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Funded pensions: what are they for? An enquiry into their lesser known functions.

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Abstract

Pension systems are conventionally viewed as a means of preventing poverty in retirement and smoothing income over the life course. However this view requires qualification, since it obscures the less visible functions of pension systems worldwide for actors other than the contributing workers and beneficiaries. Our thesis is that pensions are not only about pensions. They have other functions. For example, state pensions reduce the state's liability for poor relief, and company final salary pensions encourage employee loyalty. Private pensions are also said to promote thrift, choice and economic growth.

We argue that the growth of privately funded pensions facilitates another function of pensions, namely to boost the development of capital markets and the income of those institutions and individuals who control them. This may explain the widespread efforts to promote private defined contribution (individual account) pensions, led by the World Bank and other international development agencies.

We first outline trends in pension systems internationally over the last century, particularly since the 1980s, and the ideological and economic arguments employed to justify the shift away from state pensions and towards private funded pensions, especially individual accounts. We look at the consequences of this and who are the real beneficiaries.

Key words. Pensions, financial sector, language, beneficiaries.

The Policy Agenda; Reducing the Role of State Pensions.

Let us first look at the academic and literary context which is important in policy making, reflecting and even creating new scenarios. We turn to the question of language and ideology in sections below.

By way of introducing our theme, thirty years' ago pensions' literature was sparse. Now there are pensions' journals and countless books, reports, papers, and websites. Gerontology and demography have become important subjects; neo-liberal economics is a driving force in old-age finance; financial institutions formed after the Second World War to stabilise international finance and promote economic development have come to play a major role in old-age issues and publications; these include the World Bank, the International Monetary Fund, Inter-American Development Bank, Asian Development Bank, US Agency for International Development and the Organisation for Economic Cooperation and Development (Orenstein, 2009: 114). We are confronted with a lexicon of headlines, oxymorons and neologisms such as 'old age shocks', 'doomsday scenarios', 'pension timebombs', 'inter' and 'intra-generational solidarity', 'burdens' of old people, 'threats of the old', old age 'dependency ratios', 'commodification', 'actuarialisation', 'implicit pensions debt', 'deferred wages', 'pension fund capitalism', 'pension fund socialism', 'grey capitalism', 'prudent men', to name but a few? In other words, why have pensions become such an important 'global' issue, even with their own vocabulary?

We will suggest that discussions about pensions and, more particularly, how they are financed, which we might expect to be about the best way to provide people with a decent income in retirement, are not solely about pensions. There are other agendas. The fact that many pension systems may not produce adequate pensions is not due to some innate design flaw or demographic variables or state corruption and ineptitude, but because the real reasons for the choice of a pension system include something else. A pension system cannot be flawed or discriminatory, or inequitable in pension terms or current actuarial or accountancy terms unless it was influenced by some reason other than pensions *per se*. If a pension system discriminates against women, for example, it is because it was not intended to benefit them in the first place. There was another reason for the system. We should not judge it in terms of the pension system as presented. The question is, what was that other reason. It is telling that the dominant theme for discussion is how pensions should be financed rather than whether they deliver adequate incomes in old age.

In this article we move on from the academic arguments about pension technicalities and outline pension systems in terms of the relative roles, politics and ideology of the state and market. There is a continuous tension between them, the private sector always present in some form, there having been a slow shift from collectivism towards private individualism, especially over the last thirty years. The point is; who are the real beneficiaries of these developments – pensioners or someone else?

Three themes underlie our argument.

(i) Are the problems levelled at pay-as-you-go state schemes real?
(ii) If they are, will privatisation cure them?
(iii) If they are not, and if privatised funded pensions face similar problems, what are privatisers really after?

Previous theories explain how policy develops by reference, for example, to industrialisation and social progress, or 'power resources' and labour movement pressure, or institutionalisation and state initiative (Bonoli, 2000: 29ff). These are important. But our thesis concerns a struggle between capitalism and socialism (or right-wing and left-wing, market and non-market provision of welfare) which underlies these processes. Sometimes capitalism can use non-market measures in order to fend off socialism itself, such as the perceived threat of revolution, regime change and dispossession. But these 'welfare states' are heavily conditioned and often replaced or, in due course, marginalised by the market. How policies develop is one thing – the proximate cause; but why a particular state or market structure evolves is another – the ultimate explanation.

The debate about pensions' policy is about *risk* and *insurance* but not in the conventional sense. It is about a political definition of risk, a split between the state and the market. The state handles the difficult parts of *social* risk and insurance (such as redistribution and poverty alleviation) where there is no financial profit, while the market handles the *commercial* risk where the money is to be made. The state also bails out the private sector's risk from time to time. The basic story is about a century-long war including the recent thirty year 'cold war' between broadly speaking an Anglo-American stock market model of pensions, and a European model of a more socialist or social insurance type (summarised in Sexton and Minns, 2009).

Bonoli summarises the division between insurance and poverty alleviation in the early systems of compulsory and comprehensive national schemes using the conventional Bismarck/Beveridge axis. But this classic division ignores the underlying state/market conflict. Of the countries in Table 1, only Germany, France and Italy managed to resist the stock market assessment and exploitation of risk partly because of their experience of hyperinflation in the 1920s and World War II (France lost what stock market pensions it had). They kept a collective and redistributive aspect to social insurance. .

In the Scandinavian countries, however, there was a move to stock market welfare with the recent adoption in Sweden of individualised risk pensions with 'notional' returns based on contribution flow (employment and wages) and average retirement ages (NDC pensions – notional defined contribution). However there was little concern 'for the social adequacy of the resulting pension disbursements' (Cesaratto, 2006: 297). Additionally, Sweden linked part of its public funds to investment in the stock market (FDC – funded defined contribution). Finally the stock market crash of 2009 triggered a first-time reduction in the NDC pension indexation. Additionally Denmark was the forerunner of what is termed 'Beveridge' but it became the most privatised in the region albeit with strong union representation. This exemplifies our aim to show the continuous tension between state and private sector provision of pensions.

Table 1; The Typology of Welfare States at the end of the Nineteenth and First Half of Twentieth Century.

Social Insurance	*Date of Introduction*	***Poverty Prevention***	*Date of Introduction*
Bismarck		*Beveridge*	
Germany	1889	Denmark	1891
Italy	1919	New Zealand	1898
France	1932	United Kingdom	1908
United States	1936	Sweden	1913
Switzerland	1948	Norway	1936

Bonoli, 2000: 11.

Other classifications or typologies of welfare systems include Esping-Andersen (1999), Clasen (1997), Titmuss (1958), Palme (1990), and Bonoli (1997), but none gives the clash between state and market the same priority as we do here. Some barely mention the market. The typologies often conflict. Minns summarises classifications of welfare and their associated financial systems which he regards as essential to understanding the political economy of welfare states (2001: 36-38).

Welfare Wars; State versus the Market

Privatisation was on the policy agenda from the start of what we now call the welfare state development at the end of the nineteenth and beginning of the twentieth century. In Germany, Bismarck's insurance policies were based on the social policies of Alfred Krupp, the munitions manufacturer, designed to head off the socialist policies of trade unions and the SPD (Socialdemokratische Partei Deutschlands). The arms factory at Essen became a model of paternalistic welfare (Sampson, 1991) leading to the Bismarckian version of the welfare state. The Beveridge model (not insurance based on earnings' levels at work, but benefits to provide subsistence) was delayed in Britain by the expenditure on the Boer War. Australia and New Zealand preceded Britain with pensions' legislation. When the Pensions Bill was debated in

1908 in the British parliament, the Tory leader (Lord Robert Cecil, opposing the Bill) stated that it was *a case of throwing away to the aged the funds that might be needed in a life and death struggle for national existence* (Goodman, 1998: 82).

But once these funds had been 'thrown away to the aged' the subsequent history in Britain and elsewhere suggests a struggle to claw them back or, even better, hand the job over to the private sector, or both, using various concepts and arguments about national survival, struggles for national existence and, eventually, the enhancement of personal responsibility for welfare. But there were advances for the state and then the private sector. It was by no means a simple process - it was a conflict.

By the 1940s the Beveridge report had laid the ground for privatisation with its endorsement of occupational superannuation schemes, voluntary insurance and personal savings above a basic subsistence pension provided by the state (Beveridge, 1942: paras 238-240). Privatisation continued further. Switzerland, following a 1972 referendum, based private reforms on insurers' and conservative pressure to prevent the reformed communist Labour Party from expanding state pensions (Orenstein, 2009: 118). Switzerland became known as the creator of the 'three pillar' concept of public and private pensions which was developed by the World Bank – public sector as the bottom pillar, mandatory personal accounts as the second, voluntary top-ups as the third (World Bank 1994). The anti-communism and market 'liberalisation' in South America, accompanied by US influence, led to the private pensions exemplar of Chile, also lauded by the World Bank.

But how could continuing struggles for 'national existence' be created in order to legitimate cuts in state pensions? After invoking national economic crises which required wage restraint, post-World War II Britain led the way with threats of economic stagnation and /or inflation leading to the postponement of wage increases until retirement, what became known as 'deferred wages'. They were deposited in private occupational pension funds and invested on stock markets. Australia pursued a similar idea under Labor in the 1980s. Occupational funds also grew in the United States and elsewhere. That was acceptable for the time being as trade unions regarded them as a valuable fringe benefit. The policy goal was either to attract and retain labour or to control 'stagflation' in the national interest. But then another serious threat to national existence elbowed its way forward as a perverse consequence.

Control of Pension Funds

In 1976 Peter Drucker declared that there had been an 'Unseen Revolution' in the United States as a result of the rise in pension funds. Because, he argued, employees of American business owned 25 per cent of its equity through their pension funds, 'more than enough for control', then the United States is the first truly "Socialist" country (1976:1). This new social system was called 'pension fund socialism'. Drucker wrote, in a somewhat muddled version of theory and reality;

> In terms of Socialist theory, the employees of America are the only true 'owners' of the means of production. Through their pension funds they are the only true 'capitalists' around, owning, controlling and directing the country's 'capital fund.' …. There is no 'surplus value'; business revenue goes into the 'wage fund.' (Drucker, 1976: 2-3).

Rifkin and Barber (1978: 97) refuted this on the grounds that banks had control of 70 per cent of pension assets. They concluded that banks used the pension fund income as a captive pool of money along with other banking mechanisms to maximise returns - not for the pension funds, but for the banks themselves.

The issue of control versus ownership was explored for the UK where banks and financial managers other than in-house pension fund managers (sponsoring company employees) were estimated to control 67 per cent of pension fund assets (Minns, 1980). In the UK the National Union of Mineworkers pension fund tried to exert some control by arguing for use of the deferred wages to enhance contributors' broader interests but failed (Gold, 2009)). The trust law concept of 'prudent man' was invoked to support the argument that investment must be in the financial interest of beneficiaries *qua* beneficiaries and that no other consideration was relevant to financial prudence (the 'prudent man' always uses his money for his own narrow

financial interest). Financial control by 'neutral' managers (such as banks) prevailed as the institutionalisation of the metaphysics of prudence. Trade unions were marginalised either by the law or, in the case of Sweden and its famous 'wage earner funds', closed off politically (Minns, 1996).

The concept of 'deferred wages' itself proved problematic since it turned pensions into a property right rather than a shared resource or communal entitlement for collective decision-making. Also, 'deferred wages' transferred enormous economic power from labour (wage bargaining) to capital (investment decision-making and corporate control), thus undermining collective bargaining. But language, such as 'deferred wages', is important in the ideology of welfare.

The Language of Persuasion.

'[L]inguistic cues evoke prestructured beliefs regarding the nature and causes of public problems' (Edelman, quoted in Davies, 2006: 3). Davies, in a dissertation on the UK pension reform proposals of 2005 and 2006, dwells on the loaded concept of 'savings' (a good thing) as opposed to 'promises' (what you expect from others) or by implication, 'taxes' which are synonymous with imposition by the state (a bad thing). The private sector uses savings, the state uses taxes, but to all intents and purposes in mandatory schemes they are the same. Steven Ney (2000: 341, Abstract), uses the concept of 'policy stories' to make sense of pension reform, stating that they do this by ' … weaving scientific knowledge, 'objective' fact and normative convictions about social welfare systems into a seamless rhetorical fabric.'

Rune Ervik focuses on a range of concepts including that of 'sustainability', 'future pension debt', 'implicit pension debt' and 'generational accounting' in shaping the 'doomed image' of the future especially with state pay-as-you-go systems (where there is no investment of funds) (2005: 30). It is alleged that such systems contain a generational 'imbalance' and an unsustainability – future generations will pay a higher proportion of income for pensions than today's younger generation. By implication individual private accounts would solve the issue. But, Ervik argues, the accounting ignores increases in disposable income, and although it considers generational equity (future cohorts versus present), it ignores the general assumption that later generations can be expected to be better off.

Also contained in the generational balance argument is the concept 'implicit (public) pension debt,' or 'future pension debt', all indicating similar considerations concerning sustainability. Kotlikoff (1992) was the originator of generational accounting and promoter of the concept to many governments.

Ervik estimates that by 1999 twenty-two countries were using generational accounting, a 'global idea', propagated by 'epistemic communities' (senior policy makers with shared values in different organisations) spreading the World Bank claims to greater economic growth by its reform policies. Ervik considers the impact of these arguments for the situation in Norway but they spread from Argentina to Australia, Belgium, Brazil, Canada, Chile, Israel and Mexico.

Bruno Palier (2007: 106 note) refers us to 'actuarialisation' which is seemingly a technical term for applying private insurance calculations to public goods. It uses annuity formulae (what in market terms can be bought with contributions on retirement) which bring 'the logic' of social insurance 'gradually closer to private individual insurance', relating pensions to contributions rather than wages received. 'This logic implies a reduction in the redistributive function of old age pension schemes (those most disadvantaged by these reforms are employees who have had interrupted careers or faced inequalities, notably women)' (2007:103). Private pensions, in other words, make no allowance for those who forego savings during periods of family caring, thus reinforcing gender inequality (Ginn, Street and Arber, 2001).

We should also consider the latest development in the area of personal pensions.in the UK. The planned National Employment Savings Trust (NEST), formerly known as 'personal accounts', due to be introduced in 2012, is an interesting example of the use of language. 'National' suggests a collective or universal fund, with the pension guaranteed by the state. 'Savings' implies a nest egg to protect the future, like savings in a building society; 'Trust' contains overtones of reliability and integrity. Finally the acronym NEST reminds us of a cosy,

secure, 'nest egg'. In reality there is no guaranteed return, the contributions invested cannot be withdrawn when needed, and the pension may be insufficient to prevent poverty in retirement. Some pension analysts have predicted a mis-selling scandal (House of Commons, Frank Field evidence, quoted in Davies and Waine, 2009).

The language of persuasion has been transformed into what Katharina Mueller calls 'the new pensions orthodoxy' (Mueller, 2004). The idea is complemented by Naomi Klein's treatise on 'the shock doctrine' (Klein, 2007). The world of capitalism lives on the threat of, or actuality of disasters and orthodoxies. The shock in the case of pensions, in our argument, is the alleged demographic threat of ageing populations. Putting the two ideas together, the orthodoxy is the application of a privatisation blueprint to address the emergency. Ageing is a shock, according to much literature and data. The privatisation concept, and all its advocates - bankers, pension advisers, brokers, academics - are supposed to provide the solution.

The Importance of Latin America.

Raul Madrid (2003) argues that we should consider the development of pension systems in Latin America in far more detail, and Eastern Europe too, because of the bias towards 'advanced industrialised countries' in most research. Latin American reform included a fight against communism. Minns (2009) comments on the situation in Argentina, Caufield (1997) on the World Bank contribution to the overthrow of Salvador Allende (Partido Socialista de Chile), the first '9/11'.

Madrid defines 'pension privatisation' as the 'partial or complete replacement of a public pension system with a privately managed system', accompanied by a shift from defined benefit to defined contribution arrangements and also away from pay-as-you-go to individual capitalisation; from pension benefits being financed by contributions of active workers, to contributions of each worker going into that worker's own individual account (2003:4).

Some nations have taken on this policy model because 'pension policy has become increasingly driven by macroeconomic rather than social policy considerations'; 'to boost their domestic savings rates and reduce the long-term economic burden of public pension spending'; thus, importantly, 'variations in the pension reform choices of policy makers can be explained by two economic factors; the sufficiency of domestic capital sources; and the level of existing public pension obligations' (2003:5). These pressures have been supplemented by 'ideational factors' comprising three elements – regional diffusion of the acclaimed Chilean model; the expanding influence of the World Bank; and the rise of liberal economists to top social security policy making positions. We shall be questioning all the claims made for private defined contribution pensions.

The Director of the Social Protection Department of the World Bank, in a book about pension reform in Latin America, summarises the World Bank approach to objectives of pension reform.

> The design of a pension system must explicitly recognise that pension benefits are claims against future economic output. To fulfill their primary goals, *pension systems must contribute to future economic output.*

(Holzmann, 2008: 178, our emphasis.)

These two sentences are excellent examples of the conflated argument. Why 'must' the second follow from the first? In other words, the World Bank claims that Latin American pensions have created economic growth (which is debatable) and then implies a priority for this claim, rather than treating pensions primarily as a source of retirement income. Instead this summary from the Anglo-American side of the cold war in welfare is to establish the dependent variable required – economic growth, domestic savings, financial sector 'deepening', national development – then employ pensions as an independent variable (with the objective of achieving the individualisation of risk and security) - and then see what comes out the other end.

Business Models as Explanations

Business models may offer a complementary insight into the real reasons for pension reforms. Contributions made at a conference on *Financial Institutions and Economic Security*, London, May 2009 (OU Conference) help us to do this.

The key theme of the conference was that retirement insecurity is just one part of the general structure of economic insecurity (pensions, wages and housing) in what William Lazonick describes as the New Economy Business Model. In this model 'shareholder value' (SV), it is argued, has become a kind of currency and a measure of value more generally. Executives can be paid in it (stock options), and pension stock holders can improve their returns through maximising it (dividends and capital gains) to the exclusion of all else (including, incidentally, extracting maximum 'value' from the financial sector itself). This supplies us with one easy measure of national welfare – in corporate and social terms using solely a market concept for welfare and business issues. Lazonick sums up his thesis of national economics and welfare;

> …in their quest for 'shareholder value' [information and communications technology companies] have been using their profits, including profits from employing a low-wage global labor force, to try to boost their stock prices rather than keep educated and experienced members of the labor force productively employed in the United States ... [N]either the ideology of maximising shareholder value nor the practice of stock repurchases has any economic merit, and indeed must bear the blame for contributing to the rise of economic insecurity in the United States. (Lazonick, OU Conference:3)

The essential change relevant to pension policy is the shift to defined contribution provision. The emphasis on employee loyalty has declined as the structure of business has evolved.

Table 2. Business Models (US) (our emphasis)

Old Economy Business Model (OEBM)	**New Economy Business Model (NEBM)**
Secure employment; career with one company; salaried and hourly employees; unions; *defined-benefit pensions*; employer funded medical insurance in employment and retirement.	*Insecure employment;* interfirm mobility of labor; broad-based *stock options; non-union; defined-contribution pensions;* employee bears greater burden of medical insurance.

Extract from Lazonick (2009)

Ghilarducci from the United States (conference and 2008) concludes that they no longer served their purpose; they had appealed to employee loyalty but this became less necessary. Collective bargaining weakened as economic conditions changed. This fits with the business model described above, but it excludes the stock market dimension – shareholder value over which collective bargaining had no influence. Wooten (2004) describes how defined benefit schemes were a major issue for Congress.

But even the establishment of the landmark Employee Retirement Income Security Act of 1974 (ERISA) could not turn the clock back as the markets changed and the government encouraged the so-called 401(k) defined contribution plans to save employer costs (individual retirement plans established in 1978 under the tax code). Business models can explain some but not all of this since, as Wooten details, the saga of defined benefit closures goes back to 1954 with the collapse of Studebaker and the post-World War II competition within the motor industry. This was allegedly the era of OEBM security (Lazonick) and strong collective bargaining (Ghilarducci, 2009). Yet occupational welfare under OEBM had mainly benefited privileged strata of the workforce, excluding part-timers, seasonal workers and the low paid, hence women were disproportionately excluded, both in the US and UK (Ginn et al, 2001).

The political and economic power of banks and financial markets *per se*, when added to business model analysis, may be the key to understanding what happened to pensions. Indeed, the OU conference covered various aspects of investment and security (see box at end) concluding that the role of the state in relation to finance needed to be rethought. Pensions are just one part of a cycle of insecurity of employment, housing and retirement - connections which the usual analytic 'boxes' of policy and academia have ignored.

From Real to Virtual Capitalism.

The drive towards privatisation with all its arguments about improving savings and economic growth has led to an accumulation of financial assets under the control of financial institutions of around $12 trillion worldwide. This is unproductive capital. It is not necessarily part of the capital stock (a problematic concept in its own right) which is supposed to contribute to production and economic growth. Again we ask the essential question; why does the argument for privatisation persist?

Because private funded pensions rely on stock markets which, of themselves, produce nothing, they need constant income from savers in a kind of Ponzi scheme (Toporowski, 2000), pyramid selling (Minns, 2001) in order to pay off the original savers. Funded pensions face their own demographic problem as more savings have to be extracted from fewer savers in order to pay off the growing number of pensioners. As a result 'black holes' appear in funded schemes and, as we shall see, funds are closed to new members and even to existing members in order to curtail future liabilities. On the other side of the balance sheet higher returns are increasingly sought through investment in financial 'instruments' such as derivatives and hedge funds thus adding to the speculative use of the mountain of pension money. Hedge funds gamble on share prices, especially future corporate take-over targets (such as Kraft's take-over of Cadbury in 2010) and can determine the outcome of a take-over, dependent on share price. They also search for weaknesses in foreign exchange arrangements (IMF, 1997). Furthermore, hedge funds lever (crank up) their share capital (borrowing) between five and ten times for these speculative purposes.

This is the classic case of shareholder value measuring economic outcomes. The *Financial Times* reported in 2010 that UK pension funds were seeking to invest up to 15 per cent of assets in hedge funds and that CalPERS (California State Pension Scheme), arguably the largest pension fund in the world, was examining 66 hedge funds under what is called 'due diligence' (more linguistic obfuscation) (*Financial Times*, 2010). Gillian Tett argues that pension fund managers sought different ways of investing in order to become 'more aggressive', thus contributing to the financial crisis of 2007-8 (Tett, 2009; 109).

Robert Peston sums up some of the implications for the UK. His summary is redolent of the business model thesis outlined earlier but also exposes the massive financial gains for the financial sector which in turn affects the relative power of finance.

> Special new insurance companies have been created to swallow up the assets and obligations of closed pension funds by taking them over from the companies that originally set them up….. The motivation is not charity. The new controllers gain access to massive pools of shares, bonds and cash, which give them serious clout in financial markets…. We should be relieved if, in doing so, the prospects for the relevant pensioners are also improved. But there is something intrinsically tawdry about pension funds, which were designed to reward employees for a lifetime of service to a business, becoming classified as just a bothersome liability for their corporate founders, to be off loaded if at all possible. (Peston, 2008: 208)

The British satirical magazine, Private Eye, in its article 'Nest of Vipers', notes that the personal accounts scheme, NEST, referred to earlier, is to be run by a government appointed body called Personal Accounts Delivery Authority (PADA). The chief executive is a former hedge fund manager who has declared that hedge funds will have a place in NEST (Private Eye, 2010: 29). The issue we raise here is about how speculation is initiated, corporate control given to short-term interests and pensions made dependent on a fiction of productive growth. We return to these subjects in the next section.

Bridging the Cold War Gap; Benevolent Capitalism.

The World Bank muses about why European countries have only initiated 'parametric' reforms (introducing minor changes) to their pension systems and not initiated 'structural' or 'paradigm' reforms (privately managed and funded systems) (Holzmann et al, 2003). Adam Dixon, the

winner of the 2007-8 Graduate Student Prize Paper Competition for the journal *New Political Economy,* published his piece, 'The Rise of Pension Fund Capitalism in Europe: An Unseen Revolution?' in 2008, harking back to Drucker's book of 1976 where our excursion through the great pension story of the last thirty years began. He sees a creeping privatisation developing.

The author identifies the rise (and the continuation) of pension funds and 'pension fund capitalism' (not 'socialism' any longer) as a benign or at least important force, 'fuelling the market for corporate control in the 1980s'. This is true but they conversely did little for productive investment (Martin and Minns, 1995). They also allegedly funded high-technology start-ups in the 1990s. This is arguable; large corporations took the 'risk' through financing based on contracts from the 'military-industrial complex'; pension fund 'investors' took the profit by buying in later when the innovation risk was lower – Lazonick and O'Sullivan, (2000); (Dixon, 2008: 249).

'Though Drucker,' Dixon continues, 'had foreseen the growing importance of these institutions more than 30 years ago, few scholars have devoted much attention to them until recently'. 'Scholars' is another deceptive word in the pensions' debate. Dixon is apparently unacquainted with the plentiful literature on funded pensions. 'Many of those that have' he states, 'have done so in a less than sympathetic way, seeing pension funds as just another part of unfettered Anglo-American neoliberal financialisation and somewhat incompatible with social justice and social solidarity. Others, in a more sympathetic vein, have recognised the growth of these institutions as a reconfiguration of capitalism, a capitalism in which pension funds, as financial institutions in their own right, will increasingly become the source of corporate engagement and the providers of social welfare and public infrastructure in the twenty-first century.' (Ibid; the 'less than sympathetic' group includes; Minns (2001), Engelen (2003), Langley (2004), Harmes (1998), and also Blackburn (2002). The 'more sympathetic' include; Clark (2000), and Hawley and Williams (2000)). All the authors of this article wish to be included in the 'less than sympathetic' group.

Dixon's arguments and concepts are similar to those of Gordon Clark (one of the 'more sympathetic group', whose work is referred to a number of times in the prize-winning piece). Clark (2002) specifies the key arguments for the privatisers. He selects France as in need of reform, as does Dixon. He takes the long-term rate of economic growth as 2 per cent per annum, compared with the market rate of return on US traded equities over the past fifty years at about ten per cent (or twenty per cent per annum for 1995 to 2000). He suggests that his proposals may even provide the new venture capital investment in technology, regional clusters and the new economy' (2002: 83), similar arguments to Dixon's.

Dixon monitors approvingly the creeping stock market/funded pension provision in France and elsewhere using the implicit pension debt argument to explain this development - '..turning back to the alternative (PAYG) is unlikely and untenable given the demographics of ageing and the limited fiscal capacities of the state' (266). But his 'turning back' assumes that the trend to a funded system in France (exemplified by the FRR – Fonds de reserve pour les retraites) is a permanent fixture in a 'development [which] has the potential to undermine the persistence of a uniquely French variety of capitalism' (Dixon: 250-251).

Compare this with Concialdi (OU Conference) for an analysis of the French private pay-as-you-go system which is disliked or ignored by many commentators because it is basically a viable pay-as-you-go, but private/non-stock market system in which, to put it bluntly, there is no profit for bankers. Instead it is run by trade unions, employers and the state. It also uses different linguistics to describe pensions. Palier in his analysis of creeping funding in France sees the funding as a fundamental but ambiguous issue following a 'softening up' of the French populace with demographic scare stories (2007: 93).

Dixon argues that since, commonly, the owners of the means of production around the world are the wealthy, the 'essence of Drucker's title should be somewhat encouraging to those who see capitalism and globalisation as a formidable force for social justice and social solidarity, but also the futility and utopia of other modes of social, economic and political organisation' (2007: 267). Since, he adds dismissively, many critics fail to provide 'feasible and practical alternatives', 'their criticism is mere academic theorising and intellectual abstraction' (ibid). This

kind of language is unnecessary and demonstrates the poverty of the privatisers' philosophy. It also shows the use of language in the cause of privatisation.

We suggest he tries Vos et al to counter his cynicism (a UN rather than World Bank publication). This examines the usual issues of demography, cost, risks in pension investments and banking practices and interestingly raises the conundrum that viability is not the measure of adequacy – a neat juxtaposition of the economics versus social policy argument (2008: 156). Dixon would have difficulty dealing with this from his simplistic stand-point.

Myths, Stories and Motivations

We mentioned earlier that our aim was to base our discussion on three underlying themes concerning, firstly, criticisms of state pay-as-you-go, secondly, the solutions claimed by privatisers, and thirdly, the motivation of privatisers.

Ney (2000) discusses a number of myths and the various approaches in his 'three stories' about the World Bank, the European Union and the International Labour Organisation. He seriously questions the reliability of the demographic forecasts that much of the 'reforms' are based on and which have become a major reason for replacing pay-as-you-go systems. Concialdi (2006) provides a critique of the demographic scaremongering and its jaw-dropping public expenditure implications. He sees them as an alibi (his word) for funding proposals. He looks in particular at broader *economic dependency ratios* rather than the narrower old age and demographic ratios to suggest that 'future demographic and economic changes will probably not modify very much the balance between the population in work and the population not in work' (2006: 308), although it should be added that the public expenditure implications of different dependency groups are not a simple trade-off financially as the generations and unemployment rates ebb and flow. Each group or 'cohort' is quite different. But, in any case, private funding does not face a demographic problem according to its advocates. The theory requires everyone to take care of themselves. Dependency is abolished.

Or is it? Is it just another use of linguistics which disguise reality? If Clark and Dixon are factually correct about rates of return, 'global markets', reduction in net costs, demise of systems like the French and general uplift for the Anglo-American model, it is a surprise that coverage of UK workers by defined benefit schemes fell from 21% to 9% between 1992 and 2004; that US state and local schemes have fallen from full-funding to 80%; US funds required an estimated employer boost of $90 billion in 2009; in the UK falling asset values and rising longevity pushed the pension deficit for the top FTSE (quoted) companies to over £90 billion by 2009; by April 2009, 300 UK pension schemes were seeking support from the Pension Protection Fund established by the government to help bail out the market; only one in five UK defined benefit schemes were still open to new members and 16% had been closed to existing members; that pensioner poverty had increased especially amongst women; 1.3 million people of pensionable age, out of 11.3 million, have carried on working because stock market falls have wiped a third off pension values (many reports, UK FTSE surveys, US Munnell et al 2008 discussing both defined benefit and defined contribution plans). By 2010 it was expected that within two years a further 357 company schemes would have to be rescued in the UK. Karamcheva and Sanzenbacher, 2010, reveal growing pensioner inequality as a result of the market system in the US. In other words, don't retire at the wrong time, especially if you are in the bottom two-thirds of the income scale. The pleas for more social justice and productive investment through privatisation appear to be vacuous.

Concerning investment, the UK Pensions Commission has reported that 90 per cent of new investment funds come from corporate profits, not pension savings (Pensions Commission, 2005). The Green New Deal Group (2008) report that 85 per cent of savings go to the City of London financial institutions for speculative dealing; in 2002 the entire value of the London Stock Exchange changed hands in seven months. Toporowski (2000) reports that pension funds are footloose capital, inflating stock market bubbles with injections of capital. Basically, increases in savings do not match expectations of productive growth. Yet without ever-expanding pension contributions the process is unsustainable, leading to financial crises if more savings cannot be created.

Claims and Counter Claims.

The system of private pensions contains many reasons for its existence apart from pensions. Table 3 sums up some of the claims and counter-claims.

Table 3. The Issues at a Glance

Claims made for private funded pensions (PfP)	***The counter claims about private funded pensions***
PfP increases rates of return. State pensions are a burden on the private sector.	'Rates of return' is a problematic issue. Evidence from Latin America is disappointing taking into account the fees extracted by the financial sector.
PfP increases savings and hence investment in economic growth through private investment. PfP increases the 'capital stock', which leads to increase in productivity.	PfP increases the money flowing to the financial sector, which is not the same thing. In the UK only 2% of stock market turnover (as we stated earlier) goes towards new stock issues and these are not necessarily for new investment but to pay off debt or fund hostile takeovers (Martin and Minns, 1995).
State pensions are unsustainable due to population ageing	Both state and private pensions face population ageing. But the extent of the problem has been exaggerated.
State pensions are not actuarially fair	State pensions can achieve social redistribution.
State pensions can be influenced by the state	Both state and private pensions can be influenced by public policy decisions.
State Pay-As-You-Go pensions are a burden on the economy.	Disposable income is reduced whether private or state pensions. Tax relief on the former is a drain on the state's resources.

Finally, while France and other European countries are said to be succumbing to Anglo-Americanism, Argentina nationalised its private funds to protect pensions in the world financial crisis of 2008 (Riesco, 2009). Chile introduced social measures and a greater role for the state into its pension system (Ibid). Manuel Riesco comments on Argentina.

> The nationalisation of the Argentinian AFJP [the Administrators of the private pension system] has revealed the freewheeling expenditure of the 'administrators', charged to the account of affiliates, naturally. It was a major scandal to find out that the bosses of the AFJP earned millionaire compensations at the same time they lost billions of the fund in international roulette. (Riesco, 2009: 277)

Many of the World Bank claims for Latin America have been disproven, in particular by Mesa-Lago (2005 and elsewhere; Riesco's (2009) work is the latest). The evidence about increases in savings is ambiguous and there is no evidence about increase in economic growth. Elsewhere, in 1997 in New Zealand, a plebiscite produced a 92 per cent vote, on an 80 percent urnout, against replacing the tax-financed flat-rate part of its system with Chilean-type individual accounts (Barr and Diamond, 2008). The World Bank has also amended its original proposals to include two additional 'pillars' to its classic 1994 formula of 'three pillars' providing mandatory and voluntary individualised private pension funds, namely one to deal with poverty and the other to deal with 'the broader context of social policy, such as family support, access to health care, and housing' (Holzmann, 2008:178).

Here we have a fitting epitaph to the great pensions story. It is unlikely however that the story has ended. But then, as we have argued, and as it is the main point of our article, pensions are not solely about pensions. Privatisers are after the extension of financial markets and – note the language yet again – financial 'liberalisation' alongside reduction in the 'cost' of pay-as-you-go.

Conclusion

We have briefly explored the history of pensions, examining the real reasons for pension privatisation. On the one hand, it is alleged by advocates of privatisation that a 'reconfigured capitalism' of 'fiduciary' finance will enhance 'social justice and social solidarity' (various 'sympathetic' sources). On the other hand, as we have argued, we must look behind the language to discover the real reasons why privatisation is advocated, and who really benefits - reasons other than the economic welfare of ordinary people. This has taken us back to the origins of the welfare state. An examination of the motivations of the different actors explains why pensions are such a big issue – for reasons other than pensions.

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Financial institutions play a pivotal role in every economy. They are regulated by a central government organization for banking and non-banking financial institutions. These institutions help in bridging the gap between idle savings and investment and its borrowers, i.e., from net savers to net borrowers. Following are the list of roles performed by Financial Institutions â€“. Regulation of Monetary Supply. Banking Services.Â They do so by mobilizing the idle savings from individuals in the economy to the investor through various monetary services. Financial institutions are the businesses and organizations involved in the collection and distribution of money. They develop the methods and procedures that allow them to collect money from depositors and lend it out to borrowers. They develop the financial securities and provide the financial markets where lenders, borrowers, investors, speculators, and hedgers can exchange money for future payments in the form of interest, for ownership interests, such as stocks , for the payment of future contingent claims, such as with options and derivatives, and for sharing risk, such as the pooling of Finance, Innovation and Equity. Financial Institutions and Economic Security (FIES). Financial Institutions and Economic Security (FIES).Â The purpose of the Financial Institutions and Economic Security project is to delve into the role of financial institutions in supporting or undermining economic security in the advanced nations of the West, and the implications for industrial innovation and economic performance. FIES documents. Davies, B., Ginn, J., and Minns, R. (2010) Funded pensions: what are they for? (PDF document, 105 KB). A highlight of the FIES project in 2009 was the IKD Conference on Financial Institutions and Economic Security (FIES) held in London, UK on 21-22 May 2009. FINANCIAL INSTITUTIONS A financial institution is one that facilitates allocation of financial resources from its source to potential users. A large number of different types of financial institutions in the United States create a rich mosaic in the financial system. Some institutions acquire funds and make them available to users. Others act as middlemen between deficit and surplus units.Â The Securities and Exchange Commission, the Commodity Futures Trading Commission, and the U.S. Department of Justice monitor and enforce relevant laws and regulations concerning securities and futures markets. State authorities regulate, monitor, and enforce laws concerning depository, insurance, finance companies, and other financial institutions. The conference on Financial Institutions and Economic Security asks: How can financial institutions be reformed to support rather than undermine economic security? In my view this question is not being asked, at least in the United States. To ask this question requires an understanding of the sources of economic insecurity and an analysis of how an advanced economy can achieve stable and equitable growth, or what I call â€œsustainable prosperityâ€. It requires policy-makers to contemplate the banning of certain types of financial activity as simply being too hazardous to our wealth.