволюцияси тадқиқ этилган.

Таянч сўзлар: ижтимоий ҳимоя, пенсия таъминоти, ижтимоий сиёсат, пенсия тизими, ижтимоий суғурта

В статье рассматриваются векторы развития пенсионных систем зарубежных стран, а также исследованы эволюции развития пенсионного обеспечения в мире и в Республике Узбекистан.

Ключевые слова: социальная защита, пенсионное обеспечение, социальная политика, пенсионная система, социальное страхование

The article considers the vectors of the pension systems of foreign countries. In addition, it covers the evolution of pension schemes in the world and in the Republic of Uzbekistan.

Keywords: social security, pensions, social policy, pension system, social insurance

Social insurance - is a fairly new concept that appeared in the domestic economic literature relatively recently, within the past two decades.

In countries with socially oriented economy strong focus is on policy of social protection of the population, the main components of which are social insurance and social assistance. Abroad the concept of "social security" was first formalized in the Law on Social Protection adopted within the framework of the New Deal policy implemented by Franklin D. Roosevelt in 1935 and later in the 1940s in the documents of the International Labour Organization (hereinafter ILO). According to the ILO definition, social protection - is a "protection which society provides to its members through a set of public measures against economic and social disasters that are caused by the termination or significant reduction of earnings due to illness, childbirth, occupational accidents, unemployment, disability, old age and death; provision of medical care; providing subsidies to families with children" [1]. ILO definition was further reflected in the documents of the European Union: in the European Code of Social Security in 1968, in the Charter of fundamental rights of workers, in the Green (1992) and White (1994) Books on European social policy, as well as in other documents.

Thus, it should be noted that the pension, which is an integral part of social security, has had a direct impact on the course of both the political and the economic events in the evolutionary history of its formation and development.

For instance, a first state pension ever in the history has been paid during the reign of Julius Caesar, and it was called a "state provision of military", but after a few centuries, it became one of the reasons why the Roman Empire is collapsed - lack of cash for its payment.

However, it has not too worried the population: people did not have the knowledge that by devoting themselves to public service they are entitled to demand a pension from the state. Over time, the nature of pension has changed: it acquired a social aspect.

The history of the modern pension system is usually counted from 18-19th centuries. It was at this time that there was a shift from public provision of certain small categories of civil servants to the pension arrangements covering all citizens of the country and the very first official pension in the world which affected the care of all segments of the population in old age, the so called retirement benefit - was the "Joint State Pension" which introduced by Otto von Bismarck, the Prussian chancellor - it happened in 1889 (see table №1). Pensions in Germany resembled the practice of the then existing voluntary mutual funds. Characteristic feature of the German approach was the fact that social insurance was mandatory and based on contributions. Employers and workers had to finance "joint state pension". What is the most valuable thing in this pension system is that it is still in place and German pensioners enjoy it to this day, but only with some additions and modifications. This model of pension provision in many countries has become a benchmark, taking it as a basis, in the development of their own pension systems.

Following this pension provision has been implemented in Denmark and New Zealand (1898). Means test was carried out in these countries, there were flat rated payments, focused on the poor. Unlike its colonies the Great Britain reflected on pensions 20 years later. But today, a system invented by the British, is considered as one of the most advanced in the world. The United Kingdom is one of the few countries, which hardly affected by the crisis of pension systems in Europe. The British government was one of the first to introduce in the country the pension provision system, which implied a gradual reduction of state benefits. In the United States, payment of pensions was launched only in 1930, but already in 1935 the federal pension insurance system began to work. However the first rudiments of private pension provision have appeared even earlier: "American Express" credit company began to pay pensions to its employees in 1875.

On June 4, 1952 at the General Conference of the International Labour Organisation in Geneva a number of proposals on minimum standards of social security were made. As a result, the Convention was adopted in 1952 №102 «On Minimal Standards of Social Security", ratified by 43 countries. Section V of this document stipulates the terms of appointment of old-age pension payments. Convention №102 suggests that social security schemes are managed on a tripartite basis, which guarantees and reinforces the social dialogue between governments, employers and workers/employees.

Table 1

Evolution of pension schemes in the world

Type of pension	Year	Countries	Events
Pay-as-you-go	1889	Prussia	the transition to a pension provision of the working class
	1891	Denmark	pension system, focused on targeted assistance to the poor
	1898	New Zealand	
	1908	Great Britain	transition to attracting the working class to the pension system
	1910	France	
	1913	Sweden	
	1919	Italy	
	1919	The Netherlands	
	1924	Chile	
	1927	Canada	Need based pension provision
	1935	USA	The federal pension insurance system
	1954	Japan	Complete coverage of all areas with the public pension system
	1956	USSR (FSU)	Soviet pension system has acquired a national scale

Source: Table is constructed by the authors as a result of studying the history of pension provision

In North America, the pension system emerged with a significant delay, for instance pension provision in Canada in 1927 was not an insurance system, but as it's basis was the criterion of need.

In Latin America, Chile's remarkable experience is notable, which first in the western hemisphere created a nationwide distribution system (1924) and first rejected it (1980).

In Japan, the pension system was introduced during the Second World War - in 1942. However, in fact it was enacted in 1954, when the Japanese economy recovered from the war and post-war devastation.

In China full-fledged pension system is still not established. Today, in China only certain categories of urban citizens receive pension, as a rule they are the government officials, which is a small fraction of the population.

Other Asian countries initially went in a different way on issues of development of their pension systems. In the middle of 20th century, when the joint pension systems were at the peak of its popularity, some Asian countries have introduced untested schemes that were based on the capitalization of pension savings of each of the future pensioners. For example, in Malaysia, a similar Employees Provident Fund, which covered almost the entire working population, was established in 1951. Such provident funds operate in India, Indonesia, Nepal, in some African countries like Gambia and Zambia.

Having existed for several decades, pension systems of most of the above countries began to show their macroeconomic inability to solve a number of issues and the inadequacy to the existing realities. So, the second half of the twentieth century was characterized by a new round of development in the pension systems of the most developed countries of the world.

There are over a dozen different factors that affect the evolution of national pension systems. These are socio-psychological (historical features of the development, national or ethnic mentality, traditions and customs, etc) and socio-economic (social structure of society, economic welfare of citizens, economic policy of state etc) and, of course, socio-political aspects (role of state in the economy, political lobbyism etc).

These factors can be used as criteria for the systematization of national pension systems. For example, depending on the role of state in the economy and the ratio of public and private components of the pension system the following systematization can be seen. This is, firstly, a completely (or almost completely) public pension systems. The most striking example of this type is the pension systems of the FSU and other countries in Eastern Europe. Besides, such systems operate in Italy and Singapore. Secondly, the public systems, complemented by private pension provision (the USA, Canada, Australia, Germany). Thirdly, private pension provision, supplemented by state pension (UK, Japan). And, fourthly, private systems, fully replacing the public ones (Chile).

It should be noted that in practice, a second type can not be distinguished from the third. Therefore, it seems that both theoretically and practically it would be most appropriate to talk about three types: mostly public system, mixed and mostly private one. This approach justifies the evolution of formation and development of pension systems, which move in the direction of the gradual shift of the public to mixed models, and from mixed - to the private.

The proposed above grouping is one of the most common, but not the only one. Thus, depending on the financing methods there are pay-as-you-go pension system, defined contribution pension system and pension system as a combination of both.

Historically, first to appear was pay-as-you-go pension system. A classic example of this system is German model of pension provision (late 19th century).

The essence of the pay-as-you-go system is to ensure that the running costs for pensions are covered from current revenues. This principle is commonly referred to as "pay-as-you-go", which means pay as you work. Despite the recent tendency to renounce the pay-as-you-go principles, many national pension systems are still based on such a method of forming their own financial resources. Thus, according to the ILO report prepared in 1988, out of 58 public pension systems covered in the survey, 44 belonged to this type.

Table 2.

The vector of the type pension savings countries in the world

Type of pension provision	Time	Country	Events
Mixed with savings function	1951	Malaysia	Employees Provident Fund, which covered almost the entire working population
	1980	Chile	Introduction of Defined Contribution Pension System
	1985	Switzerland	
	1986	Great Britain	
	1990	Denmark	
	1993	Columbia	
	1994	Argentina	
	1997	Mexico	
	1998	Hungary	
	1999	Poland	
	2000	Hong Kong	
	2005	Uzbekistan	

Source: Table is constructed by the authors as a result of studying the history of pension provision

It should be noted that national pension systems are evolving towards the development and spreading of funded mechanisms. This is evidenced by the numerous reforms of pay-as-you-go pension systems. A pioneer among the countries who have embarked on the construction of the pension system, functioning on the principles of a savings, was state of Chile. Already in 1980, the first transformation of the old model began there. Today, the Chilean experience is a textbook example for those countries which are hesitant to make their first steps on the way to erecting new forms of pension provision.

Those countries that have already introduced new savings principles in their existing pay-as-you-go systems, are expanding the range of spreading of these mechanisms. For example, by increasing the funded component in a single pension. This, for example, is evident when in a number of countries gradual increase is taking place in the size of the insurance premium to the funded component of the pension.

However, there are inverse processes. Thus, for instance, Argentina, that has adopted fully funded scheme in the pension system in 1994, ten years later decided to abandon it. This is due to the fact that both the pay-as-you-go pension system and defined contribution pension system have a number of disadvantages, which at certain times are obstacles to the further implementation of this model of pension provision.

With regard to the evolution of public pension provision in the Republic of Uzbekistan, it should be noted that the economic reforms implemented in the country have fundamentally changed the economic and social relations between people in society. This in turn requires strong, targeted social policies that take into account national, regional and demographic characteristics, economic situation and the mentality of the people. Well known is a recognized model of economic reforms in Uzbekistan - phased implementation of reforms, strong social protection of population help to achieve the main goal of the reforms - transition to a civilized market relations together with provision to population of opportunities for getting used to a new socio-economic conditions.

The social aspect of reforms is underlined by the fact that in the Republic of Uzbekistan in accordance with the Law of the Republic of Uzbekistan "On State Pensions" №938-XII dated 03.09.1993, state guarantees provision of pensions for old-aged, for disability, loss of breadwinner, with at least 5 years of work experience.

For the last 20 years the average life expectancy in Uzbekistan has risen from 67 to 73 years. This is concrete evidence of steadily developing economy, health care, growth of welfare of the population as well as strong social policy aimed at the comprehensive care of a person [2].

Socially oriented market economy, emerging as part of the national model of market reforms is directly related to improving the functioning of the pension system in the country, the ultimate goal of which is a dignified old age and an acceptable standard of living in retirement.

However, the emerging social stratification of population, new social relationships between able-bodied and disabled citizens, a significant change in the state's role in market conditions require new approaches to addressing the issues related to improvement of the pension system, introduction of private pension systems both to further rising the pension payments, and to generate a new source of long-term investments.

The results achieved in the development of the country's pension system in recent years are highly appreciated by authoritative international financial institutions such as the World Bank, the European Commission and other countries.

In Uzbekistan, in the future, with the development of non-state funded pension system a reform of the national pension system could be implemented, with a gradual decrease in the contribution rate to the pay-as-you-go pension system and a corresponding increase in the contribution rate to the funded component of the pension system. Full transition to the savings principle of financing the pension system in Uzbekistan is limited by a considerable size of the hidden debt of the pension system, which, for example, in the result of reform in Chile has been replaced by indexed bonds, paid in full when employee retires.

It should be noted that the institute of funded pensions can give positive results only in conditions of significant economic growth. At low rates of growth, or in conditions of financial crisis retirement savings lose their value, and counting on them would be not only reckless, but also lead to undesired consequences both for population and for state.

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