“Ageing Societies and New Forms of Global Political Economy.”

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Abstract: Globalisation, in particular Pension Fund Capitalism, changes the relationships between generations. In the 1990s crises for public pensions contrasted with the enormous expansion of privately controlled pension funds. The growth of international capital in part reflected a generational feature of society - the demography of the baby-boom generation and its economic opportunities. The subsequent downturn in world stock-markets and crises for private pension funds, has exposed the social cleavages underlying Pension Fund Capitalism. There is a contradiction between the social cohesion required for long-term financial security for older people, and the increasingly global and 'efficient' financial markets through which their pension funds are invested. A critical analysis of the limitations of nationalist, commercial and kinship ideologies in providing a secure old age suggests that without new political economies that result in global solidarities across generations, the twin goals of sustainable demography and a secure old age will be unachievable.

Introduction.

The purpose of this paper is to consider what is unique about contemporary global political economy and in particular the relationships between global politics and the ways in which material security in old age are achieved. The current and succeeding generations of older people will have had differing opportunities and experiences and as a consequence new questions are raised about how global society can sustain social cohesion across successive generations. The term which is used to describe the way in which the enormous accumulations of capital collected to underwrite the retirement of many British and American employees has come to dominate aspects of the world economy is “pension fund capitalism”. The key analyses of this phenomenon are Clark (2000) and Blackburn (2003) and also Minns (2001). However, two fundamental features which these analyses have tended to underplay are firstly the succession of generations, their demography and role in political economy, and secondly the ideological features of pension fund capitalism which legitimate its exploitative / redistributive effects. Specific characteristics in terms of institutional structures, the kinds of risks, regulatory regimes and structures of incentives that channel financial flows, together the cultures of the elites who risen on the power of these accumulated funds, give pension fund capitalism a distinctive form.
The first thing to understand about Pension Fund Capitalism is its sheer scale. Global capital in the last two decades of the twentieth century came to be dominated by enormous accumulations of funds amassed in institutions designed to provide a vehicle to fund retirement incomes for the mass of middle income earners in the United States, Britain and a number of other countries. Ageing populations and increased prosperity in the developed world mean that pension provision is a growing industry provided by both public and private institutions. There is a great deal of money that changes hands in preparation for retirement. In terms of contributions to private pension funds, “among EU Member States for which data is available, in 1999 the highest contributions in absolute terms were in the UK (26.4 billion euro), in Germany (18.0 billion euro) and the Netherlands (11.7 billion euro)” (Office for National Statistics, 2002:20-1). It is reported that over the last twenty years of the twentieth century UK individual pension and retirement assets increased about twelvefold to around £1.5 trillion. Chart one, uses data from the Office of National Statistics (using a rather narrower definition of pension fund assets) to create an image of the size and rapidity of the change involved. For the same period, US household retirement assets have increased about tenfold to more than US$7 trillion and Australia and Canada have also experience high rates of asset growth (Clarke 1998:139).

The size of the accumulations of investable assets have not only changed the potential for old age in the US and UK but profoundly changed key relationships in global capitalism.

Clark states:
Notwithstanding their current high standards of living, countries in much of continental Europe have not shared in these extraordinary rates of growth of pension assets. In fact, many analysts believe that their long-term prosperity is threatened (relatively speaking) by inefficient, institutionally cumbersome finance sectors. While saving now for retirement has significant advantages for beneficiaries, less recognized is the fact that the growth of pension assets in the Anglo-American economies has profoundly changed the financial structure of these countries. (Clark 1998:139)

There has been a transformation of capital markets into a world wide trade in money and assets conducted through set of institutions with enormous transactional power and ability to make decisions affecting all areas of the globe. Carter (2000) observed that

“The global financial industry is today undergoing a historic transformation -- a fundamental shift away from traditional bank financing and toward intermediation through free-trading capital markets... (Carter 2000)

The growth of these pension funds and the social and economic institutions which underpin them have changed world society. Global capital markets have severely undermined more traditional forms of relationship between finance capital and business, commerce and the state. They have altered the financial relationships not only in the USA and GB – the societies in which they predominate – but in countries like Germany, France, and Japan which have different institutional arrangements but which feel the competitive and political power of ‘pension fund capitalism’. The bank financed heavy industrial complexes that have defined late industrialising countries like Germany and Japan over the past 50 years appear too inflexible under the pressure of global market forces. The globalisation of investment and technology exposed these structures to direct competition for the first time. Fashionable financial doctrines emphasise that in a rapidly changing world, efficiency dictates agile, swift-moving capital -- for start-ups, restructuring and mergers and acquisitions. From this perspective the absence of highly developed stock and bond markets in Asia exposed the region to unsustainable levels of short-term bank debt. Faced with the Asian financial crisis of the 1990s, the solution was seen as the development of larger capital markets because securities markets were seen to have a superior ability to allocate assets efficiently. These new financial relationships could integrate Asian productive capacity with global sources of capital. Some commentators make the case that these capital markets arose not only for the needs of entrepreneurs of investment capital but also more fundamentally for pensions funds to find rewarding investment opportunities. Those mainly continental European Countries with PAYG pension schemes are seen not only as under pressure from changing dependency ratios but missing out on the dynamic potential of capital accumulation in pension funds.

Globalisation requires standardisation of financial procedures.

Globalised money and investment markets and the financial institutions that operate in them need standardisation and predictability in order to function. They need not only security, that they will get their money back, but they also need information in
comparable forms with which to reliably predict returns on investment. Further they seek standard rules of competitive engagement - they want a “level playing field”. As pension funds seek more and more investment opportunities worldwide, they require standard legal and contractual underpinning, standardised accounting techniques, rules about transparency so that they can assess risks within a standard frame of reference.

“the actuarial and accounting standards developed in the United Kingdom – and adopted in Australia, Canada, Ireland and South Africa – mitigate the effect of equity market volatility on contribution levels and thereby encourage a higher allocation to equities.” (Griffin 1998: 68)

On balance, would expect that institutional investors will increase the liquidity, volatility, and price informativeness of the markets in which they invest. In turn, the increased information provided by institutional trading should result in better monitoring of corporations and in better corporate governance structures.” (Gillan and Starks 2002:17-18)

Efficient markets need a constant flow of accurate, readily-accessible information. Information flows have been facilitated by electronic mediums but still require standard and accurate accountancy and reporting of financial information. Hence the process by which accounting standards have become internationalised. The adoption of the accountancy rule FRS 17, that requires British companies to bring to account for pension assets and liabilities on the balance sheet, has had severe consequences with many companies closing their pension funds to new recruits. The failure of such financial regulation procedures in the USA were involved in the collapse of major corporations such as Enron and WorldCom and subsequent turmoil in financial markets. Successful pension fund capitalism and wealthy capital markets need a reliable regulatory framework, whereby the rules are transparent, and are strictly observed.

Standardised financial procedures around the world increase transparency and trust in a financial system and thus facilitates the confidence to invest large amounts of capital through the financial markets.

“Healthy capital markets need a healthy fiscal, macroeconomic and regulatory environment if they are to thrive. They need clear rules of engagement and consequences for those violating the rules. They need a constant flow of dependable, readily-accessible information. And, above all, markets must be free of political manipulation that sabotages their natural corrective mechanisms.” (Carter 2000)

Although the markets require the state to provide the legal and regulatory framework in order for predictable returns on investment, the financial elite regards it as essential that markets must be free of political manipulation. Hence the well-known features of globalisation for which such elites strive; standardisation of rules and regulations, the expansion of markets, but constructed in a way which excludes democratic establishment of economic priorities.
Pension fund capitalism is a political economy. It requires politics as well as market relationships to succeed. It requires politics to provide the social stability, co-ordination of markets and regulation and policing of the system. These needs for financial standardisation and security tie the globalisation of finance, tightly to US political hegemony. The military dominance of the US and its domination of world economic institutions is inseparable from the ability for pension funds to make transnational investment strategies work. This can be illustrated by looking at Shinn and Gourevitch’s (2002) policy briefing paper in which they identify an opportunity for the United States to advance its foreign policy goals of enhancing free trade and financial stability. They advocate that the US actively engages in negotiating international agreements on corporate governance that follow a US model. They suggest some caveats about how far the American model can be pushed and the degree of financial security it can provide but argue that:

“International capital flows are creating incentives for countries to adopt greater shareholder protections, or “corporate governance reforms.” When adopted, these protections reorient the priorities of both industrial firms and banks in ways that can defuse many trade disputes and reduce the likelihood of destabilizing financial meltdowns. Corporate governance reforms abroad can also buffer the U.S. domestic securities regulatory model from some contagion risks caused by tighter integration with foreign capital markets.” (Shinn and Gourevitch 2002:1)

In other words the safety of pension fund investments across the world depend on an effective policing of the financial markets. In such an integrated world there is a severe danger that loss of confidence in investments in one part of the world will rapidly come to affect all major financial institutions across the world. It is the power of the United States - its economic, political and military dominance - that provides the necessary legal framework and climate of investor confidence for the financial elites of pension fund capitalism to prosper. The new global capital markets are only possible because of the nature of the pensions funds which supply a continuing stream of cash to invest but they need specific forms of international politics in order to prosper.

The radical decomposition of the ownership function.

An essential and distinctive characteristic of pension fund capitalism is the radical decomposition of the ownership function. Ownership of capital is no longer a simple and obvious relationship located in a single person, or institution but has fragmented. Along with this fragmentation comes the emergence of new elites whose power and wealth lie in the particular function that has come with the new division of labour, or rather division of capital. Much has been written about the significance for the development of capitalism, particularly in the 20C that came with the separation of ownership and control of production represented in particular by the joint-stock company. The functional division of different aspects of ownership, management and control of capital is having equally radical consequences.

The legal nature and ownership of the resources in Pension Funds can be distinctly ambiguous. The legal control and certainly not the effective social control of these funds are not with individual private savers. Legal rights even as the collective beneficiaries of a fund are hard to establish. Beyond this there are substantial conflicts
of interests between different roles in the management of pensions savings and the participants in the global financial market in capital. The generic term for the conflict of interest between owners and those who manage the assets on behalf of owners are known as ‘agency effects’. Pension fund capitalism has taken these issues to specialisation and fragmentation of the ownership and control functions of capitalism to a new level. We can list the actors involved as - savers, trustees, fund managers, financial advice and management industry, managers of enterprises invested in, workers in enterprises invested in, and current pensioners. I will deal with each of these in turn.

**Savers,**

In Britain it has been employment based occupation schemes based around the SERPS pension legislation of the 1970s that have been the strength of the British Pension Funds. In the US it has been the tax advantaged section 401(k) schemes which have led the huge rise in pension fund assets. Personal savings in a private market is a minority of pension fund activity and it is only with the national legislation to provide a framework through which employment based schemes that pension funds have flourished. It depends on the country specific legislation the extent to which potential beneficiaries of the schemes represent as full cross section of society. Research on public understanding of pensions in Britain suggest that there is very limited knowledge and little active choice exercised by plan recipients. Even private pension holders have difficulty working out their own financial interests over the long term and frequently make expensive decisions to withdraw. This lack of understanding of the market by consumers of pensions products suggest market pressures do not work through consumer preference as is indicated by the widely varying rate of returns available. Thus those paying into the scheme and those who are or anticipate becoming beneficiaries of a pension fund are only in an extremely limited sense ‘owners’ of their interest in the fund.

**Trustees,**

Significant legal responsibility for the pension fund as a whole lies with its ‘trustees’ who form a Board with duties to members/ subscribers and regulatory authorities. British occupational pension funds are largely employer dominated, but have Trade Union representatives. In Britain and America occupational funds for certain categories of professions such as Teachers, University Staff, but also Miners and Railwaymen have produced funds with large financial clout in which the membership had at least a minimum of effective voice. However, the real controllers are not the trustees, in practice it is those specialists who manage the funds on their behalf. The trustees’ job is in practice highly mechanical – the trustees have a legal duty to follow ‘fiduciary interest’. This means their every decision must maximise the financial returns to the fund. Trustees and funds monitor performance by comparison to other funds and show a considerable tendency to “follow the herd”. Within the limited discretion the legal framework allows them most trustees follow low risk strategies and in boom years frequently did less well than market indicators. This has led some funds to favour market tracking – automated programmes which enable funds to follow market averages. These systems however, not only follow stock markets up but also down.
Those making the important day to day investment decisions on behalf of the fund are professional fund managers who are not owners but agents. The effective controllers of the financial power of pensions funds are the financial elite; the finance and banking industry managers – a status group characterised by moneyed wealth but also by perceived technical finance competence defined within the paradigm of neo-classical economies. This technical practice is reflected in the cultural perspective of short-termism (even although pensions investment ought logically to be on a long term - decades long - basis) for which fund managers have been criticised. Thus although the formal responsibility for the performance of the pension fund lies with board of trustees, in practice the assets are passed to managers, who may be direct employees but more usually are specialist finance houses commissioned for the purpose. Large pension funds buy specialist services while small funds buy into large institutional pooled management schemes. There are a limited number of very large (in financial terms), lucrative, firms specialising in international financial management for pension funds. There is further specialisation in terms of financial advice which pension funds and managers seek. They can commission independent expertise with which to oversee and evaluate the performance of those managing their assets. There are even specialists whose function is merely custodial, to securely hold the pension fund liquid assets. There are formalised sets of checks and balances whereby various forms of expertise are managed and those experts overseen, thus there are a complex set of agency problems. However, from the societal perspective these technocratic managers of the financial system form an interlocking elite, with common interests in the maintenance and expansion of the system as a whole (c.f. Fligstein 1996).

Pension fund capitalism appears to me to be a special type of capitalism because of the enormous gulf between the apparent owners of ‘capital’ - the beneficiaries and those who actually control the funds, who are in reality the fund managers. These fund managers do not have complete freedom of action, they are in fact tightly constrained by each other and operate according to codes of conduct which are precisely informed by the standard cannons of neo-classical economics. Fund managers have been criticised for not being sufficiently entrepreneurial, in particular ignoring start up or small enterprises and of following a herd instinct - watching each other so that their performance in comparative terms matches the other fund managers (Clarke 2000, Myners 2001). Their principle source of behavioural guidance is the theories and models of economics and finance as a professional discipline. They believe in the market and therefore believe the models and act as if they were real. Hence they become real.

The return on pension fund investments depends on successful management of enterprises who make use of the fund’s capital. The economic power of pension funds interacts with both national and international political arenas - economic power and political power go hand in hand. Coalitions of groups with common interest build up with growing pension funds. These coalitions may contain not only beneficiaries but also the financial class who live as managers and advisors, and political elites, particularly those looking for inward investment and who benefit from expansion which investment brings. Leslie Sklair (2001) studied the development of an ‘international capitalist class’ as a set of people who actively promote globalisation.

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Certainly to many influential elites, active support of pension fund capitalism came to look like the only way forward. Many national and regional elites saw active cooperation with global finance as a way to out invest and out compete rival economies. However, such coalitions may not prove solid when economic and investment cycles come to maturity. Davis and Thompson (1994) give an interesting account of the development of a social movement of stockholders led by pension fund managers articulating their interests vis-a-vis those of corporate managers. Shareholder militancy is fund managers flexing muscles to preserve their interests vis-a-vis others in the system, i.e. transparent information and free markets against the rent taking activities of controllers/managers of business enterprises.

Previous research tells us that in terms of corporate governance, institutional investors are important in the ownership and trading of corporate debt and equities. In particular, for many countries, institutional investors have become the predominant players in the financial markets. Their ownership and influence worldwide is growing, chiefly due to the widespread privatization and development of pension fund systems. In addition, foreign institutional investors are becoming a significant presence in financial markets, bringing their trading habits and corporate governance preferences to these markets. Due to the size of their holdings, institutional investors have the potential to play an important role in monitoring the agency problems that exist between the shareholders and managers of a corporation. Previous researchers have shown that because of the costs involved, only large shareholders have the incentive to provide extensive monitoring of management. (Gillan and Starks 2002:17-18)

The workers in enterprises who are beneficiaries of investment that derives from the pension savings of other workers can benefit from the extent that new investment brings new work and earnings opportunities. However, those workers are also vulnerable to loss of their jobs through takeover, downsizing and industry ‘rationalisation’. It has been a contentious issue that organised workers are unable to use their own pension funds to protect jobs. Legal and institutional constraints bolster the exclusive role of profit maximising financial strategies and the elites who manage them. The radical fragmentation of ownership becomes particularly visible when people are simultaneously beneficiaries and victims of fund activities.

The interests of those currently receiving pensions do not necessarily co-incide with those of those paying into the funds, or the other interest groups involved. They have an interest in sustaining the value of their cash receipts, not the long term value of the funds assets. However, their direct dependence often gives pension recipients incentive to organise and express their interests in a way that savers with poorly understood rights and no immediate prospect of depending on their pensions to survive seldom do. At the moment British legislation gives priority to these current beneficiaries over those of subscribers in the event of the failure of the fund, and this issue has proved controversial in recent times.
What are the ideological bases of this new form of capitalism?

It is necessary to emphasise that capital is a social relationship not a bookkeeping entry. We are analysing the fundamental social relationships which structure society not conducting an economic market analysis of money flows. Thus, not only do the questions about - who benefits? who carries the risks? who’s work is sustaining of which members of society? - need to be asked about Pension Fund capitalism but we also need to ask questions about how these arrangements are seen as right and proper? Further, we need to examine the potential for political stability and change embedded in those relationships.

Material security in old age requires intergenerational solidarity. Pension provision requires multi-generational social stability. It is clear that for financial security in old age that there needs to be a readily understood, convincing ideology which makes people forgo current consumption to fund retirement either through savings or PAYG. Further people need to believe that the institutional social relationships will endure and future obligations will be fulfilled - it essential that these relationship are sustained over successive generations. The issue of social solidarity is therefore the most fundamental aspect of securing a good old age. There are three prime bases for the social cohesion necessary to link people within society such that all age groups and generations participate to some extent in the economic benefits of the collective division of labour. They are self-interest, family loyalty, and citizenship.

There are limits to economic individualism and self-interest in securing rights to income in old age. This issue should not be seen as one in which the ‘market’ is contrasted to ‘social solidarity’ as suggested by Clarke (2000). All economic systems, whether they are institutionalised around markets, states, families, communities or castes, are underpinned by different forms of social solidarity. The state and the market, as the dominant forms of modern pension provision both require a basic underpinning of social cohesion. Capitalist motives of individual self-interest should not be taken for granted as the most efficient or secure way to achieve this cohesion. One of the major problems for private insurance companies and governments trying to promote private pensions as a progressive social policy is that people do not trust them. This mistrust is well placed, a contract with a private company under-pinned by market pressure is no less likely to be dishonoured than a state guarantee backed by democratic pressure. Market mechanisms require a number of social prerequisites to work. One of the key founding figures of Sociology, Emile Durkheim (1964) identified the importance precontractual social solidarity. He argued that modern society had come to be based on mutual agreements, that is to say contracts, in contrast to traditional societies whose social solidarity depended on the power of tradition and coercion of those who deviated. However, later in his work he came to see the importance of the moral underpinning to contract, a collective feeling of right or wrong which formed the basis of trust and of law, and that enabled contracts to be made. So we can ask what are the bases for the intergenerational contract which links successive generations and makes them willing to contribute financially to those in old age? These bases are essentially ideological; they legitimate access to resources.

Ideologies have practical and political consequences for the problem of persuading people to forgo current consumption for a promise of future income in old age (Vincent 1995). These ideologies are realised in specific social institutions that organise transfers of resources between people and justify them. For whom should a pension be a just reward for a meretricious life course? Should it be: the mothers of...
the next generation? soldiers who defended the motherland? workers who built the new society? prudent savers who deferred income invested wisely in anticipation of old age? or, fellow citizens who should not fall below acceptable standards welfare? Answers to these questions reflect a range of ideologies. Different societies have given different priority to a range of social groups. Ideologies that justify distributions to older people do so on the basis of a variety of attributes. There is a continuing political conflict about the moral standing of different social groups and their rights of different kind to access sources of income. In the contemporary world the following individualist ideologies are the most dominant:

- Private property. Ownership grants exclusive rights, which should have a market price. A good old age is secured through the accumulation of property.
- Meritocracy. Rewards should go to those who have worked hard and invested wisely. A good old age is secured through reward for merit, usually in terms of work and prudent use of assets and talents.

Capitalist society is organised around the principles of private property and wage labour. These form the dominant, and frequently unquestioned source of rights to wealth and income in old age. Property is something which belongs to individuals and can be transferred between individuals by their freely given act of will. Moral evaluation is given in greatest measure to those who conserve and make the most of their property and talents. Pension fund capitalism is superficially no different, however, new elites have arisen on the basis of this new form of capitalism in which the balance between private property and meritocracy alters. These elites have ideologies that explain and justify their social position within the new economy, those associated with pension fund capitalism have an ambiguous relationship to private property because of the fragmentation of the ownership function. They tend to depend on meritocratic ideologies, which emphasise their superior ability to achieve profitable investments within a global financial markets. The key elements are entrepreneurial ability, but perhaps even more in the technical economic and statistical skills needed to predict and discount market activity.

However, there are also powerful communal ideologies. Familial ideologies, which justify inheritance and family mutual support are very strong. For example there are family values that hold the virtue of mutual support by reason of blood ties. Spouses should support each other ‘for richer for poorer’. Family solidarity is extremely important to older people and vital to their well being. Families are not without their conflicts and inequalities; not least the dependence on unpaid, usually female labour, to sustain frail older members. Martin Kohli using German data suggests the continuing importance of family and kinship in intergenerational transfers both up and down the generations (Kohli 1999, Kohli et al 1999). Family resources however shared are extremely vulnerable to the winds of economic change, they cannot mobilise and co-ordinate resources of the scale that nations or multinational companies can. Familial models remain extremely powerful ideologically but very weak in providing the insurance function which requires a large collective pool of resources. Nationalist ideologies and the rights of citizens also provide a channel by which claims are made to part of the total national output. The debate above about the proper role of the state in welfare was predicated on national and citizenship values – the nation should ‘look after its own’. In other words the communal loyalty embedded in citizenship provides an underpinning to a mutual acceptance of responsibilities over successive generations.
Ideologies based on private property and markets are not well equipped to sustain multi-generational stable relationships. Eliminating the volatility of markets, which make them unsuitable for such intergenerational solidarity, would eliminate the very rationale for the ‘efficient’ allocation of capital through the price incentives produced by the fluctuations of supply and demand. When pension funds need to acquire or dispose of assets as the demographic and economic fortunes of generations wax and wane, new coalitions of interest and different ideologies will manifest themselves. Faced with economic downturn, who will buy the assets? Will productive concerns be closed down - ‘rationalised’ and a negative economic spiral instigated? In these circumstances, the coalitions that provide the political stability and legal underpinning, particularly to transnational investment, no longer have common interests with pension fund beneficiaries. The basis for trust in social and economic institutions varies from country to country and over time. The specific American experience of absence of war on their own territory, stable currency and the long standing and powerful corporate sector gives them a view of the world which is different from those places which have experienced destruction of states, currencies wiped out by hyper inflation, property and assets appropriated by invaders. It gives Americans confidence in their private pension funds, but makes German and French people tenacious in their belief in their state PAYG schemes (Vincent 1999).

The institutions of Anglo-American pension fund capitalism are founded on a belief in economic individualism. However, the collective rationality of economic individualism when applied to pensions is problematic. The model of rational individuals being responsible for their own financial provision for their old age has to confront some major difficulties. The overall consequences of individuals seeking their own interests has unintended social consequences. There are a series of contradictions through which pension fund capitalism undermines itself, the more it succeeds and expands the greater the social difficulties that arise. These contradictions have become more visible in recent years, with significant falls in the value of investments in the stock markets across the world.

There are contradictions which undermine pension fund capitalism.

There is a contradiction between social cohesion and ‘efficient’ financial markets. Ensuring social cohesion in general and specifically the long term financial security for older people on the one hand is undermined by the increasingly global and ‘efficient’ financial markets through which their pension funds are invested on the other. Markets both need and undermine social solidarity. These issues can be listed as the role of the state – investors v citizens; the role of generations – investors v consumers, and the role of enterprises – investors v workers.

Legitimate regulation versus illegitimate control.

Globalisation has undermined the possibility of nation state being a welfare state and reliably providing for its citizens in old age. Concerns about international financial competitiveness are a key feature of attempts to justify the shift from public to private pension provision. However, the decline in the provision of welfare delegitimises the institution of the nation state. Thus ironically given the role of the state in the financial stability required by global financial institutions, the power of globalised capital is one of the factors undermining the perception of the nation state as a legitimate political institution. The inability of the state to provide for its citizens removes a significant part of its legitimacy. The declining relevance of the welfare
state in providing health and security of people goes hand in hand with political alienation and thus political instability. The very activity of pension fund capitalism undermines the social basis which enables it to operate. The extent to which the global financial markets in which pension fund operate undermine the power of the state, they also undermine the institution which underwrites their security and predictability of investment returns.

It is common place in economic sociology that conflicts exist over the regulation of national economies. Different societal interests, for example those of savers, and those of citizens are manifest if the balance between security and risk and between regulation and enterprise. Over regulation and state control to ensure the security of saving may inhibit enterprise yet state intervention as guarantor of law and contract is essential to economic activity. The state assuming a redistributive role may be seen as promoting welfare of citizens but may in the same token be seen to undermine incentives to save. With PAYG pension schemes, it is argued, contributions form a kind of tax. Future generations will not pay the increased taxes necessary to sustain pensions as the ratio of workers to pensioners declines. However, the solution proposed is to put savings into private pension funds, which buy government bonds the interest on which is met through taxation, and whose long term security is set by the ability of governments to raise taxation to meet its debts. Particular tax regimes will affect this, but the basic structure remains those working and paying taxes pay for pensions. If the pension funds are not invested in government bonds but more risky stocks and bonds of private companies then a different sort of redistribution takes place (see below).

Pension funds try to balance the risks of the stock market with less volatile investments. Of course, less risky investments pay lower yields and may not pay the best pensions. The needs of the stock market for capital and the opportunities for good investments bears no necessary relationship to the availability of accumulated savings in pension funds looking for profitable investments. The size and rapid rate of growth of accumulated pensions capital looking for safe but remunerative places to put money does not necessarily co-incide with investment needs and opportunities. Proponents argue that capital markets provide an efficient way for funds to be matched with profitable investments and thus drive economic growth to the benefit of all. In the long stockmarket boom in the 1990s those investing in government bonds, which have traditionally been seen as the secure investment, appeared to be losing out. Thus there are generation effects in securing an income in old age under the system of pension fund capitalism related to economic cycles. There are also differences related to specific regulatory regimes. Griffin (1998) argues that accounting practices make strong difference to investment allocation decisions of fund managers. He makes a detailed case be comparing Dutch and UK accountancy conventions and shows that despite similar structural arrangements in terms of institutions and legal frame works, risk minimisation produces contrasting use of bonds and equities between the two countries1.

Pension funds have traditionally been required to keep a proportion of their funds in state bonds – gilt edged securities – to ensure they keep risks low and do not lose the funds assets in speculative gambles. This proportion varies from country to country and has a considerable impact on the fund’s performance. In the UK in the 1990s, parallel to the boom in the stock market has been the reduction in the proportion of total liabilities formed by state borrowing. As the British government was so successful in reducing its debt, gilts came to be in short supply. In Britain rules about
how much pension funds have to place in bonds have had to be changed because there were not enough of them to supply the need. Low government borrowing forces the increased volume of pension savings away from gilt edged securities into other financial instruments. There has been growing range of financial institutions and ways in which capital can be managed and invested. Some of these new financial tools have proved risky and provided uncertain returns. The paradox is that pensions funds use low level of national debt as an indicator of healthy economy, while needing national debt to provide a bedrock of secure assets.

Despite, and indeed because of, its vulnerability to international finance, the state continues to play a crucial role in financial policy and stability. Not only is it responsible for the legal framework necessary for the finance industry, in practice, the state is the insurer of final resort, and unspoken underwriter for private pension liabilities. In a crisis, the state will act to preserve public confidence in the financial system and is thus very likely to bail out large failing pension funds. The finance industry collectively play a part in sustaining confidence by limiting the consequences of market failure for pensioners through mechanisms to support failing financial institutions. Rather than have a complete collapse in confidence in the financial institutions, governments will always act. The ability to sustain confidence in a financial industry is crucial where loss of trust in the value of money or the reliability of institutions to return savings placed with them, would result in the nightmare of financial melt down. A situation which was experienced in Argentina in December 2001.

Nationalist ideologies are also becoming increasingly problematic in sustaining intergenerational solidarity. Nationalist ideologies are increasingly unable to provide the necessary continuity for multi-generational financial security in old age when they are faced with the increasing weakness of welfare states in the face of globalised capital. Further international migration and ethnic cultural diversity also act to undermine the solidarity of states as ‘imagined communities’. Nationalist and market ideologies have and will continue to clash. The social solidarity underpinning the way the international market is constructed falls apart if militant nationalism become a dominant ideology. Economic nationalism, no repatriation of profits, repudiation of debts, programmes to nationalise industry without compensation could all be reactions to economic down turn in the global economy and as pension funds attempt to realise overseas assets. The common interest between finance industry and fund beneficiaries may come apart, companies could try and restrict benefits, share holders protect their value against beneficiaries by directing people to the state as final guarantor of their pensions. The surviving, more cohesive, socially-based, PAYG pension systems, may be able to sustain cohesion and continue to pay pensions in the down turn more successfully than those systems which are more dependent on financial markets.

**Investing and consuming generations.**

The balance of these interests change over the life course; it is commonly argued the people are more risk averse in later life, but others have disputed the empirical reality of this phenomenon. Changing entitlements to pensions have given different generation different interests. For example in Britain there are differences between those who primarily rely on state pension provision and those who have benefited from subsequent improvements to occupational pensions. Not only generations but economies form cycles. Thus as there are different investing generations and consuming generations, there is a contradiction between savings as a source of
investment and savings as deferred consumption. Stock market values, and families go through cycles. Sometimes stockmarkets boom sometimes they slump, sometimes families need to cash in their savings sometimes they can save. Unfortunately there is no mechanism by which these are synchronised. No-risk investments yield poor returns. Most pension funds have experienced loss of value in their stock market based assets in the two years to 2001 and in 2002 there is a growing sense of crisis in private provision as the stock market continues to decline. The economic down turn affects the value of the assets that funds control but does not remove the functions of the elites who control this capital. However, struggles occur over who carries the burden of reduced assets and these reveal the splits in ownership. The system of global capital continues but sustained loss of value in pension delegitimises claims of proficiency and efficiency by technical financial elites. The costs of downturn are passed to older people or those relying on schemes for income in old age, either in the form of reduced benefits or from exclusion from the benefits of already established schemes (and substitution of poorer value for money or higher risk schemes).

The demographics of the baby boomers and the decline in the proportion of 20-60 year old members of the population will impact on capital markets as they will on national PAYG schemes. Savings in the specific form of funded pension schemes, where the funds assets are held in the form of stocks, bonds etc, will inevitably have to sell these assets to raise cash to pay pensions. Further the size of the pool of savings will be related to the size of cohorts generating savings and those consuming pensions. The demographics of the ‘bulge’ generation will mean that in a mature system, unless the smaller subsequent generation saves even more than the current one to compensate, the net asset value of the funds must decline. The fund’s assets must be realised to form consumption during retirement and passed to pensioners as cash to be spent on subsistence, leisure, health and other forms of care in old age. However, as saving pushed prices up on the stock market, presumably dis-investment will bring them down reducing the value of savings and creating a negative spiral to mirror the upward spiral of the 1980 and 90s.

In order to test empirically whether there was any demographic effect of successive generations influencing the value of the kinds of assets in which pension funds invest Philip Davis and Lii (2003) looked at the relationship between population and aggregate financial asset prices in 7 OECD countries over the past 50 years. Their results indicate a significant link between demographic variables on the one hand, and real stock prices and real bond yields on the other. The international results, they suggest, are of particular interest. An increase in the fraction of middle-aged people (aged 40-64) tends to boost real asset prices. A corollary is that a decline in this cohort in coming decades will tend to weaken them. More tentative results including estimated effects of the over-65 cohort in the US suggest a more severe downturn is possible as the US population ages. They conclude that this underlines the potential market risks associated with sole reliance on fully funded pension schemes.

Gary Young (2002) has summarised some of the arguments in financial economics which have sort to model the effects of demographic change. Various theoretical and empirical studies, although the results are not clear cut, suggest a relationship between demographic change and reduced investment. In practice, the stock market down turn in the last two years has led to a push to restrict pensions benefits – the financial markets have led a number of large companies to cut final salary schemes in favour of less certain contribution calculated schemes’. In mid 2002 the pensions ‘crisis’ in the popular press is no longer a demographic one but rather one of stockmarket failure.
Lastly there is a contradiction between need to save and people’s ability to see their savings work in their own interests rather than against them. Savers find that it is in the interests of the fund which controls their pension, that the factory in which they work closes. There are potential conflicts of interest between workers and savers (as the beneficial owners of capital); classically for example, over wages and return on capital. However, when the individual is both worker and saver, there are divergences between individual and collective interests. My employer may have to make me unemployed in order to reduce the risk of losses to my pension fund that has investments in the company which employs me. Clark’s (2000) analysis of ethical and local investments by pension funds suggests that they have found it extremely difficult to reconcile these interests. However, from the point of view of the relationship between generations, the balance between worker and saver interests changes over life cycle. People’s balance of interests change before and after working life and is mediated by familial interests and loyalties. Opportunities also vary through historical economic cycles. The post second world war welfare state consensus has been seen as part of a global balance of power at a time when the Soviet model was seen as real alternative. The current political dominance of the United States as the sole superpower has altered this former balance between capital and labour. The rise of the welfare state is thus a generation specific experience. The so called baby boom generation has enjoyed the benefit of the welfare state but succeeding generations may not experience the same improvements in security and welfare.

Global markets in finance internationalise the problem of conflict between savers and workers. The problem of social cohesion is reflected in the core social problem of growing global markets in finance, and pension funds in particular. The ‘workers v. pensioners’ debate has a global dimension. The relationship of demographically ageing affluent populations through the financial markets and pension funds to younger post-colonial societies, reinforces established global divisions. New developing economies with large expanding young populations may create an as yet unexplored source of crisis if they seek to alter the balance of returns between capital and labour. Even within Europe there have been concerns expressed about the price local people pay in job losses and low wages to sustain the returns on investment by American and other overseas pension funds that have come to make up such a considerable proportion of international investments (Clark 2000). Age based redistribution from young to old, can take on an international dimension. Will workers and their political representatives tolerate their T.V. assembly plants in Kuala Lumpur or Canton being sold off, or even closed to pay the pensions of older people in Milton Keynes or New Jersey? Will poor third world workers willingly pay for the pensions of the affluent West into the future? New developing economies with large expanding young populations may be a source of crisis for Western pensioners if the balance of returns between capital and labour alters.

This issue can be looked at in terms of the international debates on the terms of trade and investment. The 2003 failure of the Cancun Interministerial Meeting of the World Trade Organisation is illustrative. One major point on which the negotiations floundered was agricultural prices, but also significant was EU and American insistence on progress on the Singapore Agenda as a quid quo pro for concession agriculture. The Singapore Agenda is short-hand for global financial liberalisation involving four key points. These are open investment rules, competition policy, transparency in government procurement and trade facilitation. The global finance
and investment elites have pushed hard for a ‘level playing field’ where by new markets would be opened up and freed from local control / ‘interference’. Originally resistance from India, and subsequently from an alliance of the largest developing economies China, Brazil and India has resulted in a break down of negotiations. In other words local elites in the developing world are attempting to frame the terms in which the institutional investors of pension monies from the West can participate in their economies.

Alternatives

Some see the growth of occupational pension funds as a form of workers control and of pensions as a ‘new socialism’. Robin Blackburn argues that publicly controlled pensions funds provide a route to ‘socialise’ capital, - make capitalism responsive the real needs of the people. He advocates something like an socially responsible national pension fund (Blackburn 2003:515). A number of writers in the 1970s and 80s saw the growth of occupational pension funds as a form of workers control and of pensions as a ‘new socialism’ (Drucker 1976, Deaton 1989). In the late 1990s Blackburn resurrected that idea and argued that reformed pensions funds provide a route to democratic control capital.

“In Singapore, the state-owned and managed Central Provident Fund furnishes a mechanism whereby each citizen is obliged to make provision for sickness and old age; their individual fund can also be drawn upon to finance acquisition of a house of the taking of an educational qualification. Such a system encourages individual involvement and responsibility, while allowing for flexibility. Whether this would promote egalitarianism depends on overall government policy which can always furnish correctives and controls... The CPF invests 90% of its money in public bonds, though the government has used these bonds to make its own equity investments.” (Blackburn 1999)

Blackburn argues for turning ‘grey capitalism’ to socially progressive ideals including environmentally sound and socially egalitarian objectives. Attractive as the prospect Blackburn offers is, the massive growth in pension fund power looks like a rather ‘pure’ form of capitalism. The division of the ownership function creates further levels of alienation rather than producing a co-incidence of interest between capital and labour. Pension funds do not act as the capitalism of the people. Neither does it follow that because they are the savings of a numerical significant proportion of the population they represent a Utopia of collective ownership. If the majority of workers through their individual savings in pensions funds could control world capital, then capitalism would be run in interests of all - as all are shareholders (Deaton 1989). There is a clear alienation of the producers of wealth from the results of their collective efforts that are then used to dominate and set the framework of the society in which they live out their old age. The control of these accumulated capital funds does not lie with their nominal owners - the contributors. Further national based mutual funds will not meet the challenge of global capitalism. My arguments present above suggest that an institution which could supersede pension fund capitalism would have to be an international institution and would require supra national loyalties to sustain it.
In global terms the dominance of pension fund capitalism can be seen as a manifestation of the class relationship between North and South. Both the relationships between age groups, and generational opportunities for work and retirement have to be seen in the context of changing global demographics. If we look in global terms rather than any looming shortage of workers, there are too few jobs available for those seeking work. Those workers may not be in the right place or possess the right skills but there are plenty of them and they are by and large young. Indeed the demand for work is so strong that draconian measures create a ‘fortress Europe’ to keep them out. The contrast within New Right discourses between arguments over immigration and population ageing is striking (Vincent 1996).

An internationalist perspective is essential to provide a critical analysis of the limitations of nationalist, commercial and kinship ideologies in providing a secure old age in the modern world. It is needed to provide an insight to the bases of solidarity between generations required in the future and expose the bias which defines an ageing population as a potential disaster rather than the human success it actually represents. It is evident that globalisation – the creation of a mutually interdependent world, results in global responsibilities. As co-residents on ‘spaceship’ earth we have responsibilities to each other, whether these are expressed as global citizenship, ‘the family of man’ or with some other metaphor (Urry 2000, Sklair 2001) with which to underpin collective responsibility for an insurance mechanism for underwriting the risks of old age.

**Conclusion**

The central argument here is that, despite pension funds supplying significant numbers of older people in the US and UK with a good retirement, global financial markets and the international elites who operate them undermine many of the conditions necessary for a secure, prosperous old age across the world. Pension fund capitalism has had the effect of creating a new political economy in which the state can provide less securely for its citizens, generations have come to have specific and differing financial market interests and people are collectively constrained by the power of their pension funds. In the long run new forms of global intergenerational solidarity are required. Multigenerational institutions capable of reliably supporting people in old age are unlikely to be sustained by fickle investor confidence in volatile financial markets. Our common need for environmental stability means that an older population necessary. A secure old age including income maintenance and health and social care can only be achieved within a framework of social solidarity. Therefore unless social change results in a sense of mutual responsibility across generations and which covers all parts of the globe, the twin goals of environmental stability and a secure old age will be unachievable.

**References**


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1 The French are well aware of the value base of Pension Fund Capitalism:

**“Pay-as-you-go or funded : a cultural opposition**

The English expression "Pays-as-you-go" has no equivalent in French. French people use the technical and more neutral term of "repartition" or the positive term of solidarity which evokes social goodwill and strength through unity.

At the opposite, the positive English expression of "funded", which gives an impression of seriousness and security, is translated in French by the word "capitalisation" which evokes capitalism, a word which remains linked with the exploitation of workers in the nineteenth century in many minds.
In theory, repartition and capitalisation are quite equivalent. Pensions are always paid with the economic production of the moment when they are paid. In France, rights are settled on future interests, market prices of shares ... If the economy collapses, the value of these rights collapses too.

Agirc and Arrco do not need to be funded because they are national and compulsory, as the social security system. This centralisation is also a French characteristic.” http://www.observatoire-retraites.org/versionanglaise/frenchsystem/Introduction.htm

“A comparison of pension fund asset allocation around the globe shows surprisingly wide variations. Closer study reveals some interesting relationships that help explain the variations. Outright allocation restrictions are numerous, but they appear to be constraining in only a few situations. Pension funds diversify internationally to a much greater degree in equities than in bonds. A positive relationship exists between a country’s relative level of international trade and its average level of internal diversification within equities. The most dramatic finding is that subtle accounting and regulatory difference between countries have a strong impact on the allocation between equities and bonds.” (Griffin 1998: 60)

Through much of the 1990s the reformed pensions policies of the Argentine government were presented by many in the financial world (including the World Bank) as a model. However, what ever the causes of the IMF’s decision to restrict credit to the Argentine government, the consequence has been the seizure of pension fund assets by the government in an attempt to bolster the banking system. In is not clear who are the winners, but the pensioners are definitely the losers.

Young summarises the key points in the literature as follows;

“Asset prices and demographic structure The seminal paper in this area is Poterba (2000). It is motivated by popular claims that the ageing of the US baby boom generation is a key factor in explaining the recent rise in asset values, and by predictions that asset prices will decline when this group reaches retirement age and begins to reduce its asset holdings. ...The adverse impact of a baby boom falls heavily on the baby boom generation; their wages are reduced when they are at work and the return on their saving is low when they retire. The simplicity of the model means that there is very little that households can do to avoid the consequences of a baby boom. ...Brooks (2000a) addresses the issue of the effect of demographic change on asset returns in a forward-looking model, ...His main finding is that changes in the age distribution have significant effects on asset returns, even when investors are rational and forward looking, and that these effects have important implications for the welfare of baby boomers and surrounding cohorts. ...Brooks (2000b) simulations show that there will be a turning point in regional savings investment balances between 2010 and 2030 when the European Union and North America will experience a substantial decline in savings relative to investment as their populations age rapidly. This shift will be financed by capital flows from less developed regions which are projected to become capital exporters. ...These papers discuss net capital flows as countries build up wealth in other countries when desired saving exceeds the investment opportunities that are available domestically at the global interest rate. They do not discuss the gross capital flows that emerge from a desire to diversify risk. It is well known that portfolios suffer from ‘home bias’ as they are not diversified internationally by as much as standard international asset pricing models predict (see French and Poterba (1991)).

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“KPMG’s research found that a third (34%) of companies now operate a final salary pension scheme only. 28% operate a defined contribution scheme, while 36% operate both – evidence that change is already well underway as more and more companies close their final salary schemes for future benefits and switch to defined contribution plans. 44% of final salary schemes were already closed to new entrants.” Business Credit News UK. 24 February 2002 Vol 6 Issue 8 http://www.creditman.co.uk